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Post Hearing Information Pack of

GDS Holdings Limited **萬國數據控股有限公司***

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

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GDS Holdings Limited
萬國數據控股有限公司*

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under : [REDACTED] Shares (subject to the
the [REDACTED] [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to reallocation)
Number of [REDACTED] : [REDACTED] Shares (subject to reallocation
and the [REDACTED])
[REDACTED] : HK\$[REDACTED] per [REDACTED], plus
brokerage of 1.0%, SFC transaction levy of
0.0027% and Hong Kong Stock Exchange
trading fee of 0.005% (payable in full on
[REDACTED] in Hong Kong dollars and
subject to refund)
Par value : US\$0.00005 per Share
[REDACTED] : [REDACTED]

Joint Sponsors, [REDACTED], [REDACTED] and [REDACTED]

J.P. Morgan BofA Securities CICC Haitong International

[REDACTED]

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

[REDACTED]

Prior to making an [REDACTED] decision, prospective [REDACTED] should consider carefully all of the information set out in this document, including the risk factors set out in the section headed "Risk Factors" in this document. The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (for themselves and on behalf of the [REDACTED]) if certain events occur prior to 8:00 a.m. on the [REDACTED]. See "[REDACTED] — [REDACTED] Arrangements and Expenses — [REDACTED] — Grounds for termination" in this document. It is important that you refer to that section for further details.

[REDACTED]

IMPORTANT

[REDACTED]

IMPORTANT

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with, the full document. You should read the whole document before you decide to [REDACTED] in the [REDACTED]. There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set forth in the section headed “Risk Factors” of this document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

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.

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%. We incurred net losses of RMB326.9 million, RMB430.3 million, RMB442.1 million (US\$62.6 million) and RMB193.1 million (US\$27.3 million) in 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. We had an accumulated deficit of RMB1,185.6 million, RMB1,615.1 million, RMB2,057.2 million and RMB2,250.3 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. We had cash used in operating activities of RMB167.8 million and RMB12.9 million in 2017 and 2018, respectively and cash provided by operating activities of RMB293.4 million and RMB16.2 million in 2019 and the six months ended June 30, 2020, respectively.

SUMMARY

Our Strengths

- A leader in one of the largest and fastest growing data center markets in the world.
- Well-established and rapidly expanding relationships with large, fast-growing and diverse customers.
- An innovative and unique platform of interconnected data centers hosting all of the leading cloud service providers.
- Largescale, high-performance data centers that are strategically located in China's Tier 1 markets.
- Large secured expansion capacity and a proven ability to source and develop additional data centers.
- Visionary and experienced management team supported by sophisticated strategic investors.
- Proven ability to develop and implement innovative new technologies to meet increasingly demanding customer requirements.

Our Strategies

- Capitalize on the rising adoption of cloud computing and emerging technologies in China.
- Expand our unique platform of strategically located, interconnected, high-performance data centers.
- Pursue strategic sourcing of data center resources to expand our data center platform across markets.
- Increase market share by leveraging customer relationships and attracting new customers.
- Continue to focus on operational excellence and capital efficiency.

SUMMARY

Summary of Historical Financial Information

The selected consolidated income statements data for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, and the selected consolidated balance sheet data as of December 31, 2017, 2018 and 2019 and June 30, 2020 have been derived from our historical financial information contained in the Accountants' Report in Appendix I to this document. Our consolidated financial statements have been prepared in accordance with U.S. GAAP.

The following selected consolidated financial data for the periods and as of the dates indicated are qualified by reference to and should be read in conjunction with the Accountants' Report in Appendix I to this document and the section headed "Financial Information" in this document.

The summary of historical financial information set forth below includes translations of financial data in Renminbi into U.S. dollars for the convenience of the reader. These translations were made at a rate of RMB7.0651 to US\$1.00 and HK\$7.7501 to US\$1.00, the respective exchange rate on June 30, 2020 set forth in the H.10 statistical release of the Federal Reserve Board.

Our historical results for any prior period do not necessarily indicate our results to be expected for any future period.

Factors Affecting Our Results of Operations

The following are the primary factors affecting our results of operations:

- Our ability to source and develop data centers;
- Our ability to secure commitments from our customers;
- Our pricing structure and power costs;
- Our utilization of existing capacity;
- Our cost structure depending on data center tenure and location;
- Our ability to manage our development costs;
- Our data center development and financing costs; and
- Our ability to identify and acquire other businesses.

SUMMARY

Demand for carrier-neutral data center services in China estimated to increase by a CAGR of 31.8% in the next four years, according to iResearch. Our strong customer and industry relationships offer us insight into the size, timing, and location of future demand which is reflected in our data center capacity development plan. We have accelerated expansion of our data center capacity in order to keep pace with market demand for our services.

However, the data center business is capital-intensive. Our ability to grow and maximize our revenue depends on our ability to source and develop additional data centers on an economically feasible basis, and provide services to customers on commercially acceptable terms. Constructing, developing and operating our data centers require significant capital expenditures. We need to fund these costs with various forms of financing, in addition to cash retained from operations. We have historically funded data center development through additional equity or debt financing. We expect to continue to fund future developments through debt financing from bank and other borrowings or through the issuance of additional equity securities if necessary and when market conditions permit.

Based on our current expansion plans, we expect to continue to rely upon a combination of cash retained from operations as well as the financing methods we have historically used to fund our expansion, as net revenue and cash generated from our business operations in the short term is not expected to be sufficient to meet our anticipated capital requirements for our growth plan. Our planned capital expenditures will cause substantial cash outflows. We may therefore continue to incur losses in the future due to our continued investments in data center capacity to meet industry and customer demand and support the growth of our operations. See “Risk Factors — Risks Relating to Our Business and Industry — We have a history of net losses and negative cash flows from operating activities and may continue to incur losses and experience negative cash flows from operating activities in the future.”

For additional information, see “Financial Information — Key Factors Affecting Our Results of Operations.”

We had cash and cash equivalents of RMB7,742 million and unused working capital and project financing credit facilities of RMB6,555 million as of June 30, 2020. In addition, since June 30, 2020, we have obtained additional new loan facilities for a total amount of RMB4,662 million from July 1, 2020 to October 19, 2020. We follow a prudent development strategy and our management also closely monitors uses of cash to maintain a healthy liquidity for our operations.

Our directors are of the opinion that, taking into account the financial resources available to us, including cash and cash equivalents, cash flows from operations and the estimated [REDACTED] from the [REDACTED], we have sufficient working capital to cover at least the next 12 months from the date of this document.

SUMMARY

Selected Consolidated Income Statements Data

The following table sets out our selected consolidated income statements data 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.....	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)

For a discussion and analysis of the reasons for the changes in our key financial statement line items across periods, please refer to “Financial Information — Components of Results of Operations” and “Financial Information — Results of Operations.”

SUMMARY

Selected Consolidated Balance Sheet Data

The table below sets forth our selected consolidated balance sheet data as of the dates indicated:

	As of December 31,				As of June 30,	
	2017	2018	2019		2020	
	RMB	RMB	RMB	US\$	RMB	US\$
	(in thousands)					
Cash	1,873,446	2,161,622	5,810,938	822,485	7,742,082	1,095,821
Accounts receivable, net.....	364,654	536,842	879,962	124,551	1,388,535	196,534
Total current assets.....	2,454,028	3,037,396	7,084,709	1,002,775	9,618,087	1,361,352
Property and equipment, net....	8,165,601	13,994,945	19,184,639	2,715,409	24,542,951	3,473,829
Goodwill.....	1,570,755	1,751,970	1,905,840	269,754	2,409,325	341,018
Total assets.....	13,144,567	20,885,243	31,492,531	4,457,478	41,608,850	5,889,350
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
Total current liabilities	2,423,071	3,507,879	3,999,514	566,094	6,468,154	915,508
Long-term borrowings, excluding current portion....	3,459,765	5,203,708	8,028,473	1,136,357	9,337,882	1,321,691
Total liabilities	8,669,055	15,363,318	20,136,969	2,850,203	26,716,051	3,781,411
Net current assets/(liabilities)..	30,957	(470,483)	3,085,195	436,681	3,149,933	445,844
Net assets	4,475,512	5,521,925	11,355,562	1,607,275	14,892,799	2,107,939

For a detailed discussion on our cash position, being the balance sheet items that have material impact on our liquidity, as well as material changes in the various working capital items, see “Financial Information — Liquidity and Capital Resources.”

SUMMARY

Key Performance Indicators

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.

(Sqm, %)	As of December 31,			As of June 30,	
	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.

For additional information on our key performance indicators, see “Financial Information — Key Performance Indicators.”

SUMMARY

Non-GAAP Financial 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)						

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. See “Financial Information—Non-GAAP Measures” for more details regarding certain adjustments.
- (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, adjusted EBITDA margin, adjusted NOI, and adjusted NOI 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 and adjusted NOI can provide a useful measure of our core operating performance.

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.

SUMMARY

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, 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:

	<u>Year ended December 31,</u>				<u>Six months ended June 30,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>		<u>2019</u>	<u>2020</u>	
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>US\$</u>	<u>RMB</u>	<u>RMB</u>	<u>US\$</u>
	(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

SUMMARY

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 ⁽¹⁾	(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) See “Financial Information—Non-GAAP Measures” for more details regarding certain adjustments.

SUMMARY

Our Shareholding and Corporate Structure

Our Major Shareholders and Controlling Shareholders

Immediately following the [REDACTED], without taking into account any allotment and issuance of Shares upon exercise of the [REDACTED], 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 the vesting of other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make, Mr. Huang, our founder, Chairman and chief executive officer, and STT GDC will be our Controlling Shareholders for the purposes of the Hong Kong Listing Rules.

Our Articles of Association entitle Mr. Huang, through his beneficial ownership of our Class B ordinary shares, (i) to nominate one less than a simple majority, or five, of our directors, provided that Mr. Huang continues to have beneficial ownership in not less than 5% of our issued share capital on an as converted basis, and (ii) to have 20 votes per share with respect to (a) the appointment and removal of a simple majority, or six, of our directors and (b) any change to our Articles of Association that would adversely affect the rights of shareholders of Class B ordinary shares. As of the Latest Practicable Date, Mr. Huang held 52.9% of our aggregate voting power with Class A and Class B ordinary shares voting on a 1:20 basis and 6.2% with Class A and Class B ordinary shares voting on a 1:1 basis.

STT GDC is a wholly owned subsidiary of STT Communications Ltd., or STTC, which is in turn a wholly owned subsidiary of Singapore Technologies Telemedia Pte Ltd, or ST Telemedia. STT GDC first invested in our Company in August 2014. As of the Latest Practicable Date, STT GDC held 33.8% of our aggregate voting power with Class A and Class B ordinary shares voting on a 1:1 basis. Our Articles of Association provide that STT GDC has the right to appoint up to three directors to our board of directors for so long as they beneficially own certain percentages of our issued share capital.

For further details, please see "Major Shareholders" and "Relationship with our Controlling Shareholders."

SUMMARY

Weighted Voting Rights Structure and WVR Beneficiary

Class A ordinary shares and Class B ordinary shares carry equal rights, generally rank *pari passu* with one another and are entitled to one vote per share at general meetings of shareholders, except for only the following matters at general meetings of shareholders, with respect to which Class B ordinary shares are entitled to 20 votes per share: (i) the election or removal of a simple majority, or six, of our directors; and (ii) any change to our Articles of Association that would adversely affect the rights of shareholders of Class B ordinary shares. Class B ordinary shares are convertible into Class A ordinary shares, and will automatically convert into Class A ordinary shares under certain circumstances. As of the Latest Practicable Date, Mr. Huang was the sole beneficial owner of our Class B ordinary shares. For further details, please see “Share Capital — Weighted Voting Rights Structure.”

[REDACTED] are advised to be aware of the potential risks of investing in companies with a WVR structure, in particular that the interests of the WVR beneficiary may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR beneficiary will be in a position to exert significant influence over the affairs of our Company and the outcome of Shareholders’ resolutions, irrespective of how other Shareholders vote. [REDACTED] should make the decision to [REDACTED] in the Company only after due and careful consideration. For further information about the risks associated with the WVR structure adopted by the Company, please refer to “Risk Factors — Risks Related to Our Corporate Structure.”

Our VIE Structure

Our internet data center businesses are classified as VATS businesses by the PRC government. Current PRC laws, rules and regulations restrict foreign ownership in VATS. Due to PRC legal restrictions on foreign ownership and investment in VATS, and IDC services in particular, we currently conduct these activities mainly through GDS Shanghai, GDS Beijing and its subsidiaries. Each of GDS Beijing and GDS Shanghai holds an IDC license which is required to operate our business. We effectively control GDS Beijing, GDS Shanghai and their shareholder, Management HoldCo, through a series of contractual arrangements among these consolidated VIEs, Management HoldCo’s shareholders and GDS Investment Company. These contractual arrangements allow us to gain effective control over our PRC consolidated VIEs. We have entered into certain contractual arrangements, as described in more detail in “Our History and Corporate Structure — Contractual Arrangements” which collectively enable us to exercise effective control over the variable interest entities and realize substantially all of the economic risks and benefits arising from the variable interest entities. As a result, we include the financial results of each of the variable interest entities in our consolidated financial statements in accordance with U.S. GAAP as if they were our wholly-owned subsidiaries.

SUMMARY

Risk Factors

There are certain risks involved in our business and industries, our corporate structure, our business operations in China, [REDACTED] in our Shares and ADSs, the [REDACTED] and the [REDACTED], many of which are beyond our control. For example, these risks include, among others, the following risks relating to our business. See “Risk Factors” for details of our risk factors, which we strongly urge you to read in full before making an [REDACTED] in us. Some of the major risks we face include:

- a potential slowdown in the demand for data center resources or managed services;
- our ability to manage the growth of our operations and successfully implement our expansion plan;
- having a long selling and implementation cycle for our services that requires us to make significant capital expenditures and resource commitments prior to recognizing revenue for those services;
- our ability to expand our service offerings;
- we have a long selling cycle for our services, which typically requires significant investment of capital, human resources and time by both our customers and us;
- the data center business is capital-intensive, and we expect our capacity to generate capital will be insufficient to meet our anticipated capital requirements;
- 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;
- the ongoing COVID-19 pandemic may further negatively impact the Chinese economy and our business;
- the deterioration of the China-U.S. relationship may lead to further changes in trade or investment policies, as well as an increased possibility of a delisting of our ADSs from Nasdaq;
- the possibility that we will continue to incur net losses;
- the potential for a significant or prolonged failure in the data center facilities we operate or services we provide;
- our ability to attract new customers and retain existing customers;

SUMMARY

- our ability to compete effectively;
- we may experience impairment of goodwill arising from our acquisition of data center businesses;
- regulations on foreign investment restriction and VATS with which we have been non-compliant in the past;
- risks associated with our control over our consolidated variable interest entities in China, which is based on contractual arrangements rather than equity ownership;
- the increasingly stringent requirements under PRC laws and regulations with respect to the regulatory approvals for the development and operation of data centers in certain cities of the Tier 1 markets;
- changes in the political and economic policies of the PRC government;
- as a company applying for [REDACTED] under Chapter 19C, we adopt different practices as compared with many other companies listed on the Hong Kong Stock Exchange;
- the [REDACTED] price of our ADSs and Shares may be volatile;

[REDACTED]

SUMMARY

[REDACTED]

Exemptions and Waivers

As we are applying for [REDACTED] under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the [REDACTED], we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (WUMP) Ordinance and the SFO and a ruling under the Takeovers Codes. For additional information, see “Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance.”

SUMMARY

Among the various waivers that we have applied for, we have applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the requirements in Paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules such that we are able to spin off one or more of our businesses and list them on the Hong Kong Stock Exchange within three years after the [REDACTED]. While we do not have any specific plans with respect to segregating our current business or any potential acquisition or the timing or details of any potential spin-off [REDACTED] on the Hong Kong Stock Exchange as at the date of this document, in light of our overall business scale, we may consider spinning off one or more of our mature businesses through a [REDACTED] on the Hong Kong Stock Exchange within the three years after the [REDACTED], if there are clear commercial benefits both to us and the businesses to be potentially spun-off and there will be no adverse impact on the interests of our Shareholders. As of the date of this document, we have not identified any target for a potential spin-off. The waiver granted by the Hong Kong Stock Exchange is conditional upon us confirming to the Hong Kong Stock Exchange in advance of any spin-off that it would not render our Company (excluding the business(es) to be spun-off) incapable of fulfilling either the eligibility or suitability requirements under Rules 19C.02 and 19C.05 of the Hong Kong Listing Rules based on the financial information of the entity or entities to be spun off at the time of the [REDACTED] (calculated cumulatively if more than one entity is spun off). We cannot assure you that any spin-off will ultimately be consummated, whether within the three years after the [REDACTED] or otherwise, and any such spin-off will be subject to market conditions at the time. In the event that we proceed with a spin-off, our interest in the entity to be spun-off will be reduced accordingly.

We enjoy exemptions from certain obligations under U.S. securities laws and Nasdaq Listing Rules as a foreign private issuer as defined under the U.S. Exchange Act. Investors should exercise care when [REDACTED] in our Shares and/or ADSs. See "Information about the [REDACTED] — Summary of Exemptions as a Foreign Private Issuer in the U.S."

Our Articles of Association

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our Memorandum and Articles of Association, the Cayman Companies Law and the common law of the Cayman Islands. The laws of Hong Kong differ in certain respects from the Cayman Companies Law, and our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong, such as the absence of requirement as set out in Rule 19C.07(3) of the Hong Kong Listing Rules that the appointment, removal and remuneration of auditors must be approved by a majority of a Qualifying Issuer's members or other body that is independent of the issuer's board of directors. Therefore, we have applied for, and the Hong Kong Stock Exchange [has granted], a waiver from strict compliance with Rule 19C.07(3) of the Hong Kong Listing Rules.

SUMMARY

We have also applied for, and the Hong Kong Stock Exchange [has granted], a waiver from strict compliance with the Rule 19C.07(7) of the Hong Kong Listing Rules, subject to the conditions that:

- (i) we will put forth a resolution at or before our next annual general meeting to be held after the [REDACTED] to revise our Articles of Association, so that (i) in addition to the existing provisions of Article 58(2), a provision will be added to provide that the minimum stake required for any shareholder(s) to requisition an extraordinary general meeting and the addition of resolutions to the general meeting will be 10% of the voting rights, on a one vote per share basis, in the share capital of our Company; and (ii) the quorum for a general meeting of our Company pursuant to the amended provision in (i) above will be 10% of the aggregate voting power of our Company on a one vote per share basis;
- (ii) we have obtained irrevocable undertakings from the Undertaking Shareholders prior to the [REDACTED] to vote in favor of the proposed resolution outlined above with a view to ensuring that there may be adequate votes in favour of such resolutions;
- (iii) our board and directors undertake to convene general meetings at the request of shareholders holding not less than 10% of the voting rights, on a one vote per share basis, from [REDACTED] until the next annual general meeting is convened or if the shareholders do not approve the above proposed amendments to the Articles of Association; and
- (iv) we will disclose the basis of this waiver in this document.

See “Risk Factors — Risks Related to Our Shares, ADSs and the [REDACTED] — Since we are a Cayman Islands exempted company, the rights of our shareholders may be different from those of shareholders of a company organized in the United States or Hong Kong,” “Information about This Document and the [REDACTED]” and “Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance — Shareholder Protection” for further details.

Weighted Voting Rights Structure

Our weighted voting rights structure is specific to us and contain certain features that are different from the requirements under Chapter 8A of the Hong Kong Listing Rules, including the restriction on voting power conferred to WVR beneficiaries, sunset provisions under Rule 8A.17 of the Listing Rules, right of non-WVR shareholders to convene an extraordinary general meeting, resolutions which require voting on a one vote per share basis and requirement on corporate governance committee. For further details, see “Information about the [REDACTED]”.

SUMMARY

As we have applied for a [REDACTED] of our Shares on the Main Board under Chapter 19C of the Hong Kong Listing Rules as a Grandfathered Greater China Issuer, we will not be subject to, among others, the above provisions of the Hong Kong Listing Rules with respect to weighted voting rights structure as set out under Rule 19C.12 of the Hong Kong Listing Rules. This may afford lower level of shareholder protection to our Shareholders.

[REDACTED]

[REDACTED]

We expect to incur [REDACTED] of approximately RMB[REDACTED] million after June 30, 2020 (assuming that the [REDACTED] is conducted at the [REDACTED] per [REDACTED] of HK\$[REDACTED] and the [REDACTED] is not exercised). We expect to recognize RMB[REDACTED] million as general and administrative expenses in the fiscal year ending December 31, 2020 and RMB[REDACTED] million as a deduction in equity directly.

SUMMARY

Recent Developments and No Material Adverse Change

Our business operations have grown steadily after the Track Record Period and up to the date of this document. There was no material change to our business model, or to the general economic and regulatory environment in which we operate, during the same period. We achieved increased net revenue and maintained relatively stable net loss after the Track Record Period and up to the date of this document.

On July 23, 2020, we announced that we had entered into a definitive agreement with a private equity fund (“CPE Fund”) controlled by CITIC Private Equity Funds Management Co., Limited to form a joint venture (“JV”) to undertake a major new data center project in Beijing (“BJ13”). As of the Latest Practicable Date, we owned a 58% controlling interest in the JV, while CPE Fund owned 42%. As a first step, the JV took an 82% equity interest in Tenglong IOT (Beijing) Data Technology Co., Ltd, or Tenglong IoT (“Project Company”) through the acquisition of shares and injection of new capital. The Project Company obtained government approval for the development of a largescale data center at a site in the Tongzhou District of Beijing. The proceeds of the capital injection were used by the Project Company to take an 88% equity interest in a company which owns the land use right for the site. The JV will proceed to acquire the remaining 18% of the Project Company when the data center development is complete and certain other conditions are met. The Project Company will buy out the remaining 12% equity interest in the land company when certain conditions are met. CPE Fund identified and brought the JV opportunity to us when seeking a development partner. The acquisition structure reflects the outcome of a negotiation among the selling parties, CPE Fund and us. Based on preliminary designs, we expect BJ13 to generate a total net floor area of approximately 18,000 sqm, which reflects a revised estimation according to our most recent development plan, with an unusually high power density of over 3 kW per sqm. It will be developed in two phases, with about 6,000 sqm expected to enter service in early 2022 and the remaining 12,000 sqm in mid-2023. We will assume responsibility for data center construction on a turnkey basis. On completion of the project and satisfaction of certain other conditions, we will acquire CPE Fund’s 42% equity interest in the JV. The estimated total acquisition and development cost to GDS for 100% ownership of BJ13 as a complete data center is approximately RMB2.6 billion, subject to adjustment based on the final design, the actual construction cost, and the amount of contingent and variable consideration payable for the minority interests in the JV and its subsidiaries. BJ13 is currently held for future development. The amount of contingent and variable consideration payable was determined based upon assumed risk and expected return on investment in BJ13. Deferring and/or making payment of consideration contingent upon achievement of milestones or satisfaction of conditions maximizes capital efficiency and mitigates our risk exposure.

On September 22, 2020, we announced that we had extended a legally-binding offer to acquire 100% of the equity interests in target companies which own a major data center in the Shunyi District of Beijing (“BJ14”). The target companies are owned by CPE Fund and its affiliated parties. The offer has been accepted, with exclusivity terms agreed by both parties. BJ14 is located adjacent to our BJ5 data center and eight kilometers from our data center campus comprised of BJ10, BJ11 and BJ12, forming a cluster in the Shunyi District of Beijing.

SUMMARY

BJ14 has a net floor area of over 19,000 sqm. It is fully committed by five hyperscale customers. BJ14 is fully operational and is currently approximately 68% utilized. It is expected to be fully utilized in 2022. This transaction is subject to entry into definitive agreements as well as the completion of certain conditions precedent to the closing of the transaction. We cannot assure you that any definitive agreement will be signed or, if such definitive agreement is signed, that the conditions precedent to the closing of the transaction will be satisfied, in which case the proposed transaction will not be consummated. As of the Latest Practicable Date, we were in the process of negotiating the terms and conditions of the proposed transaction and entering into the transaction documents with CPE Fund and its affiliated parties.

The COVID-19 pandemic has not interrupted or affected the operation of our existing data centers or ability to provide our data center services to our customers. The COVID-19 pandemic has caused and may continue to cause us to implement temporary suspensions of our sales and marketing activities, construction activities and business travel to ensure the safety and health of our employees. It has also affected and may continue to affect customer move-in logistics and timing. The temporary suspensions to sales and marketing activities, construction activities and business travel, as well as the effects on customer move-in logistics and timing mainly occurred during January and February of 2020. By March 2020, these activities began returning to normal levels, and by the end of the second quarter of 2020 had largely returned to normal levels. If the COVID-19 pandemic resurges or results in governmental or other measures that affect logistics, travel and construction activity, any measures we may be required to adopt may impact any acquisitions we undertake and our construction and development activities with respect to data centers under construction and under development, and our ability to increase our capacity according to schedule could be negatively affected. See "Risk Factors — Risks Relating to Our Business and Industry — The ongoing COVID-19 pandemic could materially and adversely affect our business, results of operations and financial condition." We have experienced slower cash collection for administrative reasons as a result of the COVID-19 pandemic, unrelated to our customers' ability to pay, which has resulted in an increase in our accounts receivable. See "Financial Information — Liquidity and Capital Resources — Operating Activities." While the COVID-19 pandemic has not materially or adversely affected our business, results of operations or financial condition, whether the pandemic will have any such material or adverse impact on us going forward will depend on future developments, which are highly uncertain and cannot be predicted. As of the date of this document, we are not aware of any material or adverse effect on our financial condition as a result of the COVID-19 pandemic.

After due and careful consideration, our directors confirm that, up to the date of this document, there has not been any material adverse change in our financial or [REDACTED] position or prospects since June 30, 2020, and there has not been any event since June 30, 2020 which would materially affect the information shown in the Accountants' Report in Appendix I to this document.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.

“2019 PRC Foreign Investment Law”	the PRC Foreign Investment Law (《中華人民共和國外商投資法》), promulgated by the National People’s Congress in March 2019, which became effective on January 1, 2020
“ADS(s)”	American Depositary Shares (each representing eight Class A ordinary shares)
“Articles” or “Articles of Association”	our Articles of Association (as amended from time to time), adopted on October 18, 2016 and effective on November 7, 2016, a summary of which is set out in Appendix III
“board” or “board of directors”	our board of directors
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong or other relevant jurisdictions are generally open for business
“BVI”	British Virgin Islands
“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time
“CBIRC”	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)

[REDACTED]

DEFINITIONS

[REDACTED]

“China” or “the PRC”	the People’s Republic of China, excluding, for the purposes of this document only, Taiwan and the special administrative regions of Hong Kong and Macau, except where the context otherwise requires
“Circular 82”	the Notice Regarding the Determination of Chinese-controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the basis of de facto management bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), issued on April 22, 2009 and further amended on December 29, 2017
“Class A ordinary shares”	Class A ordinary shares in the share capital of the Company with a par value of US\$0.00005 each, conferring a holder of a Class A ordinary share to one vote per share on any resolution tabled at the Company’s general meeting

DEFINITIONS

“Class B ordinary shares”	Class B ordinary shares in the share capital of the Company with a par value of US\$0.00005 each, conferring weighted voting rights in the Company such that a holder of a Class B ordinary share is entitled to 20 votes per share on resolution tabled at the Company’s general meeting for (i) the election or removal of a simple majority, or six, of our directors; and (ii) any change to our Articles of Association that would adversely affect the rights of Class B shareholders, and which are convertible into Class A ordinary shares, and will automatically convert into Class A ordinary shares under certain circumstances
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“connected person(s)”	has the meaning given to it under the Hong Kong Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it under the Hong Kong Listing Rules and unless the context otherwise requires, refers to Mr. Huang and STT GDC, details of which are set out in the section headed “Relationship with our Controlling Shareholders”
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Data Center Operation Management Platform”	the platform we developed and operate which provides real-time information on many aspects of data center operating performance
“director(s)”	member(s) of our board
“DTC”	The Depository Trust Company, the central book-entry clearing and settlement system for equity securities in the United States and the clearance system for our ADSs
“EIT”	enterprise income tax

DEFINITIONS

“EIT Law”	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》)
“Entity List”	the list maintained by the U.S. Department of Commerce identifying foreign entities believed to be involved, or pose a significant risk of being or becoming involved, in activities contrary to the national security or foreign policy interests of the United States and which are prohibited from acquiring some or all items subject to the U.S. Export Administration Regulations (“EAR”)
“EU”	the European Union
“Extreme Conditions”	any extreme conditions or events, the occurrence of which causes interruption to ordinary course business operations in Hong Kong and/or that may affect the [REDACTED] or the [REDACTED]
“foreign private issuer”	as such term is defined in Rule 3b-4 under the U.S. Exchange Act
“GDP”	gross domestic product
“GDS Beijing”	Beijing Wanguo Chang’an Science and Technology Co., Ltd.* (北京萬國長安科技有限公司), a limited liability company established in the PRC on May 30, 2006 and a wholly-owned subsidiary of Management HoldCo
“GDS Holdings,” “Company,” “our Company,” “we,” “our” or “us”	GDS Holdings Limited, a company incorporated in the Cayman Islands with limited liability on December 1, 2006 and, where the context requires, its consolidated subsidiaries and its consolidated affiliated entities, including its variable interest entities and their subsidiaries, from time to time
“GDS Investment Company”	GDS (Shanghai) Investment Co., Ltd.* (萬數(上海)投資有限公司) (formerly known as Shanghai Free Trade Zone GDS Management Co., Ltd.* (上海自貿區萬國數據管理有限公司)), a limited liability company established in the PRC on December 30, 2015 and our wholly-owned indirect subsidiary

DEFINITIONS

“GDS Shanghai” Shanghai Shu’an Data Services Co., Ltd.* (上海曙安數據服務有限公司), a limited liability company established in the PRC on May 4, 2011 and a wholly-owned subsidiary of Management HoldCo

“GDS Suzhou” Global Data Solutions Co., Ltd.* (萬國數據服務有限公司), a limited liability company established in the PRC on September 30, 2000 and a wholly-owned subsidiary of GDS Beijing

“GIC” GIC Private Limited, Singapore’s sovereign wealth fund

[REDACTED]

“Group,” “our Group,” “the Group,” “we,” “us,” or “our” our Company and our subsidiaries (including the variable interest entities) from time to time

“HK\$” or “Hong Kong dollars” or “HK dollars” Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

“Hong Kong” or “HK” the Hong Kong Special Administrative Region of the PRC

[REDACTED]

DEFINITIONS

[REDACTED]

“IDC(s)”	internet data center(s)
“independent third party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company

[REDACTED]

DEFINITIONS

[REDACTED]

“Joint Sponsors”

the joint sponsors of the [REDACTED] of the Shares [REDACTED], being J.P. Morgan Securities (Far East) Limited, Merrill Lynch Far East Limited, China International Capital Corporation Hong Kong Securities Limited and Haitong International Capital Limited

“Latest Practicable Date”

October 14, 2020, being the latest practicable date prior to the date of this document for the purpose of ascertaining certain information contained in this document

[REDACTED]

DEFINITIONS

[REDACTED]

“M&A Rules”	the Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) jointly issued by MOFCOM, SASAC, STA, CSRC, SAIC and SAFE on August 8, 2006, effective on September 8, 2006 and further amended on June 22, 2009 by MOFCOM
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the GEM of the Hong Kong Stock Exchange
“Major Subsidiaries”	our subsidiaries and consolidated affiliated entities as identified in “Our History and Corporate Structure — Major Subsidiaries and Operating Entities”
“Management HoldCo”	Shanghai Xinwan Enterprise Management Co., Ltd.* (上海信萬企業管理有限公司), a limited liability company established in the PRC on October 16, 2019 and as of the Latest Practicable Date, was held by 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) designated by the Board of Directors of our Company
“Memorandum” or “Memorandum of Association”	our memorandum of association (as amended from time to time), a summary of which is set out in Appendix III to this document
“MIIT”	the Ministry of Industry and Information Technology (中華人民共和國工業和信息化部)

DEFINITIONS

“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Huang”	Mr. William Wei Huang, the founder, Chairman of the board, chief executive officer of our Company and a Controlling Shareholder
“Nasdaq”	Nasdaq Global Market
“NDRC”	National Development and Reform Commission (中華人民共和國國家發展和改革委員會)
“Negative List (2020)”	the Special Administrative Measures (Negative List) for Foreign Investment Access, most recently jointly promulgated by the MOFCOM and the NDRC on June 23, 2020 and which became effective on July 23, 2020, as amended, supplemented or otherwise modified from time to time

[REDACTED]

“PBOC”	People’s Bank of China (中國人民銀行)
“PCAOB”	the Public Company Accounting Oversight Board

DEFINITIONS

“PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), enacted by the Standing Committee of the Eighth National People’s Congress on December 29, 1993 and effective on July 1, 1994, and subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018, as amended, supplemented or otherwise modified from time to time
“PRC government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Legal Adviser”	King & Wood Mallesons, our legal adviser as to the laws of the PRC

[REDACTED]

“Qualifying Issuer”	has the meaning given to it under chapter 19C of the Hong Kong Listing Rules
“Relevant Persons”	the Joint Sponsors, [REDACTED], any of their or the Company’s respective directors, officers, employees, partners, agents, advisers and any other parties involved in the [REDACTED]

DEFINITIONS

“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable
“SAFE Circular 37”	the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) promulgated by SAFE with effect from July 4, 2014
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), currently known as SAMR
“SAMR”	the PRC State Administration for Market Regulation (中華人民共和國國家市場監督管理總局), formerly known as the SAIC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SCNPC”	the Standing Committee of the National People’s Congress of the PRC (中華人民共和國全國人民代表大會常務委員會)
“SEC”	the United States Securities and Exchange Commission
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time

DEFINITIONS

“Share(s)”	the Class A ordinary shares and Class B ordinary shares in the share capital of the Company, as the context so requires
“Share Incentive Plans”	the 2014 Share Incentive Plan and the 2016 Share Incentive Plan
“shareholder(s)”	holder(s) of Shares and, where the context requires, ADSs
“SMEs”	small and medium-sized enterprises
“STA”	State Taxation Administration of the PRC (中華人民共和國國家稅務總局)
	[REDACTED]
“State Council”	the PRC State Council (中華人民共和國國務院)
“STT GDC”	STT GDC Pte. Ltd. is a private limited liability company incorporated in Singapore on November 21, 2012, and is a wholly owned subsidiary of STT Communications Ltd, which is in turn a wholly owned subsidiary of Singapore Technologies Telemedia Pte. Ltd.
	[REDACTED]
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in the Hong Kong Listing Rules
	[REDACTED]
“Takeovers Codes”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC
“Track Record Period”	the years ended December 31, 2017, 2018 and 2019, and the six months ended June 30, 2020

DEFINITIONS

“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Exchange Act”	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
“U.S. GAAP”	accounting principles generally accepted in the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“Undertaking Shareholders”	Mr. Huang, STT GDC and EDC Group Limited

[REDACTED]

“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“variable interest entities,” “VIE” or “VIEs”	our variable interest entities that are 100% owned by PRC citizens or by PRC entities owned by PRC citizens, where applicable, that hold the VATS licenses, or other business operation licenses or approvals, in which foreign investment is restricted or prohibited, and are consolidated into our consolidated financial statements in accordance with U.S. GAAP as if they were our wholly-owned subsidiaries
“VAT”	value-added tax; all amounts are exclusive of VAT in this document except where indicated otherwise
“VIE structure” or “Contractual Arrangements with consolidated VIEs”	variable interest entity structure

DEFINITIONS

“WFOE(s)” wholly foreign owned enterprise(s) incorporated in the PRC which is/are directly or indirectly wholly owned by our Company

[REDACTED]

“WVR beneficiary(ies)” has the meaning ascribed to it under the Hong Kong Listing Rules and unless the context otherwise requires, refers to Mr. Huang, being the beneficial owners of the Class B ordinary shares, entitling each to weighted voting rights, details of which are set out in the section headed “Share Capital”

“WVR structure” has the meaning ascribed to it under the Hong Kong Listing Rules

** For identification purposes only*

In this document, the terms “associate(s),” “close associate(s),” “controlling shareholder(s),” “core connected person(s)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

The English names of PRC entities, PRC laws or regulations, and PRC governmental authorities referred to in this document are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY

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

“area committed”	part of our area in service which is committed to customers pursuant to customer agreements remaining in effect
“area held for future development”	the estimated net floor area that we have secured for potential future development by different means, including greenfield and brownfield land which we have acquired or which we expect to acquire pursuant to binding framework agreements with local governments, building shells which we have purpose-built on land which we own, and existing buildings for which we have entered into agreements in connection with their acquisition or lease with the intention of converting or redeveloping into data centers, but which are not actively under construction
“area in service”	the entire net floor area of data centers (or phases of data centers) which are ready for service
“area pre-committed”	part of our area under construction which is pre-committed to customers pursuant to customer agreements remaining in effect
“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 utilized”	part of our area in service that is committed to customers and revenue generating pursuant to the terms of customer agreements remaining in effect
“carrier-neutral” or “cloud-neutral”	data centers that are not owned, operated, or tied to any one network or cloud service provider, respectively
“commitment rate”	the ratio of area committed to area in service
“gross floor area”	either the total internal area of buildings which we own, or to the total area under lease with respect to buildings which we lease

GLOSSARY

“joint venture data centers”	data centers that we build-to-suit and operate for strategic customers and in which, on completion, we intend to sell an equity interest to our joint venture partner, GIC
“move-in period”	the period commencing when part of the area committed under a particular customer agreement becomes area utilized and ending when all of the area committed under such customer agreement becomes area utilized in accordance with the terms of such customer agreement remaining in effect
“net floor area”	the total internal area of the computer rooms within each data center where customers can house, power and cool their computer systems and networking equipment
“pre-commitment rate”	the ratio of area pre-committed to area under construction
“PUE”	power usage effectiveness
“PUE ratio”	power usage effectiveness ratio, a metric used to determine the energy efficiency of a data center; it is determined by dividing the total amount of power consumed by the data center by the total amount of power consumed directly by customers to operate their IT systems housed in the data center
“ready for service”	facilities which have passed commissioning and testing, obtained government approvals for operation, and contain one or more computer rooms fully equipped and fitted out ready for utilization by customers
“self-developed data centers”	data centers operated by us that we either purpose-build from the ground up, develop from building shells purpose-built for us, convert from existing buildings, or acquire, excluding joint venture data centers
“sqm”	square meters
“third-party data centers”	data center net floor area operated by us that we lease on a wholesale basis from other data center providers and use to provide data center services to our customers

GLOSSARY

"Tier 1 markets"	the areas in and around the cities of Shanghai, Beijing, Shenzhen, Guangzhou, Hong Kong, Chengdu and Chongqing
"total area committed"	the sum of area committed and area pre-committed
"utilization rate"	the ratio of area utilized to area in service
"VATS"	value-added telecommunications services

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that involve risks and uncertainties, including statements based on our current expectations, assumptions, estimates and projections about us and our industry. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. In some cases, these forward-looking statements can be identified by words or phrases such as "may," "will," "expect," "anticipate," "aim," "estimate," "intend," "plan," "believe," "potential," "continue," "is/are likely to" or other similar expressions. The forward-looking statements included in this document relate to, among others:

- our goals and strategies;
- our expansion plans;
- our future business development, financial condition and results of operations;
- the expected growth of the data center and cloud services market;
- our expectations regarding demand for, and market acceptance of, our services;
- our expectations regarding maintaining and strengthening our relationships with customers;
- the completion of any proposed acquisition transactions, including the regulatory approvals and other conditions that must be satisfied or waived in order to complete the acquisition transactions;
- international trade policies, protectionist policies and other policies that could place restrictions on economic and commercial activity;
- general economic and business conditions in the regions where we operate; and
- assumptions underlying or related to any of the foregoing.

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

All forward-looking statements in this document are expressly qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information set out in this document before making an [REDACTED] in the Shares, including the risks and uncertainties described below in respect of our business and our industry and the [REDACTED]. You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business could be affected materially and adversely by any of these risks.

Risks Relating to Our Business and Industry

A slowdown in the demand for data center capacity or managed services could have a material adverse effect on us.

Adverse developments in the data center market, in the industries in which our customers operate, or in demand for cloud computing could lead to a decrease in the demand for data center capacity or managed services, which could have a material adverse effect on us. We face risks including:

- a decline in the technology industry, such as a decrease in the use of mobile or web-based commerce, business layoffs or downsizing, relocation of businesses, increased costs of complying with existing or new government regulations and other factors;
- a reduction in cloud adoption or a slowdown in the growth of the internet generally as a medium for commerce and communication and the use of cloud-based platforms and services in particular;
- a downturn in the market for data center capacity generally, which could be caused by an oversupply of or reduced demand for space, and a downturn in cloud-based data center demand in particular; and
- the rapid development of new technologies or the adoption of new industry standards that render our or our customers' current products and services obsolete or unmarketable and, in the case of our customers, that contribute to a downturn in their businesses, increasing the likelihood of a default under their service agreements or that they become insolvent.

To the extent that any of these or other adverse conditions occur, they are likely to impact market demand and pricing for our services.

RISK FACTORS

Any inability to manage the growth of our operations could disrupt our business and reduce our profitability.

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%. We derive net revenue primarily from colocation services and, to a lesser extent, managed services. In addition, we also sell IT equipment either on a stand-alone basis or bundled in a service agreement and provide consulting services. Our net revenues from colocation services were RMB1,219.1 million, RMB2,104.3 million, RMB3,261.7 million (US\$461.7 million) and RMB2,069.4 million (US\$292.9 million) in 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, representing 75.4%, 75.4%, 79.1% and 80.1% of total net revenue over the same periods, respectively. Our net revenues from managed services and other services were RMB372.8 million, RMB655.2 million, RMB832.8 million (US\$117.9 million) and RMB497.7 million (US\$70.4 million) in 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, representing 23.1%, 23.4%, 20.2% and 19.3% of total net revenue over the same periods, respectively. Our net revenue from IT equipment sales were RMB24.3 million, RMB32.6 million, RMB27.9 million (US\$3.9 million) and RMB15.6 million (US\$2.2 million) in 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, representing 1.5%, 1.2%, 0.7% and 0.6% of total net revenue, respectively.

Our operations have also expanded in recent years through increases in the number and size of the data center facilities we operate, which we expect will continue to grow. Our rapid growth has placed, and will continue to place, significant demands on our management and our administrative, operational and financial systems. Continued expansion increases the challenges we face in:

- obtaining suitable sites or land to build new data centers;
- establishing new operations at additional data centers and maintaining efficient use of the data center facilities we operate;
- managing a large and growing customer base with increasingly diverse requirements;
- expanding our service portfolio to cover a wider range of services, including managed cloud services;
- creating and capitalizing on economies of scale;
- being exposed to protectionist or national security policies that restrict our ability to invest in or acquire companies or develop, import or export certain technologies;

RISK FACTORS

- obtaining additional capital to meet our future capital needs;
- recruiting, training and retaining a sufficient number of skilled technical, sales and management personnel;
- maintaining effective oversight over personnel and multiple data center locations;
- coordinating work among sites and project teams; and
- developing and improving our internal systems, particularly for managing our continually expanding business operations.

In addition, we have grown our business through acquisitions in the past and intend to continue selectively pursuing strategic partnerships and acquisitions to expand our business. From time to time, we may have a number of pending investments and acquisitions that are subject to closing conditions. There can be no assurance that we will be able to identify, acquire and successfully integrate other businesses and, if necessary, to obtain satisfactory debt or equity financing to fund those acquisitions. See “— We have expanded in the past and expect to continue to expand in the future through acquisitions of other companies, each of which may divert our management’s attention, result in additional dilution to shareholders or use resources that are necessary to operate our business.” If we fail to manage the growth of our operations effectively, our businesses and prospects may be materially and adversely affected.

If we are not successful in expanding our service offerings, we may not achieve our financial goals and our results of operations may be adversely affected.

We have been expanding, and plan to continue to expand, the nature and scope of our service offerings, particularly into the area of managed cloud services, including direct private connection to major cloud platforms, an innovative service platform for managing hybrid clouds and, where required, the resale of public cloud services. The success of our expanded service offerings depends, in part, upon demand for such services by new and existing customers and our ability to meet their demand in a cost-effective manner. We may face a number of challenges in expanding our service offerings, including:

- acquiring or developing the necessary expertise in IT;
- maintaining high-quality control and process execution standards;
- maintaining productivity levels and implementing necessary process improvements;
- controlling costs; and
- successfully attracting existing and new customers for new services we develop.

RISK FACTORS

A failure by us to effectively manage the growth of our service portfolio could damage our reputation, cause us to lose business and adversely affect our results of operations. In addition, because managed cloud services may require significant upfront investment, we expect that continued expansion into these services will reduce our profit margins. In the event that we are unable to successfully grow our service portfolio, we could lose our competitive edge in providing our existing colocation and managed services, since significant time and resources that are devoted to such growth could have been utilized instead to improve and expand our existing colocation and managed services.

Our business requires us to make significant capital expenditures and resource commitments prior to recognizing revenue for those services.

We have a long selling cycle for our services, which typically requires significant investment of capital, human resources and time by both our customers and us. Constructing, developing and operating our data centers require significant capital expenditures. A customer's decision to utilize our colocation services, our managed solutions or our other services typically involves time-consuming contract negotiations regarding the service level commitments and other terms, and substantial due diligence on the part of the customer regarding the adequacy of our infrastructure and attractiveness of our resources and services. Furthermore, we may expend significant time and resources in pursuing a particular sale or customer, and we do not recognize revenue for our services until such time as the services are provided under the terms of the applicable agreement. Our efforts in pursuing a particular sale or customer may not be successful, and we may not always have sufficient capital on hand to satisfy our working capital needs between the date on which we sign an agreement with a new customer and when we first receive revenue for services delivered to the customer. If our efforts in pursuing sales and customers are unsuccessful, or our cash on hand is insufficient to cover our working capital needs over the course of our long selling cycle, our financial condition could be negatively affected.

The data center business is capital-intensive, and we expect our capacity to generate capital in the short term will be insufficient to meet our anticipated capital requirements.

The costs of constructing, developing and operating data centers are substantial. Further, we may encounter development delays, excess development costs, or delays in developing space for our customers to utilize. We also may not be able to secure suitable land or buildings for new data centers or at a cost on terms acceptable to us. We are required to fund the costs of constructing, developing and operating our data centers with cash retained from operations, as well as from financings from bank and other borrowings. Moreover, the costs of constructing, developing and operating data centers have increased in recent years, and may further increase in the future, which may make it more difficult for us to expand our business and to operate our data centers profitably. Based on our current expansion plans, we do not expect that our net revenue in the short term will be sufficient to offset increases in these costs, or that our business operations in the short term will generate capital sufficient to meet our anticipated capital requirements. If we cannot generate sufficient capital to meet our anticipated capital requirements, our financial condition, business expansion and future prospects could be materially and adversely affected.

RISK FACTORS

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.

We have substantial indebtedness. As of August 31, 2020, we had total consolidated indebtedness of RMB21,870.4 million (US\$3,095.5 million), including borrowings, finance lease and other financing obligations and convertible bonds. Based on our current expansion plans, we expect to continue to finance our operations through the incurrence of debt. Our indebtedness could, among other consequences:

- make it more difficult for us to satisfy our obligations under our indebtedness, exposing us to the risk of default, which, in turn, would negatively affect our ability to operate as a going concern;
- require us to dedicate a substantial portion of our cash flows from operations to interest and principal payments on our indebtedness, reducing the availability of our cash flows for other purposes, such as capital expenditures, acquisitions and working capital;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- increase our vulnerability to general adverse economic and industry conditions;
- place us at a disadvantage compared to our competitors that have less debt;
- expose us to fluctuations in the interest rate environment because the interest rates on borrowings under our project financing agreements are variable;
- increase our cost of borrowing;
- limit our ability to borrow additional funds; and
- require us to sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes.

As a result of the covenants and restrictions, we are limited in how we conduct our business, and we may be unable to raise additional debt or equity financing to compete effectively or to take advantage of new business opportunities. Our current or future borrowings could increase the level of financial risk to us and, to the extent that the interest rates are not fixed and rise, or that borrowings are refinanced at higher rates, our available cash flow and results of operations could be adversely affected.

RISK FACTORS

We have financing arrangements in place with various lenders to support specific data center construction projects. Certain of these financing arrangements are secured by share pledge over equity interests of our subsidiaries, our accounts receivables, property and equipment and land use rights. The terms of these financing arrangements may impose covenants and obligations on the part of our borrowing subsidiary and/or GDS Beijing and its subsidiaries, and our company as guarantor. For example, some of these agreements contain requirements to maintain a specified minimum cash balance at all times or require that the borrowing subsidiary maintain a certain debt-to-equity ratio. We cannot provide any assurances that we will always be able to meet any covenant tests under our financing arrangements. Other loan facility agreements of ours require that STT GDC, one of our major shareholders, maintain an ownership percentage in our company of at least 25%. If STT GDC’s ownership in our company were to decrease below this percentage, pursuant to the terms of relevant facility agreements we could be obligated to notify the lender or repay any loans outstanding immediately or on an accelerated repayment schedule. In addition, the majority of our loan facility agreements require that 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, be maintained and renewed on or before the expiry date of the IDC license or authorization thereunder, as applicable. However, we have learned that the MIIT will not allow subsidiaries authorized to provide IDC services by an IDC license holder to renew its current authorization in the future; instead, the MIIT will require subsidiaries of IDC license holders to apply for their own IDC licenses. See “— Risks Related to Doing Business in the People’s Republic of China — We may be regarded as being non-compliant with the regulations on VATS due to the lack of IDC licenses for which penalties may be assessed that may materially and adversely affect our business, financial condition, growth strategies and prospects.” If the subsidiaries of GDS Beijing cannot renew their authorizations to provide IDC services under the auspices of GDS Beijing’s IDC license timely, and such subsidiaries cannot apply for and obtain their own IDC licenses, we also could be obligated to notify the lender or repay any loans outstanding immediately or on an accelerated repayment schedule. In May 2019, one of GDS Beijing’s subsidiaries, GDS Suzhou obtained its own IDC license. In September and November 2019, the other two of GDS Beijing’s subsidiaries, Beijing Wan Chang Yun Science & Technology Co., Ltd., or Beijing Wan Chang Yun, and Shenzhen Yaode Data Services Co., Ltd., or Shenzhen Yaode, obtained their own IDC license, respectively. Other subsidiaries of our VIEs plan to apply for their own IDC licenses in order to continue to maintain authorizations to provide IDC services. While we do not foresee any legal impediment based on our experience with IDC license applications, there can be no assurance that these subsidiaries will be able to obtain approvals from the MIIT for their own IDC licenses in a timely manner or at all, or obtain such approvals for an expansion of authorization by GDS Beijing to allow the other subsidiaries of our VIEs to provide IDC services under the auspices of GDS Beijing’s IDC license. There also can be no assurance that we will be able to renew such authorizations and expansions in due course.

RISK FACTORS

The terms of any future indebtedness we may incur could include more restrictive covenants. A breach of any of these covenants could result in a default with respect to the related indebtedness. If a default occurs, the relevant lenders could elect to declare the indebtedness, together with accrued interest and other fees, to be due and payable immediately. This, in turn, could cause our other debt, to become due and payable as a result of cross-default or acceleration provisions contained in the agreements governing such other debt. In the event that some or all of our debt is accelerated and becomes immediately due and payable, we may not have the funds to repay, or the ability to refinance, such debt.

In mid-August 2019, the PBOC decided to reform the formation mechanism of the Loan Prime Rate, or LPR, and authorized the National Interbank Funding Center to release LPR monthly, which may have indirect impact on the interest rate. The LPR reform could contribute to the decline of the loan rate for enterprises and the reduction of the financing cost for the real economy. High quality enterprises may get cheaper loans from the bank due to this more market-oriented interest rate mechanism. However, there is still uncertainty over the long-term effect of the LPR reform and its impact on our indebtedness.

We will likely require additional capital to meet our future capital needs, which may adversely affect our financial position and result in additional shareholder dilution.

To grow our operations, we will be required to commit a substantial amount of operating and financial resources. Our planned capital expenditures, together with our ongoing operating expenses, will cause substantial cash outflows. In the near term, we will likely be unable to fund our expansion plans solely through our operating cash flows. Accordingly, we will likely need to raise additional funds through equity, equity-linked or debt financings in the future in order to meet our operating and capital needs. Additional debt or equity financing may not be available when needed or, if available, may not be available on satisfactory terms. For instance, in connection with our ongoing development and operation of hyperscale build-to-suit joint venture data centers at locations in China selected by our customers outside of Tier 1 markets, we will need to raise additional capital, either from our joint venture partners, through the equity and debt capital markets, bank loans or otherwise, and we may be unable to do so on terms acceptable to us or at all. Our inability to obtain additional debt and/or equity financing or to generate sufficient cash from operations may require us to prioritize projects or curtail capital expenditures and could adversely affect our results of operations.

If we raise additional funds through further issuances of equity or equity-linked securities, our existing shareholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of the holders of our ordinary shares. In addition, any debt financing that we may obtain in the future could have restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions.

RISK FACTORS

The ongoing COVID-19 pandemic could materially and adversely affect our business, results of operations and financial condition.

Beginning in early 2020, there was an outbreak of a novel strain of coronavirus, later named COVID-19. In March 2020, the World Health Organization declared COVID-19 to be a pandemic. As part of its intensified efforts to contain the spread of COVID-19, the PRC government took a number of actions, including extending the Chinese New Year holiday, quarantining and otherwise treating individuals in China who are infected with COVID-19, asking residents to remain at home and to avoid public gatherings, among other actions. COVID-19 has resulted in temporary closures of many corporate offices, retail stores, and manufacturing facilities and factories across China. Most of our revenues are generated in and our workforce are located in China. Consequently, our business could be materially and adversely impacted by the effects of COVID-19 or other pandemics or epidemics.

The construction of new data centers or the expansion of existing data centers might be significantly delayed because of temporary closures of our construction sites and shortages of workers due to travel restrictions that have been or may be imposed in China. The completion of pending acquisitions of data centers might also be delayed or suffer other adverse impacts due to the impact of COVID-19. If the construction of new data centers, the expansion of existing data centers, or the completion of our pending acquisitions of data centers cannot be completed or delivered on time, we may be unable to meet our customer demand as expected, which may adversely and materially affect our business, results of operations and financial condition. Business distributions caused by the COVID-19 pandemic may also adversely and materially affect the business operations and financial condition of many of our customers, especially those that are small and medium-sized enterprises. Any prolonged disruption of our businesses or those of our customers or business partners could negatively impact our results of operations and financial condition. We have experienced slower cash collection as a result of the COVID-19 pandemic, for administrative reasons unrelated to our customers’ ability to pay, which has resulted in an increase in our accounts receivable. An increase in our accounts receivable and any decrease in our recovery rate on accounts receivable could impact our cash flow, increase our need to fund operations from other sources of capital and impact our operations and business. Our customers may encounter cash flow or operating difficulties, which may reduce their demand for our services, further delay their payments to us thereby increasing our accounts receivable turnover days, or even increase the risk that they may default on their payment obligations. Any of these events would negatively affect our operating results. In response to the pandemic, we temporarily suspended our offline customer acquisition activities and business travel to ensure the safety and health of our employees. These measures we took or are taking may reduce our business operation capacity and are likely to negatively affect our operating results.

In addition, our results of operations could be adversely affected to the extent that this pandemic harms the Chinese economy or global economy in general. The costs of constructing, developing and operating data centers are substantial. See “— The data center business is capital-intensive, and we expect our capacity to generate capital in the short term will be insufficient to meet our anticipated capital requirements.” Expanding our data center capacity

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and growing our business requires substantial amounts of capital. If our existing cash resources are insufficient to meet our needs to expand our data center capacity and grow our business, we may seek to raise capital by selling equity or equity-linked securities, debt securities or by arranging financing and incurring indebtedness through borrowing from banks. Any economic slowdown in China or worldwide due to COVID-19 may result in a shortage of available credit and insufficient funds for our future expansion or growth, and we may not be able to raise additional capital, obtain additional financing from banks or other financial institutions, or draw down our existing loans and financing facilities. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. 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. This in turn could limit our capital expenditures and cause our revenues to decrease, and our business, results of operations and financial condition may be materially and adversely affected as a result.

While many of the restrictions on movements within China have been relaxed, there is great uncertainty around the future of the COVID-19 outbreak and how it will impact our operations in Mainland China and in Hong Kong. In particular, we cannot accurately forecast the potential impact of additional outbreaks as government restrictions are relaxed, further shelter-in-place or other government restrictions implemented in response to such outbreaks, or the impact on the ability of our customers to remain in business as a result of the ongoing pandemic or such additional outbreaks. With the uncertainties surrounding the COVID-19 outbreak until a cure and vaccine has been discovered, the threat to our business disruption and the related financial impact remains.

If we fail to manage effectively or collect our accounts receivable, our results of operations, financial condition and liquidity may be adversely affected.

As of December 31, 2017, 2018 and 2019 and June 30, 2020, our accounts receivable, net, amounted to RMB364.7 million, RMB536.8 million, RMB880.0 million (US\$124.6 million) and RMB1,388.5 million (US\$196.5 million). Our accounts receivable turnover days, which are the average accounts receivable balances as of the beginning and the end of the period divided by total net revenues during the period and multiplied by the number of days during the period, were relatively stable at 63.6 days in 2017, 58.9 days in 2018 and 62.7 days in 2019. However, our accounts receivable turnover days increased to 79.9 days in the six months ended June 30, 2020 from 67.1 days in the corresponding period of 2019, primarily because we experienced slower cash collection for administrative reasons as a result of the COVID-19 pandemic, unrelated to our customers' ability to pay.

The amount and turnover days of our accounts receivable may increase in the future, which will make it more challenging for us to manage our working capital effectively and our results of operations, financial conditions and liquidity may be adversely affected.

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We had net current liabilities as of December 31, 2018 and we may experience net current liabilities again in the future.

Having net current liabilities could constrain our operational flexibility and affect our ability to expand our business. We expect to continue to rely upon a combination of cash retained from operations as well as the financing methods we have historically used to fund our expansion. If we do not generate sufficient cash flow from our operations to meet our present and future financial needs, we may need to rely on additional external equity capital and debt financing for funding. If adequate funds are not available, whether on satisfactory terms or at all, we may be forced to delay or abandon our development and expansion plans, and our business, financial condition and results of operations may be materially and adversely affected. As of December 31, 2018, we had net current liabilities of RMB470.5 million. We may record net current liabilities in the future if we fail to maintain current assets at a level that exceeds current liabilities. If we have significant net current liabilities for an extended period of time, our working capital for purposes of our operations may be subject to constraints, which may materially adversely affect our business, results of operations and financial condition.

Increased power costs and limited availability of power resources, together with stringent regulatory requirements or restrictions on data center development, may adversely affect our results of operations.

We are a large consumer of power and costs of power account for a significant portion of our cost of revenue. We require power supply to provide many services we offer, such as powering and cooling our customers’ servers and network equipment and operating critical data center plant and equipment infrastructure. Since we rely on two suppliers, State Grid and Southern Grid, each of which has a monopoly in its area of operation, to provide our data centers with power, our data centers could have limited or inadequate access to power.

More stringent requirements or restrictions imposed by local authorities in the Tier 1 markets as to energy conservation or industrial policies may also limit our ability to obtain the regulatory approvals for the development and operation of data centers, which are essential for us to obtain power supply and expand our business. For example, the Development and Reform Commission of Shenzhen Municipality, or Shenzhen DRC, issued regulations in the first half of 2017 to tighten the requirements for energy conservation review of fixed-asset investment projects for data centers by requiring all such projects to obtain an energy conservation review opinion from Shenzhen DRC regardless of the amount of their energy consumption and conditioning its approval of power supply applications on the receipt of such energy conservation review opinion. In September 2018, the General Office of the People’s Government of Beijing Municipality issued the Beijing Municipality’s Catalogue for the Prohibition and Restriction of Newly Increased Industries (2018 Edition) to strictly control new construction or expansion of data centers in Beijing. In January 2019, the Shanghai Municipal Commission of Economy and Informatization and the Shanghai Municipal Development and Reform Commission jointly published their Guideline Opinion on Coordinated Construction of Internet Data Centers in Shanghai to control the aggregate number

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of newly increased IDC racks from 2019 to 2020 in Shanghai. In April 2019, the Shenzhen DRC published a Notice on the Relevant Matters of Energy Conservation Examination for Data Centers to strictly control the newly increased amount of annual comprehensive energy consumption of data centers. Failure to meet the evolving requirements, new restrictions imposed on our expansion, and lack of regulatory approvals could have a material and adverse effect on our business and expected growth. See “— Our business operations are extensively impacted by the policies and regulations of the PRC government. Any policy or regulatory change may cause us to incur significant compliance costs.”

The amount of power required by our customers may increase as they adopt new technologies, for example, for virtualization of hardware resources and for specialized processing of artificial intelligence. As a result, the average amount of power utilized per server is increasing, which in turn increases power consumption required to cool the data center facilities. Pursuant to our colocation service agreements, we provide our customers with a committed level of power supply availability. Although we aim to improve the energy efficiency of the data center facilities that we operate, there can be no assurance such data center facilities will be able to provide sufficient power to meet the growing needs of our customers. Our customers’ demand for power may exceed the power capacity in our older data centers, which may limit our ability to fully utilize the net floor area of these data centers. We may lose customers or our customers may reduce the services purchased from us due to increased power costs, and limited availability of power resources, or we may incur costs for data center capacity which we cannot utilize, which would reduce our net revenue and have a material and adverse effect on our cost of revenue and results of operations.

We attempt to manage our power resources and limit exposure to system downtime due to power outages from the electric grid by having redundant power feeds from the grid and by using backup generators and battery power. However, these protections may not limit our exposure to power shortages or outages entirely. Any system downtime resulting from insufficient power resources or power outages could damage our reputation and lead us to lose current and potential customers, which may materially and adversely affect our business, financial condition and results of operations.

We have a history of net losses and negative cash flows from operating activities and may continue to incur losses and experience negative cash flows from operating activities in the future.

We incurred net losses of RMB326.9 million, RMB430.3 million, RMB442.1 million (US\$62.6 million) and RMB193.1 million (US\$27.3 million) in 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, and we may incur losses in the future. We had cash used in operating activities of RMB167.8 million and RMB12.9 million in 2017 and 2018, respectively. We expect our costs and expenses to increase as we expand our operations, primarily including costs and expenses associated with owning and leasing data center

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capacity, increasing our headcount and utility expenses. Our ability to achieve and maintain profitability depends on the continued growth and maintenance of our customer base, our ability to control our costs and expenses, the expansion of our service offerings and our ability to provide our services at the level needed to satisfy the stringent demands of our customers. In addition, our ability to achieve profitability is affected by many factors which are beyond our control, such as the overall demand for data center services in China and general economic conditions. If we cannot efficiently manage the data center facilities we operate, our financial condition and results of operations could be materially and adversely affected. We may continue to incur losses in the future due to our continued investments in data center capacity, increased headcount and increased utility expenses.

The data center business is capital-intensive. Constructing, developing and operating our data centers require significant capital expenditures. We need to fund these costs with various forms of financing, in addition to cash retained from operations. 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. If we are unable to secure such additional financing, it will have a material adverse effect on our business and we may have to limit operations in a manner inconsistent with our development plans. If additional funds are raised through the issuance of equity securities or convertible debt securities, it will be dilutive to our shareholders and could result in a decrease in our stock price. In addition, if there are other factors that negatively impact our cash flow, such as the credit risk associated with accounts receivable or the ability to recover VAT on a timely basis, our cash flow and ability to fund our operations and capital expenditures would be negatively affected. If we are unable to obtain requisite financing needed to fund our planned operations and expansion, it would have a material adverse effect on our business.

Any significant or prolonged failure in the data center facilities we operate or services we provide would lead to significant costs and disruptions and would reduce our net revenue, harm our business reputation and have a material adverse effect on our results of operation.

The data center facilities we operate are subject to failure. Any significant or prolonged failure in any data center facility we operate or services that we provide, including a breakdown in critical plant, equipment or services, such as the cooling equipment, generators, backup batteries, routers, switches, or other equipment, power supplies, or network connectivity, whether or not within our control, could result in service interruptions and data losses for our customers as well as equipment damage, which could significantly disrupt the normal business operations of our customers and harm our reputation and reduce our net revenue. Any failure or downtime in one of the data center facilities that we operate could affect many of our customers. The total destruction or severe impairment of any of the data center facilities we operate could result in significant downtime of our services and

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catastrophic loss of customer data. Since our ability to attract and retain customers depends on our ability to provide highly reliable service, even minor interruptions in our service could harm our reputation and cause us to incur financial penalties. The services we provide are subject to failures resulting from numerous factors, including:

- power loss;
- equipment failure;
- human error or accidents;
- theft, sabotage and vandalism;
- failure by us or our suppliers to provide adequate service or maintenance to our equipment;
- network connectivity downtime and fiber cuts;
- security breaches to our infrastructure;
- improper building maintenance by us or by the landlords of the data center buildings which we lease;
- physical, electronic and cyber security breaches;
- fires and fire hazards, earthquake, hurricane, tornado, flood and other natural disasters;
- extreme temperatures;
- water damage;
- public health emergencies; and
- terrorism.

We have in the past experienced, and may in the future experience, interruptions in service due to power outages or other technical failures or for reasons outside of our control, including a service interruption that caused system downtime to certain banking and financial institution customers and other customers. These interruptions in service, regardless of whether they result in breaches of the service level agreements we have with customers, may negatively affect our relationships with customers, including resulting in customers terminating their agreements with us or seeking damages from us or other compensatory actions. Interruptions in service may also have consequences for customers, such as banking and financial institutions, that are under the oversight of industry regulators, including the CBIRC and other

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PRC regulatory agencies. In response to such interruptions in service, industry regulators have taken, and may in the future take, various regulatory actions, including notifications or citations to our customers, over which they have oversight. Such regulatory actions with respect to our customers, including banking and financial institutions, could negatively impact our relationships with such customers, lead to audits of our services, inspections of our facilities, place restrictions or prohibitions upon the ability of such institutions to use our services, and thereby negatively affect our business operations and results of operations. We have taken and continue to take steps to improve our infrastructure to prevent service interruptions, including upgrading our electrical and mechanical infrastructure and sourcing, designing the best facilities possible and implementing rigorous operational procedures to maintenance programs to manage risk. However, we cannot assure you that such interruptions in service will not occur again in the future, or that such incidents will not result in the loss of customers and revenue, our paying compensation to customers, reputational damage to us, penalties or fines against us, and would not have a material and adverse effect on our business and results of operations. Service interruptions continue to be a significant risk for us and could affect our reputation, damage our relationships with customers and materially and adversely affect our business.

Delays in the construction of new data centers or the expansion of existing data centers could involve significant risks to our business.

In order to meet customer demand and the continued growth of our business, we need to expand existing data centers, lease buildings for conversion into new data center facilities or obtain suitable land to build new data centers. Expansion of existing data centers and/or construction of new data centers are currently underway or being contemplated and such expansion and/or construction require us to carefully select and rely on the experience of one or more designers, general contractors, and subcontractors during the design and construction process. If a designer or contractor experiences financial or other problems during the design or construction process, we could experience significant delays and/or incur increased costs to complete the projects, resulting in negative impacts on our results of operations.

In addition, we need to work closely with the local power suppliers, and sometimes local governments, where our proposed data centers are located. Delays in actions that require the assistance of such third parties, or delays in receiving required permits and approvals from such parties, may also affect the speed with which we complete data center projects or result in their not being completed at all. We have experienced such delays in receiving approvals and permits or in actions to be taken by third parties in the past and may experience them again in the future.

If we experience significant delays in the supply of power required to support the data center expansion or new construction, either during the design or construction phases, the progress of the data center expansion and/or construction could deviate from our original plans, which could, among others, result in liability for penalties and loss of customers, and cause material and negative effects to our revenue growth, profitability and results of operations.

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The occurrence of a catastrophic event or a prolonged disruption may exceed our insurance coverage by significant amounts.

Our operations are subject to hazards and risks normally associated with the daily operations of our data center facilities. Currently, we maintain insurance policies in nine categories: construction and installation, work interruption expense due to public health event, business interruption for lost profits, property and casualty, public liability, cyber security liability, directors and officers liability, employer liability and commercial employee insurance. Our business interruption insurance for lost profits includes coverage for business interruptions, our property and casualty insurance includes coverage for equipment breakdowns and our commercial employee insurance includes employee group insurance and senior management medical insurance. We believe our insurance coverage adequately covers the risks of our daily business operations. However, our current insurance policies may be insufficient in the event of a prolonged or catastrophic event. The occurrence of any such event that is not entirely covered by our insurance policies may result in interruption of our operations and subject us to significant losses or liabilities and damage our reputation as a provider of business continuity services. In addition, any losses or liabilities that are not covered by our current insurance policies may have a material adverse effect on our business, financial condition and results of operations.

We may be vulnerable to security breaches which could disrupt our operations and have a material adverse effect on our financial condition and results of operations.

A party who is able to compromise the security measures protecting the data center facilities we operate or any of the data stored in such data center facilities could misappropriate our or our customers' proprietary information or cause interruptions or malfunctions in our operations. As we provide assurances to our customers that we provide the highest level of security, such a compromise could be particularly harmful to our brand and reputation. We may be required to expend significant capital and resources to protect against such threats or to alleviate problems caused by breaches in security. In addition, as we continue expanding our service offerings in managed cloud services, including direct private connection to major cloud platforms and the provision of cloud infrastructure, we will face greater risks from potential attacks because the provision of cloud-related services will increase the flow of internet user data through the data center facilities we operate and create broader public access to our system. As techniques used to breach security change frequently and are often not recognized until launched against a target, we may not be able to implement new security measures in a timely manner or, if and when implemented, we may not be certain whether these measures could be circumvented. Any breaches that may occur could expose us to increased risk of lawsuits, regulatory penalties, loss of existing or potential customers, harm to our reputation and increases in our security costs, which could have a material adverse effect on our financial condition and results of operations.

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Security risks and deficiencies may also be identified in the course of government inspections, which could subject us to fines and other sanctions. During construction of certain of our facilities, government inspectors have cited security risks at our construction sites and subjected us and our legal representative to fines for such risks. We cannot assure you that similar fines and sanctions will not occur in the future, or that such fines and sanctions will not result in damage to our business and reputation, which could have a material and adverse effect on our results of operations.

In addition, any assertions of alleged security breaches or systems failure made against us, whether true or not, could harm our reputation, cause us to incur substantial legal fees and have a material adverse effect on our business, reputation, financial condition and results of operations.

Our ability to provide data center services depends on the major telecommunications carriers in China providing sufficient network services to our customers in the data center facilities that we operate on commercially acceptable terms.

Our ability to provide data center services depends on the major telecommunications carriers in China, namely China Telecom, China Unicom and China Mobile, providing sufficient network connectivity and capacity to enable our customers to transfer data to and from equipment that they locate in the data center facilities that we operate. Furthermore, given the limited competition among basic service providers in the telecommunications market in China, we depend on the dominant carrier in each location to provide such services to our customers on commercially acceptable terms. Although we believe we have maintained good relationships with China Telecom, China Unicom and China Mobile in the past, there can be no assurance that they will continue to provide the network services that our customers require on commercially acceptable terms at each of the data centers where we operate, if at all. In addition, if China Telecom, China Unicom or China Mobile increases the price of their network services, it would have a negative impact on the overall cost-effectiveness of data center services in China, which could cause our customers' demand for our services to decline and would materially and adversely affect our business and results of operations.

Our leases for self-developed data centers or our agreements for third-party data centers could be terminated early and we may not be able to renew our existing leases and agreements on commercially acceptable terms or our rent or payment under the agreements could increase substantially in the future, which could materially and adversely affect our operations.

Most of our self-developed data centers are located in properties that we hold under long-term leases. Such leases generally have 15 to 20-year terms from inception. In some instances, we may negotiate an option to purchase the leased premises and facilities or a right of first refusal for the renewal of the existing leases according to the terms and conditions under the relevant lease agreements. However, upon the expiration of such leases, we may not be able to renew these leases on commercially reasonable terms, if at all. Under certain lease agreements, the lessor may terminate the agreement by giving prior notice and paying default

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penalties to us. However, such default penalties may not be sufficient to cover our losses. Even though the lessors for most of our data centers generally do not have the right of unilateral early termination unless they provide the required notice, the lease may nonetheless be terminated early if we are in material breach of the lease agreements. We may assert claims for compensation against the landlords if they elect to terminate a lease agreement early and without due cause. If the leases for our data centers were terminated early prior to their expiration date, notwithstanding any compensation we may receive for early termination of such leases, or if we are not able to renew such leases, we may have to incur significant cost related to relocation. In addition, we have entered into five agreements in respect of data centers in operation with parties who have not produced evidence of proper legal title of the premises, and although we may seek damages from such parties, such leases may be void and we may be forced to relocate. The five agreements are in relation to six leased data centers which collectively accounted for approximately 2.8%, 4.1%, 5.7% and 7.9% of net revenues in the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2020, respectively, and approximately 9.1%, 10.3%, 8.9% and 7.4% of total area committed as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively. Except for one data center, which accounted for 2.8%, 1.8%, 0.9%, and 1.1% of net revenues in the years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2020 and 1.2%, 0.5%, 0.4% and 0.3% of total area committed as of December 31, 2017, 2018, 2019 and six months ended June 30, 2020, the owners of the premises for the five other data centers have confirmed such property ownership certificates are in the process to being obtained without any foreseen legal or regulatory difficulties; in addition, as advised by our PRC legal counsel, as the owners have obtained relevant construction planning permits with regard to the construction of the premises, the relevant leases will be deemed valid and effective by a court in case of any dispute. Six of our data centers are located in properties that were already mortgaged to third parties before the commencement of the lease. If such third parties claim their rights on the mortgaged properties in case of default or breach under the principal debt by the lessors or other relevant parties, we may not be able to protect our leasehold interest and may be ordered to vacate the affected premises. Any relocation could also affect our ability to provide continuous uninterrupted services to our customers and harm our reputation. As a result, our business and results of operations could be materially and adversely affected.

Furthermore, certain portions of our data center operations are located in third-party data centers that we lease from wholesale data center providers. Our agreements with third parties are typically five years but may also be up to ten years. Under some of such agreements, we have the right of first refusal to renew the agreements subject to mutual agreement with the third parties. Some of such agreements allow the third parties to terminate the agreements early, subject to a notification period requirement and the payment of a pre-determined termination fee, which in some cases may not be sufficient to cover any direct and indirect losses we might incur as a result. Although historically we have successfully renewed all agreements we wanted to renew, and we do not believe that any of our agreements will be terminated early in the future, there can be no assurance that the counterparties will not terminate any of our agreements prior to its expiration date. We plan to renew our existing agreements with third parties upon expiration or migrate our operations to the data centers leased or owned by our company. However, we may not be able to renew these agreements on

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commercially acceptable terms, if at all, or the space in data centers that we lease or own may not be adequate for us to relocate such operations, and we may experience an increase in our payments under such agreements. Any adverse change to our ability to exert operational control over any of the data center facilities we operate could have a material adverse effect on our ability to operate these data center facilities at the standards required for us to meet our service level commitments to our customers.

We generate significant revenue from data centers located in only a few locations and a significant disruption to any location could materially and adversely affect our operations.

We generate significant revenue from data centers located in only a few locations and a significant disruption to any single location could materially and adversely affect our operations. Most of our data centers (self-developed and third-party) are located in our Tier 1 markets. Furthermore, several of our data centers are located on campuses or clusters in close proximity to each other in specific districts within our Tier 1 markets. The occurrence of a catastrophic event, or a prolonged disruption in any of these regions, could materially and adversely affect our operations.

Our net revenue is highly dependent on a limited number of customers, and the loss of, or any significant decrease in business from, any one or more of our major customers could adversely affect our financial condition and results of operations.

We consider our customers to be the end users of our services. We may enter into agreements 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 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 total 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). No other customer accounted for 10% or more of our total area committed (excluding joint venture data centers). Moreover, for several of our data centers, a limited number of customers accounted for or are expected to account for a substantial majority of area committed or area utilized, including some cases where a single customer accounted for all area committed or area utilized. If there are delays in the move-in, whereby the net floor area they are committed to is not utilized as expected, or there is contract termination in relation to these customers, then our net revenue and results of operations would be materially and adversely affected.

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There are a number of factors that could cause us to lose major customers. Because many of our agreements involve services that are mission-critical to our customers, any failure by us to meet a customer's expectations could result in cancellation or non-renewal of the agreement. Our service agreements usually allow our customers to terminate their agreements with us before the end of the contract period under certain specified circumstances, including our failure to deliver services as required under such agreements, and in some cases without cause as long as sufficient notice is given. In addition, our customers may decide to reduce spending on our services due to a challenging economic environment or other factors, both internal and external, relating to their business such as corporate restructuring or changing their outsourcing strategy by moving more facilities in-house or outsourcing to other service providers. Furthermore, our customers, some of whom have experienced rapid changes in their business, substantial price competition and pressures on their profitability, may demand price reductions or reduce the scope of services to be provided by us, any of which could reduce our profitability. In addition, our reliance on any individual customer for a significant portion of our net revenue may give that customer a degree of pricing leverage against us when negotiating agreements and terms of services with us.

The loss of any of our major customers, or a significant decrease in the extent of the services that they outsource to us or the price at which we sell our services to them, could materially and adversely affect our financial condition and results of operations.

If we are unable to meet our service level commitments, our reputation and results of operation could suffer.

Most of our customer agreements provide that we maintain certain service level commitments to our customers. If we fail to meet our service level commitments, we may be contractually obligated to pay the affected customer a financial penalty, which varies by agreement, and the customer may in some cases be able to terminate its agreement. Although we have not had to pay any material financial penalties for failing to meet our service level commitments in the past, there is no assurance that we will be able to meet all of our service level commitments in the future and that no material financial penalties may be imposed. In addition, if such a failure were to occur, there can be no assurance that our customers will not seek other legal remedies that may be available to them, including:

- requiring us to provide free services;
- seeking damages for losses incurred; and
- cancelling or electing not to renew their agreements.

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Any of these events could materially increase our expenses or reduce our net revenue, which would have a material adverse effect on our reputation and results of operations. Our failure to meet our commitments could also result in substantial customer dissatisfaction or loss. As a result of such customer loss and other potential liabilities, our net revenue and results of operations could be materially and adversely affected.

Our customer base may decline if our customers or potential customers develop their own data centers or expand their own existing data centers.

Some of our customers may develop their own data center facilities. Other customers with their own existing data centers may choose to expand their data center operations in the future. In the event that any of our key customers were to develop or expand their data centers, we may lose business or face pressure as to the pricing of our services. Although we believe that the trend is for companies in China to outsource more of their data center facilities and operations to colocation data center service providers, there can be no assurance that this trend will continue. In addition, if we fail to offer services that are cost-competitive and operationally advantageous as compared with services provided in-house by our customers, we may lose customers or fail to attract new customers. If we lose a customer, there is no assurance that we would be able to replace that customer at the same or a higher rate, or at all, and our business and results of operations would suffer.

We may be unable to achieve high agreement renewal rates.

We seek to renew customer agreements when those agreements are due for renewal. We endeavor to provide high levels of customer service, support, and satisfaction to maintain long-term customer relationships and to secure high rates of agreement renewals for our services. Nevertheless, we cannot assure you that we will be able to renew service agreements with our existing customers or re-commit space relating to expired service agreements to new customers if our current customers do not renew their agreements. In the event of a customer's termination or non-renewal of expired agreements, or a renewal of an expired agreement for fewer services or less area than it had previously utilized, our ability to enter into services agreements so that new or other existing customers utilize the expired existing space in a timely manner will impact our results of operations. If such expired existing space is not utilized by new or other existing customers in a timely manner, our service revenue and results of operations may be negatively impacted. Our quarterly churn rate, which we define as the ratio of quarterly service revenue from agreements which terminated or expired without renewal during the quarter to the total quarterly service revenue for the preceding quarter, averaged 2.1%, 0.9% and 0.5% in 2017, 2018 and 2019, respectively, and was 0.6% for the six months ended June 30, 2020. As of June 30, 2020, data center service agreements with our customers with respect to 4.8% of our total area committed (excluding joint venture data centers) will become due for renewal during 2020.

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If we do not succeed in attracting new customers for our services and/or growing revenue from existing customers, we may not achieve our revenue growth goals.

We have been expanding our customer base to cover a range of industry verticals, particularly cloud service providers and other internet-based businesses. Our ability to attract new customers, as well as our ability to grow revenue from our existing customers, depends on a number of factors, including our ability to offer high-quality services at competitive prices, the strength of our competitors and the capabilities of our marketing and sales teams to attract new customers. If we fail to attract new customers, we may not be able to grow our net revenue as quickly as we anticipate or at all.

As our customer base grows and diversifies into other industries, we may be unable to provide customers with services that meet the specific demand of such customers or their industries, or with quality customer support, which could result in customer dissatisfaction, decreased overall demand for our services and loss of expected revenue. In addition, our inability to meet customer service expectations may damage our reputation and could consequently limit our ability to retain existing customers and attract new customers, which would adversely affect our ability to generate revenue and negatively impact our results of operations.

Customers who rely on us for the colocation of their servers, the infrastructure of their cloud systems, and management of their IT and cloud operations could potentially sue us for their lost profits or damages if there are disruptions in our services, which could impair our financial condition.

As our services are critical to many of our customers' business operations, any significant disruption in our services could result in lost profits or other indirect or consequential damages to our customers. Although our customer agreements typically contain provisions attempting to limit our liability for breach of the agreement, including failing to meet our service level commitments, there can be no assurance that a court would enforce any contractual limitations on our liability in the event that one of our customers brings a lawsuit against us as the result of a service interruption that they may ascribe to us. The outcome of any such lawsuit would depend on the specific facts of the case and any legal and policy considerations that we may not be able to mitigate. In such cases, we could be liable for substantial damage awards. Since we do not carry liability insurance coverage, such damage awards could seriously impair our financial condition.

Our customers operate in a limited number of industries, particularly in the cloud services, internet and financial services industries. Factors that adversely affect these industries or information technology spending in these industries may adversely affect our business.

Our customers operate in a limited number of industries, particularly in the cloud services, internet and financial services industries. As of June 30, 2020, customers from the cloud services, internet and financial services industries accounted for 71.8%, 17.0% and 6.1% of our total area committed, respectively. Our business and growth depend on continued

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demand for our services from our current and potential customers in the cloud services, internet and financial services industries. Demand for our services, and technology services in general, in any particular industry could be affected by multiple factors outside of our control, including a decrease in growth or growth prospects of the industry, a slowdown or reversal of the trend to outsource information technology operations, or consolidation in the industry. In addition, serving a major customer within a particular industry may effectively preclude us from seeking or obtaining engagements with direct competitors of that customer if there is a perceived conflict of interest. Any significant decrease in demand for our services by customers in these industries, or other industries from which we derive significant net revenue in the future, may reduce the demand for our services.

We enter into fixed-price agreements with many customers, and our failure to accurately estimate the resources and time required for the fulfillment of our obligations under these agreements could negatively affect our results of operations.

Our data center services are generally provided on a fixed-price basis that requires us to undertake significant projections and planning related to resource utilization and costs. Although our past project experience helps to reduce the risks associated with estimating, planning and performing fixed-price agreements, we bear the risk of failing to accurately estimate our projected costs, including power costs as we may not accurately predict our customer's ultimate power usage once the agreement is implemented, and failing to efficiently utilize our resources to deliver our services, and there can be no assurance that we will be able to reduce the risk of estimating, planning and performing our agreements. Any failure to accurately estimate the resources and time required for a project, or any other factors that may impact our costs, could adversely affect our profitability and results of operations.

Our customer agreement commitments are subject to reduction and potential cancellation.

Many of our customer agreements allow for early termination, subject to payment of specified costs and penalties, which are usually less than the revenues we would expect to receive under such agreements. Our customer agreement commitments could significantly decrease if any of the customer agreements is terminated either pursuant to, or in violation of, the terms of such agreement. In addition, our customer agreement commitments during a particular future period may be reduced for reasons outside of our customers' control, such as general prevailing economic conditions. It is difficult to predict how market forces, or PRC or U.S. government policy, in particular, the severe deterioration of bilateral relations between the PRC and the U.S. and the imposition of additional tariffs on bilateral imports in 2018, 2019 and beyond, may continue to impact the PRC economy as well as related demand for our colocation and managed services going forward. If our customer agreement commitments are significantly reduced, our results of operations could be materially and adversely affected.

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Even if our current and future customers have entered into a binding agreement with us, they may choose to terminate such agreement prior to the expiration of its terms. Any penalty for early termination may not adequately compensate us for the time and resources we have expended in connection with such agreement, or at all, which could have a material adverse effect on our results of operations and cash flows.

We may not be able to compete effectively against our current and future competitors.

We offer a broad range of data center services and, as a result, we may compete with a wide range of data center service providers for some or all of the services we offer. Policies recently promoted by the PRC government concerning the concept of “new infrastructure” may encourage and result in a new wave of investment in, among other things, largescale data centers, artificial intelligence and industrial internet at all levels of the economy. Accordingly, there may be an increase in the number of companies engaging in the data center services business due to the numerous opportunities presented by such policies, which may result in increased competition in our industry.

We face competition from the state-owned telecommunications carriers, namely China Telecom, China Unicom and China Mobile, as well as other domestic and international carrier-neutral data center service providers. Our current and future competitors may vary by size and service offerings and geographic presence. See “Our Business — Competition.”

Competition is primarily centered on reputation and track record, quality and availability of data center capacity, quality of service, technical expertise, security, reliability, functionality, breadth and depth of services offered, geographic coverage, financial strength and price. Some of our current and future competitors may have greater brand recognition, marketing, technical and financial resources than we do. As a result, some of our competitors may be able to:

- bundle colocation services with other services or equipment they provide at reduced prices;
- develop superior products or services, gain greater market acceptance, and expand their service offerings more efficiently or rapidly;
- adapt to new or emerging technologies and changes in customer requirements more quickly;
- take advantage of acquisition and other opportunities more readily; and
- adopt more aggressive pricing policies and devote greater resources to the promotion, marketing and sales of their services.

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We operate in a competitive market, and we face pricing pressure for our services. Prices for our services are affected by a variety of factors, including supply and demand conditions and pricing pressures from our competitors. Although we offer a broad range of data center services, our competitors that specialize in only one of our services offerings may have competitive advantages in that offering. With respect to all of our colocation services, our competitors may offer such services at rates below current market rates or below the rates we currently charge our customers. With respect to both our colocation and managed services offerings, our competitors may offer services in a greater variety that are more sophisticated or that are more competitively priced than the services we offer. We may be required to lower our prices to remain competitive, which may decrease our margins and adversely affect our business prospects, financial condition and results of operations.

An oversupply of data center capacity could have a material adverse effect on us.

A build-up of new data centers or reduced demand for data center services could result in an oversupply of data center capacity in China's large commercial centers. Excess data center capacity could lower the value of data center services and limit the number of economically attractive markets that are available to us for expansion, which could negatively impact our business and results of operations.

Export control and economic or trade sanctions could subject us to regulatory investigations or other actions, and may limit our ability to sell to certain customers, which could materially and adversely affect our competitiveness and business operations.

Recent economic and trade sanctions threatened and/or imposed by the U.S. government on a number of China-based technology companies, including ZTE Corporation, Huawei Technologies Co., Ltd., or Huawei, and certain of their respective affiliates and other China-based technology companies, as well as actions brought against Huawei and related persons by the U.S. and the Canadian governments, have raised further concerns as to whether, in the future, there may be additional regulatory challenges or enhanced restrictions involving other China-based technology companies including us in a wide range of areas such as data security, telecommunications, artificial intelligence, technologies deployed for surveillance purposes, import/export of technology or other business activities. We may also face restrictions on transactions with certain customers, business partners and other persons. For instance, the U.S. government announced several orders effectively barring sales of components and software subject to U.S. export controls to, among others, Huawei and certain other China-based technology companies and their respective affiliates. In particular, on May 15, 2019, the U.S. Department of Commerce added Huawei and certain of its affiliates to the Entity List. On May 15, 2020, the U.S. Department of Commerce took two sets of actions further targeting Chinese firms, including further tightening export controls against Huawei and its non-U.S. affiliates and adding additional China-related entities to the Entity List, which imposes restrictions on the transfer of technology to these entities. On August 17, 2020, the U.S. Department of Commerce imposed further export control restrictions on Huawei and its affiliates on the Entity List and added additional Huawei affiliates to the Entity List. The Entity List identifies foreign parties that are prohibited from acquiring – whether by export, reexport,

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or transfer in-country – some or all items subject to the U.S. Export Administration Regulations (“EAR”), unless the exporter secures a license. Licenses, and exceptions to the license requirement, are rarely granted to exporters. Exporting, reexporting or transferring items subject to the EAR in violation of licensing requirements could result in criminal and/or civil penalties. The U.S. Department of Commerce has indicated that engaging in activities contrary to U.S. national security and/or foreign policy interests would be grounds for inclusion on the Entity List. In June and August of 2020, the U.S. Department of Defense (“DOD”) made public two lists of Chinese companies, including the major Chinese telecommunications carriers, that have been determined to be “Communist Chinese military companies” operating directly or indirectly in the United States. While not sanctions lists, the DOD lists may lead to future sanctions by the U.S. government of companies on the DOD lists, including the PRC telecommunications carriers who provide network services to our customers. Additionally, the United States has ended trade preferences for Hong Kong as well as imposed sanctions on certain officials of Hong Kong and PRC government.

These restrictions, and similar or more expansive restrictions or sanctions that may be imposed by the U.S. or other jurisdictions in the future, may adversely affect our ability to work with certain existing and future customers and business partners, which could possibly lead to the modification or cancellation of our existing customer contracts, all of which would harm our business. Furthermore, our association with customers or business partners that are or become subject to U.S. regulatory scrutiny or export restrictions could subject us to actual or perceived reputational harm among current or [REDACTED], suppliers or customers, customers of our customers, other parties doing business with us, or the general public. Any such reputational harm could result in the loss of investors, suppliers or customers, which could harm our business, financial conditions or prospects.

Additionally, these developments may materially and adversely affect certain of our suppliers’ and customers’ abilities to acquire technologies, systems, devices or components that may be critical to their technology infrastructure, service offerings and business operations, and further cause a turmoil to their industries including telecommunications, information technology infrastructure and consumer electronics, which may, in turn, materially and adversely affect their demand for our services and affect our business, financial condition and results of operations. These restrictions or sanctions, even targeting specific entities unrelated to us, could nevertheless also negatively affect our and our technology partners’ abilities to recruit research and development talent or conduct technological collaboration with scientists and research institutes in the U.S., Europe or other countries, which could significantly harm our competitiveness. There can be no assurance that we will not be affected by current or future export controls or economic and trade sanctions regulations.

Such potential restrictions, as well as any associated inquiries or investigations or any other government actions, may be difficult or costly to comply with and may, among other things, delay or impede the development of the technology, products and solutions of our customers, hinder the stability of our customers’ supply chain, and may result in negative publicity, any of which may have a material and adverse effect on our business, financial condition and results of operations.

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The Company provided colocation services to two PRC companies (which belong to the same group) on the Entity List during the Track Record Period.

The Company does not sell to any entities listed on the U.S. Commerce Department's Entity List any servers, IT equipment or any other products that are subject to the EAR and the Company does not export, re-export, or transfer any U.S.-origin products, technology, components or software that are subject to the EAR to any entities listed on the U.S. Commerce Department's Entity List.

Geopolitical tensions have led to a heightened trend towards trade, technology and even finance "de-coupling" between China and the United States and this adverse trend may continue to deteriorate, which could negatively affect our business operations and results of operations.

In recent years, there has been a deterioration in the relationship between China and the United States which has resulted in intense potential conflicts between the two countries in trade, technology and other areas, and this has led to greater uncertainties in the geopolitical situations in other parts of the world affecting China and Chinese companies. For example, export controls, economic and trade sanctions have been threatened and/or imposed by the U.S. government on a number of Chinese technology companies, some of which are existing or potential customers to us. The United States has also threatened to impose further export controls, sanctions, trade embargoes, and other heightened regulatory requirements on China and Chinese companies. These have raised concerns that there may be increasing regulatory challenges or enhanced restrictions against China and other Chinese technology companies, including us, in a wide range of areas such as data security, emerging technologies, "dual-use" commercial technologies and applications that could be deployed for surveillance or military purposes, import/export of technology or other business activities. For instance, in 2019 and 2020, the U.S. government announced several executive orders and regulations effectively barring American firms from selling, exporting, re-exporting, or transferring U.S.-origin technology, components and software, among other items, to Chinese technology companies and their respective affiliates. In May 2020, the U.S. Bureau of Industry and Security announced plans to restrict certain Chinese companies and their overseas-related affiliates' ability to use U.S. technology and software to design and manufacture their products. On August 5, 2020, the U.S. State Department expanded their "Clean Network" program to cover, among others, availability of apps from Chinese companies and storage of data sensitive to U.S. citizens and businesses on cloud-based storage systems run by Chinese companies, including Alibaba. On August 6, 2020, President Trump also issued executive orders setting forth restrictions on persons subject to U.S. jurisdiction from entering into transactions with ByteDance, TikTok's Chinese parent company, and WeChat, an online social networking app owned by Tencent. When such measures become effective, any transaction that is related to such target companies by any such person, or with respect to any such property, subject to the jurisdiction of the United States, with such target companies shall be prohibited. These restrictions, and similar or more expansive restrictions that may be imposed by the U.S. or other jurisdictions in the future, may materially and adversely affect our ability to acquire technologies, systems, devices or components that may be critical to our technology

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infrastructure, service offerings and business operations. We cannot assure you that the current and/or future export controls or economic and trade sanctions regulations or their developments will not have a negative impact on our business operations or reputation.

In addition, if we, any customers or other parties that have collaborative relationships with us or our affiliates were to become targeted under sanctions or export control restrictions, this may result in significant interruption in our business, regulatory investigations and reputational harm to us. Particularly, if any Chinese companies, including us, were to be targeted under any U.S. economic sanctions, such company may lose access to the U.S. financial system, including in most cases using U.S. dollars to conduct transactions or maintaining a correspondent account with a U.S. financial institution, U.S. entities and individuals may not be permitted to do business with such company, and international banks and other companies may as a matter of policy not engage in transactions with such company. Media reports on alleged violation of export control or economic and trade sanctions or data security and privacy laws, by us or by our customers, even on matters not involving us, could nevertheless damage our reputation and lead to regulatory investigations, fines and penalties against us. Such fines and penalties may be significant, and if we were publicly named or investigated by any regulator on the basis of suspected or alleged violations of export control or economic and trade sanctions or data security and privacy laws and rules, even in situations where the potential amount or fine involved may be relatively small, our businesses could be severely interrupted and our reputation could be significantly harmed.

Furthermore, trade tension between the United States and China could place pressure on the economic growth in China as well as the rest of the world. The U.S. administration under President Donald Trump has advocated for and taken steps toward restricting trade in certain goods, particularly from China. While the two nations reached a "Phase One" trade agreement in January 2020, the progress of future trade talks between China and the United States are subject to uncertainties, and there can be no assurance as to whether the United States will maintain or reduce tariffs, or impose additional tariffs on Chinese products in the near future. Trade tension between China and the United States may intensify and the United States may adopt even more drastic measures in the future. China has retaliated and may further retaliate in response to new trade policies, treaties and tariffs implemented by the United States. Any further escalation in trade or other tensions between the United States and China or news and rumors of any escalation, could introduce uncertainties to China's economy and the global economy which in turn could affect the Chinese economy generally, including the use of mobile, web-based commerce as well as our customers' cloud-based platforms and services. Any such decline in the technology industry, reduction in cloud adoption or slowdown in the growth of the internet and the use of our customers' platforms and services may lead to decreased demand for data center capacity or managed services, which could have a material and adverse effect on our business, results of operations and financial condition. Foreign policies of the United States tend to be followed by certain other countries, and those countries may adopt similar policies in their relationships with China and the Chinese companies.

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Those policies and measures directed at China and Chinese companies adopted by U.S. government could have the effect of discouraging persons in the U.S. from working for Chinese companies, which could hinder our ability to hire and retain qualified personnel for our business.

Changes in international trade or investment policies and barriers to trade or investment, and the ongoing trade conflict, may have an adverse effect on our business and expansion plans.

In recent years, international market conditions and the international regulatory environment have been increasingly affected by competition among countries and geopolitical frictions. Changes to national trade or investment policies, treaties and tariffs, fluctuations in exchange rates or the perception that these changes could occur, could adversely affect the financial and economic conditions in the jurisdictions in which we operate, as well as our international and cross-border operations, our financial condition and results of operations. For example, in 2018 the United States announced tariffs that applied to products imported from China, totaling approximately US\$250 billion, and in May 2019 the United States increased the rate of certain tariffs previously levied on Chinese products from 10% to 25%. In August 2019, the United States announced that it would apply an additional tariff of 10% on the remaining US\$300 billion of goods and products coming from China. After several rounds of trade talks between China and the United States, the United States temporarily delayed an increase in tariffs on US\$250 billion of products imported from China, and in September and October 2019, the United States announced several tariff exemptions for certain Chinese products. In August 2019, the U.S. Treasury labeled China a currency manipulator and withdrew such designation in January 2020. In addition, the United States is reported to be considering ways to limit U.S. investment portfolio flows into China, though no details in such regard have been officially announced.

China and other countries have retaliated and may further retaliate in response to new trade policies, treaties and tariffs implemented by the United States. For instance, in response to the tariffs announced by the United States in May 2018, China imposed retaliatory tariffs on U.S. goods of a similar value, and in response to the tariff announcements by the United States in August 2019, China announced it would stop buying U.S. agricultural products and would not rule out import tariffs on newly purchased U.S. agricultural products. In September 2019, China unveiled several tariff exemptions for U.S. products, including various agricultural products. Even though, in January 2020, the "Phase One" trade agreement was signed between the United States and China, the U.S.-China relationship has deteriorated further, and there can be no assurances that the U.S. or China will not increase tariffs or impose additional tariffs in the future. Any further actions to increase existing tariffs or impose additional tariffs could result in an escalation of the trade conflict, and may have tremendous negative impact on the economies of not merely the two countries concerned, but the global economy as a whole. If these measures and tariffs affect any of our customers and their business results and prospects, their demand for, or ability to pay for, our data center services may decrease, which would materially and adversely affect our results of operations. In addition, if China were to increase the tariff on any of the items imported by our suppliers and contract manufacturers from the

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U.S., they might not be able to find substitutes with the same quality and price in China or from other countries. As a result, our costs would increase and our business, financial condition and results of operations would be adversely affected.

Our failure to comply with regulations applicable to our leased data center buildings may materially and adversely affect our ability to use such data centers.

Among the data center buildings that we lease, including those under construction, a majority of the lease agreements have not been registered or filed with relevant authorities in accordance with the applicable PRC laws and regulations. The enforcement of this legal requirement varies depending on local practices. In case of failure to register or file a lease, the parties to the unregistered lease may be ordered to make rectifications (which would involve registering such leases with the relevant authority) before being subject to penalties. The penalty ranges from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority. The relevant PRC law is not clear as to which of the parties, the lessor or the lessee, is liable for the failure to register the lease, and the lease agreements of several of our data centers provide that the lessor is responsible for processing the registration and must compensate us for losses caused by any breach of the obligation. Although we have proactively requested that the applicable lessors complete or cooperate with us to complete the registration in a timely manner, we are unable to control whether and when such lessors will do so. In the event that a fine is imposed on both the lessor and lessee, and if we are unable to recover from the lessor any fine paid by us in accordance with the terms of the lease agreement, such fine will be borne by us. In the case of one data center in Beijing, a portion of the building has been constructed without obtaining the building ownership certificate, and the part of the lease in relation to such portion may be deemed invalid if the construction has not been duly approved by the government, in which event we would not be able to use that portion of property. If the owners fail to obtain the necessary consents and/or to comply with the applicable legal requirements for the change of usage of these premises, and the relevant authority or the court orders us to use the relevant leased buildings for the designated usage only, we may not be able to continue to use these buildings for data center purposes and we may need relocate our operation there to other suitable premises. We may also be subject to administrative penalties for lack of fire safety approvals for renovation of the leased premises, and we may be ordered to suspend operations at applicable premises if we fail to timely cure any such defect. Construction or renovation of certain other of our data centers was carried out without obtaining construction (including zoning) related permits, and certain leased premises were put into use without fulfillment of construction inspection and acceptance procedures, which may cause administrative penalties to be imposed on us in the case of renovation, and may cause the use of the leased premises to be deemed illegal, and we may be forced to suspend our operations as a result. See also “— Risks Related to Doing Business in the People’s Republic of China — Our business operations are extensively impacted by the policies and regulations of the PRC government. Any policy or regulatory change may cause us to incur significant compliance costs.”

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We may be regarded as being non-compliant with the regulations on VATS due to the lack of IDC licenses for which penalties may be assessed that may materially and adversely affect our business, financial condition, growth strategies and prospects.

The laws and regulations regarding VATS, licenses in the PRC are relatively new and are still evolving, and their interpretation and enforcement involve significant uncertainties. Investment activities in the PRC by foreign investors are principally governed by the *Industry Catalog Relating to Foreign Investment*, or the Catalog, which was promulgated and is amended from time to time by the MOFCOM and the NDRC. Industries not included in the Special Management Measures (Negative List) of the Catalog are permitted industries. Industries such as value-added telecommunication services, including internet data center services, are restricted to foreign investment. The Special Management Measures (Foreign Investment Permitted Negative List) of the Catalog has been superseded by the Special Management Measures (Negative List) (2018) and the Encouraged Foreign Investment Industry Catalog has been superseded by Encouraged Foreign Investment Industry Catalog (2019). On June 23, 2020, the MOFCOM and the NDRC promulgated the Special Management Measures (Negative List) for the Access of Foreign Investment, or the Negative List (2020), which became effective on July 23, 2020. Foreign investment in VATS (other than e-commerce, domestic multi-party communications, store-and-forward and call center), including internet data center services, still falls within the Negative List (2020). Specifically, the *Administrative Regulations on Foreign-Invested Telecommunications Enterprises* restrict the ultimate capital contribution percentage held by foreign investor(s) in a foreign-invested VATS enterprise to 50% or less. See "Regulations — Regulation on Foreign Investment Restrictions" for additional details. Under the Telecommunications Regulations, telecommunications service providers are required to procure operating licenses prior to their commencement of operations. The *Administrative Measures for Telecommunications Business Operating License*, which took effect on April 10, 2009 and was amended on September 1, 2017, set forth the types of licenses required to provide telecommunications services in China and the procedures and requirements for obtaining such licenses.

Before 2013, the definition of the IDC services was subject to interpretation as to whether our services would fall within its scope. In addition, authorities in different localities had different interpretations. According to the Classification Catalogue of Telecommunications Services, or the Telecom Catalogue, publicized in February 2003 by the Ministry of Information Industry, the predecessor of the MIIT, which took effect in April 2003, and our consultations with the MIIT, IDC services should be rendered through the connection with the internet or other public telecommunications networks.

On May 6, 2013, the "Q&A on the Application of IDC/ISP Business," or the Q&A, was published on the website of China Academy of Telecom Research, an affiliate of the MIIT. The Q&A was issued together with the draft revised Telecom Catalogue of the 2013 version, which although not an official law or regulation, reflected the evolving attitude of the MIIT towards the legal requirements as to applications for IDC licenses. A national consulting body and certain telephone numbers, the Designated Numbers, are provided in the Q&A to answer any questions arising from the application of IDC licenses. Since then, even though the definition

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of IDC services under the Q&A is identical to that under the Telecom Catalogue, whether a business model should be deemed to be IDC services is subject to the unified clarifications under the Q&A and replies obtained from such Designated Numbers, rather than different replies which may be obtained from different officials from the MIIT or its local branches. The draft revised Telecom Catalogue did not come into effect until March 2016, when it was further revised to adapt to developments in the telecommunications industry. During such period, we closely followed legislative developments and conducted feasibility studies for restructuring our business. Based on the Q&A and our consultation with both the Designated Numbers and MIIT officials in 2014 and 2015, IDC services which did not utilize public telecommunications networks would also require an IDC license and that IDC services could only be provided by a holder of an IDC license, or a subsidiary of such holder, with the authorization of the holder.

GDS Beijing obtained a cross-regional IDC license in November 2013, the scope of which now includes Shanghai, Suzhou, Beijing, Shenzhen, Chengdu, Guangzhou, Zhangjiakou, Langfang and Tianjin. In order to adapt to the new regulatory requirements and address pre-existing customer agreements, we converted GDS Suzhou into a domestic company wholly owned by GDS Beijing by acquiring all of the equity interests in GDS Suzhou from Further Success Limited, or FSL, a limited liability company established in the British Virgin Islands, in order to enable GDS Suzhou to provide IDC services with the authorization of GDS Beijing, and under the auspices of an IDC license held by GDS Beijing. The MIIT approved GDS Beijing’s application to expand its IDC license coverage to include GDS Suzhou and Kunshan Wanyu Data Service Co., Ltd., or Kunshan Wanyu, so that they are now authorized to provide IDC services. As part of the VIE restructuring, we converted and changed the shareholding of Shanghai Waigaoqiao EDC Technology Co, Ltd., or EDC Shanghai Waigaoqiao, in the same way as GDS Suzhou, and the MIIT has approved GDS Beijing’s application to expand its IDC license coverage to include EDC Shanghai Waigaoqiao so that EDC Shanghai Waigaoqiao is also authorized to provide IDC services, and the MIIT has approved GDS Beijing’s application to expand its IDC license coverage to include Shenzhen Yaode. As the result of our newly completed acquisition of BJ10, BJ11 and BJ12, we have acquired all of the equity interests in Lanting (Beijing) Information Science and Technology Co., Ltd., or Lanting Information, which therefore has been converted into a foreign-invested company. The existing customer agreements of BJ10, BJ11 and BJ12 were entered into by Lanting Information as an IDC service provider before our acquisition. As part of the acquisition, Lanting Information canceled its IDC license prior to the closing; and the relevant counterparties have recently completed the assignment of all of the rights and obligations of Lanting Information as the IDC service provider under these customer agreements to GDS Beijing as the IDC service provider. In addition, with regard to the other WFOEs that have not contributed substantial revenue, we are deliberating different measures to ensure that any business activity that may have to be conducted by IDC license holders will be conducted by our IDC license holders, which are our consolidated VIEs. See “Regulations — Regulations Related to Value-Added Telecommunications Business” for additional details.

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However, there can be no assurance that our agreements signed before the completion of the VIE restructuring with any of our WFOEs as the service provider will not be deemed as historically non-compliant. Also, we cannot assure you that the fact that Lanting Information is the signing party of such agreements during the interim period from the cancellation date of its own IDC license to the completion date of the assignment of such agreements will not be deemed as historical non-compliance. If the MIIT regards us as existing in a state of non-compliance, penalties could potentially be assessed against us. It is possible that the amount of any such penalties may be several times more than the net revenue generated from these services. Our business, financial condition, expected growth and prospects would be materially and adversely affected if such penalties were to be assessed upon us. It is also possible that the PRC government may prohibit a non-compliant entity from continuing to carry on its business, which would materially and adversely affect our results of operations, expected growth and prospects.

We have learned that the MIIT will not approve any expansion of authorization by an IDC license holder to its subsidiary, and that it will not allow any such subsidiary of an IDC license holder to renew its current authorization in the future. Instead, the MIIT will require subsidiaries of IDC license holders to apply for their own IDC licenses. Although, to our knowledge, such policy is not supported by any published laws or regulations, we have been making efforts to comply with this regulatory development. GDS Suzhou has already obtained its own IDC license in May 2019. Beijing Wan Chang Yun and Shenzhen Yaode have obtained their own IDC license respectively in September and November 2019. The other subsidiaries of our VIEs currently plan to apply for their own IDC licenses in order to continually maintain authorizations to provide IDC services going forward. However, we cannot assure you that we will be able to obtain approvals from the MIIT for their own IDC Licenses in a timely manner or at all, or obtain approvals from the MIIT for an expansion of authorization from GDS Beijing under its IDC license to allow IDC services to be provided by the other subsidiaries of our VIEs, who rely on such authorizations and expansions to provide IDC services, or that we will be able to renew such authorizations and expansions in due course. Based on our experience with IDC license applications, we do not foresee any legal impediment for such subsidiaries to obtain their IDC licenses. In the unlikely event that such subsidiaries fail to obtain their IDC licenses, we plan to have such subsidiaries assign relevant customer agreements to GDS Beijing so that GDS Beijing will provide the IDC services under such customer agreements, as GDS Beijing's IDC license covers the locations and scope of IDC services provided by such subsidiaries. However, we will need to obtain customers' consent to the foregoing assignment, and there can be no assurance that we will be able to obtain such consents from customers before the authorization expires. If any of these situations occur, our business, financial condition, expected growth and prospects would be materially and adversely affected.

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Some of our consolidated VIEs may be regarded as being non-compliant with the regulations on VATS, due to operating beyond the permitted scope of their IDC licenses.

One of our consolidated VIEs, GDS Shanghai, obtained a regional IDC license for the Shanghai area in January 2012. Nevertheless, GDS Shanghai provided IDC services in cities outside of Shanghai, which were beyond the scope of its then-effective IDC license. GDS Shanghai upgraded its IDC license to a cross-regional license in April 2016, according to which GDS Shanghai is allowed to provide IDC services in Beijing, Shanghai, Suzhou, Shenzhen and Chengdu. A subsidiary of one of our consolidated VIEs, GDS Suzhou, was historically authorized to provide general IDC services under the auspices of an IDC license held by GDS Beijing but such authorization approved by MIIT did not include internet resources collaboration services. Nevertheless, GDS Suzhou signed agreements with clients to provide internet resources collaboration services. In 2018, we further expanded GDS Beijing's authorization to GDS Suzhou so that GDS Suzhou also was allowed to provide internet resources collaboration services. In addition, in 2016, 2017 and 2018, GDS Beijing and GDS Suzhou entered into IDC service agreements with relevant customers, according to which GDS Beijing and GDS Suzhou have been providing IDC services to their respective customers through third-party data centers in Tianjin. In 2017, GDS Beijing entered into an IDC services agreement with a certain customer, according to which GDS Beijing has been providing IDC services since 2018 in our three data centers located at Zhangjiakou, Hebei Province. However, GDS Beijing's IDC license and its authorization granted to GDS Suzhou have not included the Tianjin and Zhangjiakou areas until 2019, when GDS Beijing has upgraded its IDC license to cover the Zhangjiakou, Langfang and Tianjin areas, and GDS Suzhou has obtained its own IDC license whereby GDS Suzhou is also allowed to provide general IDC services in broad geographic scope including Tianjin and Zhangjiakou. However, although such approvals have been obtained, we cannot assure you that any agreements signed before GDS Beijing and GDS Suzhou obtained such approvals may not be deemed as historical non-compliance. If the MIIT regards GDS Shanghai, GDS Suzhou and GDS Beijing as being historically non-compliant, penalties which could be several times more than the net revenue generated from these services, could potentially be assessed against us, and as a result, our business, financial condition, expected growth and prospects would be materially and adversely affected. It is also possible that the PRC government may prohibit a historically non-compliant entity from continuing to carry on its business, which would materially and adversely affect our results of operations, expected growth and prospects.

One of our subsidiaries, GDS (Hong Kong) Limited, entered into IDC service agreements with customers outside China, which may be regarded as non-compliance with the regulations on foreign investment restriction and VATS, by providing IDC service without qualification.

In 2015 and 2016, GDS (Hong Kong) Limited, or GDS HK, which is one of our Hong Kong – incorporated subsidiaries, entered into IDC service agreements with a few customers outside China, while the actual service provider was intended to be GDS Beijing or EDC Shanghai Waigaoqiao. These IDC service agreements may be regarded as non-compliant, because the law prohibits foreign entities providing IDC services in the PRC.

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We have amended all of our IDC service agreements to specify GDS Beijing or its subsidiaries as the contracting party for such agreements, so that such agreements are, in our belief, compliant. However, we cannot assure you that our IDC service agreements as amended will not be found to be non-compliant. If the MIIT regards such agreements as non-compliant, penalties could potentially be assessed against us, and as a result, our business, financial condition, expected growth and prospects would be materially and adversely affected.

We may fail to obtain, maintain and update licenses or permits necessary to conduct our operations in the PRC, and our business may be materially and adversely affected as a result of any changes in the laws and regulations governing the VATS industry in the PRC.

There can be no assurance that we will be able to maintain our existing licenses or permits necessary to provide our current IDC services in the PRC, renew any of them when their current term expires, or update existing licenses or obtain additional licenses necessary for our future business expansion. The failure to obtain, retain, renew or update any license or permit generally, and our IDC licenses in particular, could materially and adversely disrupt our business and future expansion plans.

For example, the revised Telecom Catalogue came into effect in March 2016 in which the definition of the IDC business also covers the internet resources collaboration services business to reflect the developments in the telecommunications industry in China and covers cloud-based services. Also, in January 2017, the MIIT issued *The Circular of the Ministry of Industry and Information Technology on Clearing up and Regulating the Internet Access Service Market*, or the 2017 MIIT Circular, according to which an enterprise that obtained its IDC license prior to the implementation of the revised Telecom Catalogue and has actually carried out internet resources collaboration services shall make a written commitment to its original license issuing authority before March 31, 2017 to meet the relevant requirements for business licensing and obtain the corresponding telecommunication business license by the end of 2017. The 2017 MIIT Circular also requires that companies providing IDC services shall not construct communication transmission facilities without permission. Although we have successfully expanded the scope of our IDC licenses to cover internet resources collaboration services, fixed network domestic data transmission services and domestic internet virtual private network services as required under the 2017 MIIT Circular, changes in the regulatory environment of this kind are potentially disruptive to our business as they may require us to modify the way we conduct our business in order to receive licenses or otherwise comply with such requirements. We may also be deemed in non-compliance for failure to update our operation licenses in a timely manner according to such new regulatory requirements. Any such changes could increase our compliance costs, divert management's attention or interfere with our ability to serve customers, any of which could harm our results of operations.

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In addition, if future PRC laws or regulations governing the VATS industry require that we obtain additional licenses or permits or update existing licenses in order to continue to provide our IDC services, there can be no assurance that we would be able to obtain such licenses or permits or update existing licenses in a timely manner, or at all. If any of these situations occur, our business, financial condition and prospects would be materially and adversely affected.

Third-party data center providers from whom we lease data center capacity on a wholesale basis may fail to maintain licenses and permits necessary to conduct their operations in the PRC, and our business may be materially and adversely affected.

As of June 30, 2020, we operated an aggregate net floor area of 9,510 sqm that we lease on a wholesale basis from other data center providers, and which we refer to as our third-party data centers. There can be no assurance that the wholesale data center providers from whom we lease will be able to maintain their existing licenses or permits necessary to provide our current IDC services in the PRC or renew any of them when their current term expires. Their failure to obtain, retain or renew any license or permit generally, and their IDC licenses in particular, could materially and adversely disrupt our business.

In addition, if any future PRC laws or regulations governing the VATS industry require that the wholesale data center providers from whom we lease obtain additional licenses or permits in order to continue to provide their IDC services, there can be no assurance that they would be able to obtain such licenses or permits in a timely manner, or at all. If any of these situations occur, our business, financial condition and prospects could be materially and adversely affected.

We cannot assure you that we will be able to relocate such operations to suitable alternative premises, and any such relocation may result in disruption to our business operations and thereby result in loss of earnings. We may also need to incur additional costs for the relocation of our operation. There is also no assurance that we will be able to effectively mitigate the possible adverse effects that may be caused by such disruption, loss or costs. Any of such disruption, loss or costs could materially and adversely affect our financial condition and results of operations.

Our failure to maintain our relationships with various cloud service providers may adversely affect our managed cloud services, and as a result, our business, operating results and financial condition.

Our managed cloud services involve providing services to the customers of cloud service providers. If we do not maintain good relationships with cloud service providers, our business could be negatively affected. If these cloud service providers fail to perform as required under our agreements for any reason or suffer service level interruptions or other performance issues, or if our customers are less satisfied than expected with the services provided or results obtained, we may not realize the anticipated benefits of these relationships.

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Since our agreements with key cloud service providers in China are non-exclusive, these companies may decide in the future to partner with more of our competitors, develop in-house data center capabilities or terminate their agreements with us, any of which could adversely and materially affect our business expansion plan and expected growth.

We may not be able to keep up with rapidly changing technology, including our ability to upgrade our power, cooling, security or connectivity systems cost-effectively or at all.

The markets for the data centers we own and operate, as well as certain of the industries in which our customers operate, are characterized by rapidly changing technology, evolving industry standards, frequent new service introductions, shifting distribution channels and changing customer demands. As a result, the infrastructure at our data centers may become obsolete or unmarketable due to demand for new processes and/or technologies, including, without limitation: (i) new processes to deliver power to, or eliminate heat from, computer systems; (ii) customer demand for additional redundancy capacity; (iii) new technology that permits higher levels of critical load and heat removal than our data centers are currently designed to provide; and (iv) an inability of the power supply to support new, updated or upgraded technology. In addition, the systems that connect our self-developed data centers, and in particular, our third-party data centers, to the internet and other external networks may become outdated, including with respect to latency, reliability and diversity of connectivity. When customers demand new processes or technologies, we may not be able to upgrade our data centers on a cost-effective basis, or at all, due to, among other things, increased expenses to us that cannot be passed on to customers or insufficient revenue to fund the necessary capital expenditures. The obsolescence of our power and cooling systems and/or our inability to upgrade our data centers, including associated connectivity, could reduce revenue at our data centers and could have a material adverse effect on us. Furthermore, potential future regulations that apply to industries we serve may require customers in those industries to seek specific requirements from their data centers that we are unable to provide. If such regulations were adopted, we could lose customers or be unable to attract new customers in certain industries, which could have a material adverse effect on us.

If we are unable to adapt to evolving technologies and customer demands in a timely and cost-effective manner, our ability to sustain and grow our business may suffer.

To be successful, we must adapt to our rapidly changing market by continually improving the performance, features and reliability of our services and modifying our business strategies accordingly, which could cause us to incur substantial costs. We may not be able to adapt to changing technologies in a timely and cost-effective manner, if at all, which would adversely impact our ability to sustain and grow our business.

In addition, new technologies have the potential to replace or provide lower cost alternatives to our services. The adoption of such new technologies could render some or all of our services obsolete or unmarketable. We cannot guarantee that we will be able to identify the emergence of all of these new service alternatives successfully, modify our services accordingly, or develop and bring new services to market in a timely and cost-effective manner


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to address these changes. If and when we do identify the emergence of new service alternatives and introduce new services to market, those new services may need to be made available at lower profit margins than our then-current services. Failure to provide services to compete with new technologies or the obsolescence of our services could lead us to lose current and potential customers or could cause us to incur substantial costs, which would harm our operating results and financial condition. Our introduction of new alternative services that have lower price points than our current offerings may also result in our existing customers switching to the lower cost products, which could reduce our net revenue and have a material adverse effect on our results of operation.

We have limited ability to protect our intellectual property rights, and unauthorized parties may infringe upon or misappropriate our intellectual property.

Our success depends in part upon our proprietary intellectual property rights, including certain methodologies, practices, tools and technical expertise we utilize in designing, developing, implementing and maintaining applications and processes used in providing our services. We rely on a combination of copyright, trademark, trade secrets and other intellectual property laws, non-disclosure agreements with our employees, customers and other relevant persons and other measures to protect our intellectual property, including our brand identity. Nevertheless, it may be possible for third parties to obtain and use our intellectual property without authorization. The unauthorized use of intellectual property is common in China and enforcement of intellectual property rights by PRC regulatory agencies is inconsistent. As a result, litigation may be necessary to enforce our intellectual property rights. Litigation could result in substantial costs and diversion of our management’s attention and resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations. Given the relative unpredictability of China’s legal system and potential difficulties in enforcing a court judgment in China, there is no guarantee that we would be able to halt any unauthorized use of our intellectual property in China through litigation.

We may be subject to third-party claims of intellectual property infringement.

We derive most our revenues in China and use , our figure trademark in a majority of our services. We have registered the figure trademark in China in several categories that cover our services areas and we plan to register the figure trademark in China in certain additional categories. We have also registered the pure text of “GDS” as a trademark in several categories that cover our services areas; however, a third party has also registered the pure text of “GDS” as a trademark in certain IT-related services. As the services for which the third-party trademark is registered are also IT-related and could be construed as similar to ours in some respects, infringement claims may be asserted against us, and we cannot assure you that a government authority or a court will hold the view that such similarity will not cause confusion in the market. In this case, if we use the pure text of GDS (which we have not registered as a trademark with respect to all services we provide) as our trademark, we may be required to explore the possibility of acquiring this trademark or entering into an exclusive licensing agreement with the third party, which will cause us to incur additional costs. In addition, we

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may be unaware of intellectual property registrations or applications that purport to relate to our services, which could give rise to potential infringement claims against us. Parties making infringement claims may be able to obtain an injunction to prevent us from delivering our services or using trademark or technology containing the allegedly intellectual property. If we become liable to third parties for infringing upon their intellectual property rights, we could be required to pay a substantial damage award. We may also be subject to injunctions that require us to alter our processes or methodologies so as not to infringe upon a third party's intellectual property, which may not be technically or commercially feasible and may cause us to expend significant resources. Any claims or litigation in this area, whether we ultimately win or lose, could be time-consuming and costly, could cause the diversion of management's attention and resources away from the operations of our business and could damage our reputation.

If our customers' proprietary intellectual property or confidential information is misappropriated or disclosed by us or our employees in violation of applicable laws and contractual agreements, we could be exposed to protracted and costly legal proceedings and lose clients.

We and our employees are in some cases provided with access to our customers' proprietary intellectual property and confidential information, including technology, software products, business policies and plans, trade secrets and personal data. Many of our customer agreements require that we do not engage in the unauthorized use or disclosure of such intellectual property or information and that we will be required to indemnify our customers for any loss they may suffer as a result. We use security technologies and other methods to prevent employees from making unauthorized copies, or engaging in unauthorized use or unauthorized disclosure, of such intellectual property and confidential information. We also require our employees to enter into non-disclosure arrangements to limit access to and distribution of our customers' intellectual property and other confidential information as well as our own. However, the steps taken by us in this regard may not be adequate to safeguard our customers' intellectual property and confidential information. Moreover, most of our customer agreements do not include any limitation on our liability with respect to breaches of our obligation to keep the intellectual property or confidential information we receive from them confidential. In addition, we may not always be aware of intellectual property registrations or applications relating to source codes, software products or other intellectual property belonging to our customers. As a result, if our customers' proprietary rights are misappropriated by us or our employees, our customers may consider us liable for such act and seek damages and compensation from us.

Assertions of infringement of intellectual property or misappropriation of confidential information against us, if successful, could have a material adverse effect on our business, financial condition and results of operations. Protracted litigation could also result in existing or potential customers deferring or limiting their purchase or use of our services until resolution of such litigation. Even if such assertions against us are unsuccessful, they may cause us to lose existing and future business and incur reputational harm and substantial legal fees.

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We rely on third-party suppliers for key elements of our facilities, equipment, network infrastructure and software.

We contract with third parties for the supply of facilities, equipment and hardware that we use in the provision of our services to our customers and that we sell to our customers in some cases. The loss of a significant supplier could delay expansion of the data center facilities that we operate, impact our ability to sell our services and hardware and increase our costs. If we are unable to purchase the hardware or obtain a license for the software that our services depend on, our business could be significantly and adversely affected. In addition, if our suppliers are unable to provide products that meet evolving industry standards or that are unable to effectively interoperate with other products or services that we use, then we may be unable to meet all or a portion of our customer service commitments, which could materially and adversely affect our results of operations.

We engage third-party contractors to carry out various services relating to our data center facilities.

We engage third-party contractors to carry out various services relating to our data center facilities, including on-site security, cleaning and greening service, part of the 24/7 on duty operations and IT and customer service delivery. We endeavor to engage third-party companies with a strong reputation and proven track record, high-performance reliability and adequate financial resources. However, any such third-party contractor may still fail to provide satisfactory security services or quality outsourced labor, resulting in inappropriate access to our facilities or IT faults which, though non-critical, may cause poor service quality to customers.

We have expanded in the past and expect to continue to expand in the future through acquisitions of other companies, each of which may divert our management's attention, result in additional dilution to shareholders or use resources that are necessary to operate our business.

In the past, we have grown our business through acquisitions and we expect to continue to evaluate and enter into discussions regarding potential strategic acquisition transactions and alliances to further expand our business, and, from time to time, we may have a number of pending investments and acquisitions that are subject to closing conditions. However, such pending acquisitions are subject to uncertainties and may not be completed due to failure to satisfy all closing conditions as a result of inaccuracy or breach of representations and warranties of, or non-compliance with covenants by, either party or other reasons. If we are presented with appropriate opportunities, we may acquire additional businesses, services, resources, or assets, including data centers, that are complementary to our core business. Our integration of the acquired entities or assets into our business may not be successful and may not enable us to generate the expected revenues or expand into new services, customer segments or operating locations as well as we expect. This would significantly affect the expected benefits of these acquisitions. Moreover, the integration of any acquired entities or assets into our operations could require significant attention from our management. The

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diversion of our management's attention and any difficulties encountered in any integration process could have an adverse effect on our ability to manage our business. In addition, we may face challenges trying to integrate new operations, services and personnel with our existing operations. Our possible future acquisitions may also expose us to other potential risks, including risks associated with unforeseen or hidden liabilities, litigation, corrupt practices of prior owners, problems with data center design or operation, or other issues not discovered in the due diligence process or addressed through acquisition agreements, the diversion of resources from our existing businesses and technologies, our inability to generate sufficient revenue to offset the costs, expenses of acquisitions and potential loss of, or harm to, relationships with employees and customers as a result of our integration of new businesses.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities and harm our business generally. Future acquisitions could also result in the use of substantial amounts of our cash and cash equivalents, dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses or the write-off of goodwill, any of which could harm our financial condition. Also, the anticipated benefits of any acquisitions may not materialize, may be less beneficial, or may develop more slowly, than we expect. If we do not receive the benefits anticipated from these acquisitions and investments, or if the achievement of these benefits is delayed, our operating results may be adversely affected.

The anticipated benefits of our joint ventures and strategic partnerships or future joint ventures or strategic partnerships may not be fully realized, or take longer to realize than expected.

We have entered into onshore and offshore joint ventures with CPE Fund, SBCVC Fund VI, L.P., Elite Epic Holdings Limited, Shanghai Minghe Entrepreneurship and Investment Partnership (Limited Partnership) and other third-party partners, and have formed a strategic partnership with GIC. We may continue to evaluate and establish potential strategic joint ventures and strategic partnerships with other appropriate partners to further develop our business.

We may not realize the anticipated benefits from these joint ventures and strategic partnerships. The success of these joint ventures and strategic partnerships will depend, in part, on the successful partnership between the relevant partner and us. Such a partnership is subject to the risks outlined below, and more generally, to the same types of business risks as would impact our business operations when pursued on a cooperative basis:

- we may not have the right to exercise sole decision-making authority regarding the joint venture;
- our partner may become bankrupt or fail to pay the relevant consideration for the cooperation with us;

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- our partner's interests may not be aligned with our interests, our partner may have economic, tax or other business interests or goals which are inconsistent with our business interests or goals, and may take actions contrary to our policies or objectives;
- our partner may take actions unrelated to our business agreement but which reflect adversely on us because of our joint venture;
- changes in our customers' outsourcing strategy for data center services may hinder the purposes and prospects for our joint venture businesses and partnerships, and cause us to materially alter or terminate the joint venture arrangements or otherwise materially and adversely affect those aspects of our business;
- changes in the terms of the arrangements of or termination of our joint venture projects may materially and adversely affect our ability to complete or operate the build-to-suit or other projects we are pursuing or contemplating through joint venture partnerships;
- disputes between us and our partner may result in litigation or arbitration that would increase our expenses and prevent our management from focusing their time and effort on our business; and
- we may in certain circumstances be liable for the actions of our partner or guarantee all or a portion of the joint venture's liabilities.

A failure to successfully partner, or a failure to realize our expectations for the joint ventures, could materially impact our business, financial condition and results of operations.

The uncertain economic environment may have an adverse impact on our business and financial condition.

The uncertain economic environment could have an adverse effect on our liquidity. While we believe we have a strong customer base, if the current market conditions were to worsen, some of our customers may have difficulty paying us and we may experience increased churn in our customer base and reductions in their commitments to us. We may also be required to make allowances for doubtful accounts and our results would be negatively impacted. Our sales cycle could also be lengthened if customers reduce spending on, or delay decision-making with respect to, our services, which could adversely affect our revenue growth and our ability to recognize net revenue. We could also experience pricing pressure as a result of economic conditions if our competitors lower prices and attempt to lure away our customers with lower cost solutions. Finally, our ability to access the equity and debt capital markets may be severely restricted at a time when we would like, or need, to do so, especially during times of increased volatility in global financial markets and stock markets, which could limit our ability to raise funds through additional equity sales. Any inability to raise funds from capital markets

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generally, and equity capital markets in particular, could adversely affect our liquidity as well as hinder our ability to pursue additional strategic expansion opportunities, execute our business plans and maintain our desired level of revenue growth in the future.

A downturn in the PRC or global economy could reduce the demand for our services, which could materially and adversely affect our business and financial condition.

The recovery since the economic downturns of 2008 and 2009 has been uneven and is facing new challenges. These include the United Kingdom’s exit from the European Union, the outbreak of a trade war between the PRC and the United States, the imposition of additional tariffs on bilateral imports in 2018, 2019 and beyond, the slower growth of the PRC economy since 2012, as well as the outbreak and global spread of a novel strain of coronavirus, or COVID-19, in early 2020 and the severe deterioration of bilateral relations between the PRC and the United States in 2020, all of which have contributed to uncertainty about the global economy. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including those of the United States and the PRC. There have been concerns about the economic effects of rising tensions between the PRC and surrounding Asian countries. Economic conditions in the PRC are sensitive to global economic conditions. International conditions and any new or escalating trade war can lead to disruption in our supply chain and higher costs of capital expenditures. There also have been concerns over unrest across the globe, including in the Middle East, Africa and Hong Kong, which have contributed to volatility in financial and other markets. In particular, actual or perceived social unrest in Hong Kong, one of our Tier 1 markets, could result in service interruptions and data losses for our customers as well as equipment damage, which could significantly disrupt the normal business operations of our customers and reduce our net revenue.

Any disruptions or continuing or worsening slowdown in the global economy or the PRC economy, whether as a result of the COVID-19 pandemic, trade conflicts, the deterioration of the U.S.-China relationship, or other reasons, could significantly impact and reduce domestic commercial activities in China, which may lead to decreased demand for our colocation or managed services and have a negative impact on our business, financial condition and results of operations. A decrease in economic activity, whether actual or perceived, a further decrease in economic growth rates or an otherwise uncertain economic outlook in China could have a material adverse effect on our customers’ expenditures and, as a result, may also adversely affect our business, financial condition and results of operations. Additionally, continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet our liquidity needs. Any periods of continuing or worsening increased or heightened volatility in financial, equity and other markets, particularly due to investor concerns relating to the COVID-19 pandemic and the deterioration of the U.S.-China relationship, could limit our ability to raise funds, pursue further business expansion and maintain revenue growth. See “— The uncertain economic environment may have an adverse impact on our business and financial condition” above.

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Our success depends to a substantial degree upon our senior management, including Mr. Huang, and key personnel, and our business operations may be negatively affected if we fail to attract and retain highly competent senior management.

We depend to a significant degree on the continuous service of Mr. Huang, our founder, chairman and chief executive officer, and our experienced senior management team and other key personnel such as project managers and other middle management. If one or more members of our senior management team or key personnel resigns, it could disrupt our business operations and create uncertainty as we search for and integrate a replacement. If any member of our senior management leaves us to join a competitor or to form a competing company, any resulting loss of existing or potential clients to any such competitor could have a material adverse effect on our business, financial condition and results of operations. Additionally, there could be unauthorized disclosure or use of our technical knowledge, practices or procedures by such personnel. We have entered into employment agreements with our senior management and key personnel. We have also entered into confidentiality agreements with our personnel which contain nondisclosure covenants that survive indefinitely as to our trade secrets. Additionally, pursuant to these confidentiality agreements, any inventions and creations of our employees relating to the company's business that are completed within twelve months after termination of employment shall be transferred to the company without payment of consideration, and the employees shall assist the company in applying for corresponding patents or other rights. However, these employment agreements do not ensure the continued service of these senior management and key personnel, and we may not be able to enforce the confidentiality agreements we have with our personnel. In addition, we do not maintain key man life insurance for any of the senior members of our management team or our key personnel.

Competition for employees is intense, and we may not be able to attract and retain the qualified and skilled employees needed to support our business.

We believe our success depends on the efforts and talent of our employees, including data center design, construction management, operations, engineering, IT, risk management, and sales and marketing personnel. Our future success depends on our continued ability to attract, develop, motivate and retain qualified and skilled employees. Competition for highly skilled personnel is extremely intense. We may not be able to hire and retain these personnel at compensation levels consistent with our existing compensation and salary structure. Some of the companies with which we compete for experienced employees have greater resources than we have and may be able to offer more attractive terms of employment.

In addition, we invest significant time and expenses in training our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring and training their replacements, and the quality of our services and our ability to serve our customers could diminish, resulting in a material adverse effect to our business.

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Our operating results may fluctuate, which could make our future results difficult to predict, and may fall below investor or analyst expectations.

Our operating results may fluctuate due to a variety of factors, including many of the risks described in this section, which are outside of our control. You should not rely on our operating results for any prior periods as an indication of our future operating performance. Fluctuations in our net revenue can lead to even greater fluctuations in our operating results. Our budgeted expense levels depend in part on our expectations of long-term future net revenue. Given relatively large fixed cost of revenue for services, other than utility costs, any substantial adjustment to our costs to account for lower than expected levels of net revenue will be difficult. Consequently, if our net revenue does not meet projected levels, our operating performance will be negatively affected. If our net revenue or operating results do not meet or exceed the expectations of investors or securities analysts, the price of our Shares and/or ADSs may decline.

Declining fixed asset valuations could result in impairment charges, the determination of which involves a significant amount of judgment on our part. Any impairment charge could have a material adverse effect on us.

We review our fixed assets for impairment on an annual basis and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indicators of impairment include, but are not limited to, a sustained significant decrease in the market price of or the cash flows expected to be derived from a property. A significant amount of judgment is involved in determining the presence of an indicator of impairment. If the total of the expected undiscounted future cash flows is less than the carrying amount of a property on our balance sheet, a loss is recognized for the difference between the fair value and carrying value of the asset. The evaluation of anticipated cash flows requires a significant amount of judgment regarding assumptions that could differ materially from actual results in future periods, including assumptions regarding future occupancy, contract rates and estimated costs to service the contracts. Any impairment charge could have a material adverse effect on us.

We may fail to acquire land use rights according to our investment and framework agreements and failure to commence or resume development of land that we have been granted right to use within the required timeframe or to fulfill the investment commitments under the land use right grant contracts and/or investment/framework agreements may cause us to lose such land use rights and subject us to liabilities under land use right grant contracts and investment/framework agreements.

We have entered into, and may enter into additional, binding investment and framework agreements to reserve or acquire land use rights. The reservation or acquisition of land use rights under such investment and framework agreements are usually subject to certain grant conditions and subsequently entering into a land use right grant contract through relevant

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tender, auction or listing-for-sale procedures, and we cannot assure you that all these grant conditions will be satisfied or that ultimately we will be able to enter into the land use right grant contract, or that we will indeed acquire the land use right under the relevant investment and framework agreement.

Contracts for the grant of land use rights and some of the investment/framework agreements that we have entered into with the local governments as well as PRC regulations provide for the timeframe within which we are obligated to carry out the construction projects on the land parcels under these contracts and/or agreements. According to the relevant PRC regulations, the PRC government may impose an "idle land fee" equal to 20% of the land fees on land use if the relevant construction land has been identified as "idle land." The construction land may be identified as "idle land" under any of the following circumstances: (i) where development of and construction on the land fails to commence for more than one year from the construction commencement date prescribed in the land grant contract; or (ii) the development and construction on the land have commenced but have been suspended when the area of the developed land is less than one-third of the total area to be developed or the invested amount is less than 25% of the total amount of investment, and the suspension of development attains for one year. Furthermore, the PRC government has the authority to confiscate any land without compensation if the construction does not commence within two years after the construction commencement date specified in the land grant contract, unless the delay is caused by force majeure, governmental action or preliminary work necessary for the commencement of construction. In addition, these contracts and agreements usually provide for certain investment commitments (such as total investment amount and amount of revenues and taxes generated by the investment projects on the land parcels). We may lose the land use rights and be subject to other liabilities under the land use right grant contracts and the investment/framework agreements if we fail to commence or resume development of land that we have been granted right to use within the required timeframe or to fulfill the investment commitments under the land use right grant contracts and/or investment/framework agreements.

For example, we have two parcels of land, one in Chengdu and one in Kunshan, over which we have obtained land use rights, but which may be treated as "idle land" by the respective local government authorities. We suspended the development of one parcel of land in Chengdu after completion of the construction of the then existing buildings thereon in November 2010, and upon such suspension, the area of the developed land was less than one third of the total land area. The development of one parcel of land in Kunshan was not timely commenced before the December 2012 deadline. We have received approvals from the local government authorities to commence construction on the rest of such land parcel in Chengdu and the parcel of land in Kunshan, respectively, and we commenced construction after receiving such approvals. As of the Latest Practicable Date, we have completed the construction on the parcel in Kunshan, and made progress in the construction on the parcel in Chengdu. Our PRC legal counsel, based on their consultation with the local authorities, has

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advised us that it is unlikely the local authorities will order penalties against us or require us to forfeit the relevant land by invoking the laws and regulations in relation to “idle land” or for breach of relevant land use right grant contracts and/or the investment/framework agreements.

We have not been subject to any penalties or required to forfeit any land as a result of failing to commence or resume development or fulfill the relevant investment commitments we made pursuant to the relevant land grant contracts and/or the investment/framework agreements. However, we cannot assure you that we will not be subject to penalties as a result of any failure to commence development or fulfill our investment commitments in accordance with the relevant land grant contracts and/or the investment/framework agreements in the future. If this occurs, our financial condition and results of operations could be materially and adversely affected.

We may experience impairment of goodwill in connection with our acquisition of entities.

We are required to perform an annual goodwill impairment test. As of June 30, 2020, we carried RMB2,409.3 million (US\$341.0 million) of goodwill on our balance sheet. However, goodwill can become impaired. We test goodwill for impairment annually or more frequently if events or changes in circumstances indicate possible impairment, but the fair value estimates involved require a significant amount of difficult judgment and assumptions. We may not achieve the anticipated benefits of the acquisitions, which may result in the need to recognize impairment of some or all of the goodwill we recorded.

We are subject to anti-corruption laws of China and Hong Kong as well as the U.S. Foreign Corrupt Practices Act. Our failure to comply with these laws could result in penalties, which could harm our reputation and have an adverse effect on our business, financial condition and results of operations.

We operate our business in China and Hong Kong and are thus subject to PRC and Hong Kong laws and regulations related to anti-corruption, which prohibit bribery to government agencies, state or government owned or controlled enterprises or entities, to government officials or officials that work for state or government owned enterprises or entities, as well as bribery to non-government entities or individuals. We are also subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, which generally prohibits companies and any individuals or entities acting on their behalf from offering or making improper payments or providing benefits to foreign officials for the purpose of obtaining or keeping business, along with various other anti-corruption laws. Our existing policies prohibit any such conduct and we have implemented and conducted additional policies and procedures designed, and providing training, to ensure that we, our employees, business partners and other third parties comply with PRC anti-corruption laws and regulations, the FCPA and other anti-corruption laws to which we are subject. There is, however, no assurance that such policies or procedures will work effectively all the time or protect us against liability under the FCPA or other anti-corruption laws. There is no assurance that our employees, business partners and other third parties would always obey our policies and procedures. Further, there is discretion and

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interpretation in connection with the implementation of PRC anti-corruption laws. We could be held liable for actions taken by our employees, business partners and other third parties with respect to our business or any businesses that we may acquire. We operate in the data center services industry in China and generally purchase our colocation facilities and telecommunications resources from state or government-owned enterprises and sell our services domestically to customers that include state or government-owned enterprises or government ministries, departments and agencies. This puts us in frequent contact with persons who may be considered "foreign officials" under the FCPA, resulting in an elevated risk of potential FCPA violations. If we are found not to be in compliance with PRC anti-corruption laws, the FCPA and other applicable anti-corruption laws governing the conduct of business with government entities, officials or other business counterparties, we may be subject to criminal, administrative, and civil penalties and other remedial measures, which could have an adverse impact on our business, financial condition and results of operations. Any investigation of any potential violations of the FCPA or other anti-corruption laws by U.S., Chinese or Hong Kong authorities or the authorities of any other foreign jurisdictions, could adversely impact our reputation, cause us to lose customer sales and access to colocation facilities and telecommunications resources, and lead to other adverse impacts on our business, financial condition and results of operations.

We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations.

On May 12, 2008 and April 14, 2010, severe earthquakes hit part of Sichuan Province in southwestern China and part of Qinghai Province in western China, respectively, resulting in significant casualties and property damage. While we did not suffer any loss or experience any significant increase in cost resulting from these earthquakes, if a similar disaster were to occur in the future that affected our Tier 1 markets or another city where we have data centers or are in the process of developing data centers, our operations could be materially and adversely affected due to loss of personnel and damages to property. In addition, a similar disaster affecting a larger, more developed area could also cause an increase in our costs resulting from the efforts to resurvey the affected area. Even if we are not directly affected, such a disaster could affect the operations or financial condition of our customers and suppliers, which could harm our results of operations.

In addition, our business could be materially and adversely affected by other natural disasters, such as snowstorms, typhoon, fires or floods, the outbreak of a widespread health epidemic or pandemic, such as swine flu, avian influenza, severe acute respiratory syndrome, or SARS, Ebola, Zika, COVID-19, or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions. If any of our employees is suspected of having contracted any contagious disease, we may under certain circumstances be required to quarantine such employees and the affected areas of our premises. Therefore, we may have to temporarily suspend part of or all of our operations. Furthermore, any future outbreak may restrict economic activities in affected regions, resulting in temporary closure of our offices or prevent us and our customers from traveling. Such closures could severely disrupt our business operations and adversely affect our results of operations.

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If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired.

We are subject to the reporting requirements of the U.S. Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the rules and regulations of Nasdaq. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting. Commencing with our year ended December 31, 2017, we have been obligated to perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting in our Form 20-F filing for that year, as required by Section 404 of the Sarbanes-Oxley Act. In addition, as of December 31, 2018, we ceased to be an "emerging growth company" as the term is defined in the Jumpstart Our Business Startups Act, or the JOBS Act, and our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. This has required and will continue to require us to incur substantial additional professional fees and internal costs to expand our accounting and finance functions and that we expend significant management efforts. We continue to enhance our accounting personnel and other resources to address our internal controls and procedures. We also continuously enhance our accounting procedures and internal controls.

In addition, our internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if we are unable to maintain proper and effective internal controls, we may not be able to produce timely and accurate financial statements. If that were to happen, the market price of our Shares and/or ADSs could decline and we could be subject to sanctions or investigations by the SEC, Nasdaq, or other regulatory authorities.

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Risks Related to Our Corporate Structure

If the PRC government deems that the contractual arrangements in relation to our consolidated variable interest entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

The PRC government regulates telecommunications-related businesses through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership of PRC companies that engage in telecommunications-related businesses. Specifically, foreign investors are not allowed to own more than a 50% equity interest in any PRC company engaging in value-added telecommunications businesses, with certain exceptions relating to certain categories which do not apply to us. Any such foreign investor must also have experience and a good track record in providing VATS overseas.

Because we are a Cayman Islands company, we are classified as a foreign enterprise under PRC laws and regulations, and our wholly owned PRC subsidiaries or PRC joint ventures, GDS Investment Company, Shanghai Yungang EDC Technology Co., Ltd., Shanghai Wanshu Data Technology Co., Ltd., Shanghai Shuchang Data Science & Technology Co., Ltd., Shanghai Puchang Data Science & Technology Co., Ltd., Shanghai Shuyao Digital Technology Development Co., Ltd., Shanghai Lingying Data Technology Co., Ltd., Shanghai Shuge Data Technology Co., Ltd., Shanghai Shulan Data Science and Technology Co. Ltd., Shanghai Fengtu Data Science & Technology Co. Ltd., Shanghai Jingyao Network Technology Co., Ltd., Beijing Hengpu'an Data Technology Development Co., Ltd., Beijing Wanguo Shu'an Science & Technology Development Co., Ltd., Beijing Hengchang Data Science & Technology Development Co., Ltd., Shou Xin Yun (Beijing) Science & Technology Co., Ltd., Beijing Wan Qing Teng Science & Technology Co., Ltd., Beijing Wan Teng Yun Science & Technology Co., Ltd., Beijing Hua Wei Yun Science & Technology Co., Ltd., Shou Rong Yun (Beijing) Science & Technology Co., Ltd., EDC Technology (Kunshan) Co., Ltd., Guojin Technology (Kunshan) Co., Ltd., Jiangsu Wan Guo Xing Tu Data Services Co., Ltd., Shenzhen Yungang EDC Technology Co., Ltd., Shenzhen Pingshan New Area Global Data Science & Technology Development Co., Ltd., Wan Qing Teng Data (Shenzhen) Co., Ltd., Shenzhen Qian Hai Wan Chang Technology Services Co., Ltd., Guangzhou Shi Wan Guo Yun Lan Data Technology Co., Ltd., Guangzhou Wanxu Technology Services Co., Ltd., Shenzhen Anda Data Science & Technology Development Co., Ltd., Heyuan Teng Wei Yun Science & Technology Co., Ltd., EDC (Chengdu) Industry Co., Ltd., Wulanchabu Wanguo Yuntu Data Services Co. Ltd., Zhangjiakou Yunhong Data & Technology Co., Ltd., Guangzhou Wanzhuo Data & Technology Co., Ltd., Shenzhen Miao Chuang Yun Science & Technology Co., Ltd., Shenzhen Zhanfeng Shiye Development Co., Ltd., Langfang Wanguo Yunxin Data Science & Technology Co., Ltd., Langfang Yunchen Data Science & Technology Co., Ltd., Langfang Shucheng Data Science & Technology Co., Ltd., Changshu Wanguo Yunfeng Data Science & Technology Co., Ltd., Shufeng (Shanghai) Data Science & Technology Co., Ltd., Chongqing Wanguo Hongtong Data Science & Technology Co., Ltd., Langfang Yunhan Data Science & Technology Co., Ltd.,

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Nantong Wanguo Yunjin Data Science & Technology Co., Ltd., Nantong Wanguo Yunqi Data Science & Technology Co., Ltd., Wulanchabu Wanguo Lantu Data Science & Technology Co., Ltd., Beijing Hanlin Energy Science & Technology Co., Ltd., Beijing Xingyu Data Science & Technology Co., Ltd., Shanghai Fengqing Data Science & Technology Co., Ltd., Shanghai Ruiqing Data Science & Technology Co., Ltd., Heyuan Wanguo Haitong Data Science & Technology Co., Ltd., Wulanchabu Wanguo Haocheng Data Science & Technology Co., Ltd., Wulanchabu Wanguo Hanjin Data Science & Technology Co., Ltd., Guangzhou Yinwu Data Science & Technology Co., Ltd., Huizhou Jiacheng Information, Communications & Technology Co., Ltd., Langfang Anyu Data Science & Technology Co., Ltd., Langfang Tianhong Data Science & Technology Co., Ltd., Langfang Yingshan Data Science & Technology Co., Ltd., Chengdu Wanguo Yuntian Data Science & Technology Co., Ltd., Kunshan Shuming Data Science & Technology Co., Ltd., Kunshan Bangchen Data Science & Technology Co., Ltd., Beijing Yize Data Science & Technology Co., Ltd., Beijing Linze Data Science & Technology Co., Ltd., Shanghai Jingshuo Data Science & Technology Co., Ltd., Fenghe Warehouse (Shanghai) Co., Ltd., Langfang Tiansheng Data Science & Technology Co., Ltd., Shenzhen Anchen Data Science & Technology Co., Ltd., Nantong Wanguo Haihong Data Science & Technology Co., Ltd., Shanghai Qingming Data Science & Technology Co., Ltd., Wulanchabu Sihong Data Science & Technology Co., Ltd., Heyuan Hengtai Data Science & Technology Co., Ltd., Nantong Yunyao Data Science & Technology Co., Ltd., Nantong Yunxi Data Science & Technology Co., Ltd., Wulanchabu Hongding Data Science & Technology Co., Ltd., Shenzhen Heming Data Science & Technology Co., Ltd., Lanting Information, Langfang Cloud Base Science & Technology Co., Ltd., or Langfang Cloud Base, Lanting Xuntong (Beijing) Science and Technology Co., Ltd., Huailai Yutang Data Science & Technology Co., Ltd., Langfang Senhong Data Science & Technology Co., Ltd., Jiangsu Yunyuhao Construction Engineering Co., Ltd., Tenglong IoT, Beijing Yeke Nano Science and Technology Co., Ltd., Kunshan Wantuo Electronic & Technology Co., Ltd., Shenzhen Zeyun Data Science & Technology Co., Ltd., Beijing Langyuan Data Science and Technology Co., Ltd., Langfang Zhouyu Electronic & Technology Co., Ltd., Langfang Senkai Data Science & Technology Co., Ltd. and Huizhou Jiaheng Data Science & Technology Co., Ltd. are foreign-invested enterprises, or their subsidiaries. To comply with PRC laws and regulations, we conduct our business in China through contractual arrangements with our consolidated variable interest entities and their shareholders. These contractual arrangements provide us with effective control over our consolidated VIEs, namely Management HoldCo, GDS Shanghai, GDS Beijing and its subsidiaries, and enable us to receive substantially all of the economic benefits of our consolidated VIEs in consideration for the services provided by our wholly-owned PRC subsidiaries, and have an exclusive option to purchase all of the equity interest in our consolidated VIEs when permissible under PRC laws. For a description of these contractual arrangements, see “Our History and Corporate Structure — Contractual Arrangements.”

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We believe that our corporate structure and contractual arrangements comply with the current applicable PRC laws and regulations. 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, as there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the M&A Rules, the telecommunications circular described above and the *Telecommunications Regulations of the People's Republic of China*, or the Telecommunications Regulations, and the relevant regulatory measures concerning the telecommunications industry, there can be no assurance that the PRC government, such as the MIIT, or other authorities that regulate providers of data center service and other participants in the telecommunications industry would agree that our corporate structure or any of the above contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations.

If our corporate and contractual structure is deemed by the MIIT, MOFCOM or other regulators having competent authority to be illegal, either in whole or in part, we may lose control of our consolidated VIEs and have to modify such structure to comply with regulatory requirements as interpreted by such authorities. However, there can be no assurance that we can achieve this without material disruption to our business. Further, if our corporate and contractual structure is found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking our business and operating licenses;
- levying fines on us;
- confiscating any of our income that they deem to be obtained through illegal operations;
- shutting down a portion or all of our networks and servers;
- discontinuing or restricting our operations in China;
- imposing conditions or requirements with which we may not be able to comply;
- requiring us to restructure our corporate and contractual structure;

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- restricting or prohibiting our use of the [REDACTED] from overseas [REDACTED] to finance our PRC consolidated VIEs’ business and operations; and
- taking other regulatory or enforcement actions that could be harmful to our business.

Furthermore, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and contractual arrangements.

See “— Substantial uncertainties exist with respect to the interpretation and implementation of the newly enacted 2019 PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.” Occurrence of any of these events could materially and adversely affect our business, financial condition and results of operations. In addition, if the imposition of any of these penalties or requirement to restructure our corporate structure causes us to lose the rights to direct the activities of our consolidated VIEs or our right to receive their economic benefits, we would no longer be able to consolidate in our consolidated financial statements such VIEs. However, we do not believe that such actions would result in the liquidation or dissolution of our company, our wholly-owned subsidiaries in China or our consolidated VIEs or their subsidiaries. For 2017, 2018 and 2019, and for 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.

Our contractual arrangements with our consolidated VIEs may result in adverse tax consequences to us.

We could face material and adverse tax consequences if the PRC tax authorities determine that our contractual arrangements with our consolidated VIEs were not made on an arm’s length basis and adjust our income and expenses for PRC tax purposes by requiring a transfer pricing adjustment. A transfer pricing adjustment could adversely affect us by (i) increasing the tax liabilities of our consolidated VIEs without reducing the tax liability of our subsidiaries, which could further result in late payment fees and other penalties to our consolidated VIEs for underpaid taxes; or (ii) limiting the ability of our consolidated VIEs to obtain or maintain preferential tax treatments and other financial incentives.

We rely on contractual arrangements with our consolidated VIEs and their shareholders for our China operations, which may not be as effective as direct ownership in providing operational control and otherwise have a material adverse effect as to our business.

We rely on contractual arrangements with our consolidated VIEs and their shareholders to operate our business in China. The shareholders of GDS Beijing and GDS Shanghai were Mr. Huang, our founder, chairman and chief executive officer, and his relative. In order to further improve our control over our variable interest entities, reduce key man risks associated with having certain individuals be the equity holders of the variable interest entities, and address the uncertainty resulting from any potential disputes between us and the individual

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equity holders of the variable interest entities that may arise, we have completed enhancing the structure of our variable interest entities and certain other variable interest entities, or the VIE Enhancement. As part of the VIE Enhancement, the entire equity interests of GDS Beijing and GDS Shanghai have been transferred from Mr. Huang and his relative to a newly established holding company, Management HoldCo. The entire equity interest in Management HoldCo is held by a number of management personnel designated by our board of directors. In conjunction with the transfer of legal ownership, GDS Investment Company, one of our subsidiaries, entered into a series of contractual arrangements with Management HoldCo, its shareholders, GDS Beijing and GDS Shanghai to replace the previous contractual arrangements with GDS Beijing and GDS Shanghai on substantially the same terms under such previous contractual arrangements. We also replaced the sole director of GDS Shanghai and certain subsidiaries of GDS Beijing with a board of three directors. Mr. Huang acts as the chairman of the boards of directors of Management HoldCo, GDS Investment Company, GDS Beijing and certain subsidiaries of GDS Beijing and GDS Shanghai. Other management members of us and board appointees serve as directors and officers of Management HoldCo, GDS Investment Company, GDS Beijing, and certain subsidiaries of GDS Beijing and GDS Shanghai.

For a description of the abovementioned contractual arrangements, see “Our History and Corporate Structure — Contractual Arrangements.” In 2017, 2018 and 2019 and the six months ended June 30, 2020, 91.0%, 97.2%, 97.4% and 96.4%, of our total net revenue, respectively, were attributed to our consolidated VIEs. These contractual arrangements may not be as effective as direct ownership in providing us with control over our consolidated VIEs. If our consolidated VIEs or their shareholders fail to perform their respective obligations under these contractual arrangements, our recourse to the assets held by our consolidated VIEs is indirect and we may have to incur substantial costs and expend significant resources to enforce such arrangements in reliance on legal remedies under PRC law. These remedies may not always be effective, particularly in light of uncertainties in the PRC legal system. Furthermore, in connection with litigation, arbitration or other judicial or dispute resolution proceedings, assets under the name of any of record holder of equity interest in our consolidated VIEs, including such equity interest, may be put under court custody. As a consequence, we cannot be certain that the equity interest will be disposed pursuant to the contractual arrangement or ownership by the record holder of the equity interest.

All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing these contractual arrangements, it would be very difficult to exert effective control over our consolidated VIEs, and our ability to conduct our business and our financial condition and results of operation may be materially and adversely affected. See “— Risks Related to Doing Business in the People’s Republic of China — There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.”

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The individual management shareholders of our Management HoldCo may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

In connection with our operations in China, we rely on the individual management shareholders of our Management HoldCo to abide by the obligations under such contractual arrangements. In particular, GDS Beijing and GDS Shanghai are wholly-owned by Management HoldCo, which is in turn owned by five individual management shareholders designated by our board, each holding 20% equity interest in Management HoldCo, namely 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) (together referred as “Individual Management Shareholders”). The interests of such Individual Management Shareholders in their individual capacities as the shareholders of Management HoldCo may differ from the interests of our company as a whole, as what is in the best interests of Management HoldCo, including matters such as whether to distribute dividends or to make other distributions to fund our offshore requirement, may not be in the best interests of our company. There can be no assurance that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or that conflicts of interest will be resolved in our favor. In addition, these individuals may breach or cause our consolidated VIEs to breach or refuse to renew the existing contractual arrangements with us.

Currently, we do not have arrangements to address potential conflicts of interest the Individual Management Shareholders may encounter; provided that we could, at all times, exercise our option under the exclusive call option agreements to cause them to transfer all of their equity ownership in Management HoldCo to a PRC entity or individual designated by us as permitted by the then applicable PRC laws. In addition, if such conflicts of interest arise, we could also, in the capacity of attorney-in-fact of the then existing shareholders of Management HoldCo as provided under the shareholder voting rights proxy agreements, directly appoint new directors of Management HoldCo. We rely on the shareholders of our consolidated VIEs to comply with PRC laws and regulations, which protect contracts and provide that directors and executive officers owe a duty of loyalty to our company and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains, and the laws of the Cayman Islands, which provide that directors and executive officers have a duty of care and a duty of loyalty to act honestly in good faith with a view to our best interests. However, the legal frameworks of China and Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of our consolidated VIEs, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

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In order to enhance corporate governance and facilitate administration of its VIEs, we have also replaced the sole director of GDS Shanghai and certain subsidiaries of GDS Beijing with a board of three directors. Mr. Huang acts as the chairman of the boards of directors of Management HoldCo, GDS Investment Company, GDS Beijing and certain subsidiaries of GDS Beijing and GDS Shanghai. Other management members of us and board appointees serve as directors and officers of Management HoldCo, GDS Investment Company, GDS Beijing and certain subsidiaries of GDS Beijing and GDS Shanghai. These enhancements to the corporate governance and management of our VIEs may help to mitigate some of the conflict of interest and other risks detailed above; however, we cannot assure you that the enhancements will be effective in preventing or mitigating such risks.

Our corporate actions are substantially controlled by our principal shareholders, including our founder, chairman and chief executive officer, Mr. Huang, who have the ability to control or exert significant influence over important corporate matters that require approval of shareholders, which may deprive you of an opportunity to receive a premium for your Shares and/or ADSs and materially reduce the value of your [REDACTED].

Our amended articles of association provide that Class B ordinary shares are entitled to 20 votes per share at general meetings of our shareholders with respect to the election or removal of a simple majority of our directors. Mr. Huang beneficially owns 100% of the Class B ordinary shares issued and outstanding, and any additional Class A ordinary shares which Mr. Huang directly or indirectly acquires may be converted into Class B ordinary shares. In addition, for so long as there are Class B ordinary shares outstanding, the Class B shareholders are entitled (i) to nominate one less than a simple majority, or five, of our directors, and (ii) to have 20 votes per share with respect to the election and removal of a simple majority, or six, of our directors. In addition, our amended articles of association provide that STT GDC (a wholly owned subsidiary of STTC, which is in turn a wholly owned subsidiary of ST Telemedia), has the right to appoint up to three directors to our board of directors for so long as they beneficially own certain percentages of our issued share capital. Such appointments will not be subject to a vote by our shareholders. See "Directors, Senior Management and Employees — Board Practices — Appointment, Nomination and Terms of Directors."

Furthermore, as of the Latest Practicable Date, two of our principal shareholders – STT GDC and Mr. Huang, our founder, chairman and chief executive officer – beneficially owned approximately 37.7% of our outstanding Class A ordinary shares and 100% of our outstanding Class B ordinary shares, respectively. On matters where Class A and Class B ordinary shares vote on a 1:1 basis, STT GDC exercises 33.8% of the aggregate voting power. On matters where Class A and Class B ordinary shares vote on a 1:20 basis, Mr. Huang exercises 52.9% of the aggregate voting power.

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As a result of these appointment rights, nomination rights, dual-class ordinary share structure and ownership concentration, these shareholders have the ability to control or exert significant influence over important corporate matters, investors may be prevented from affecting important corporate matters involving our company that require approval of shareholders, including:

- the composition of our board of directors and, through it, any determinations with respect to our operations, business direction and policies, including the appointment and removal of officers;
- any determinations with respect to mergers or other business combinations;
- our disposition of substantially all of our assets; and
- any change in control.

These actions may be taken even if they are opposed by our other shareholders, including the holders of our Shares and/or ADSs. We have granted special rights to STT GDC and certain of our other shareholders. See “Our History and Corporate Structure — Special Rights Granted to Specific Shareholders” and “Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance — Subscription for Shares by existing shareholders.” The rights granted to STT GDC include an anti-dilution right, directors’ appointment rights, right to requisition an extraordinary general meeting, committee rights, registration rights and information rights, which enable STT GDC to maintain its significant shareholding in and influence over our Company. In particular, STT GDC’s anti-dilution right entitles it to subscribe for up to a 35% pro rata share of future issuances of equity or equity linked securities by our Company any time within 18 months following June 26, 2020. We have also granted registration rights to certain other shareholders, including STT GDC, Hillhouse Capital and PA Goldilocks Limited, an affiliate of China Ping An Insurance Overseas (Holdings) Limited (a subsidiary of Ping An Insurance (Group) Company of China). If any shareholders exercise their registration rights, we will incur costs and be required to divert management attention and resources associated with facilitating the registration of their shares. We have also granted Ping An Overseas Holdings the right to designate an observer to join meetings of our board of directors, subject to maintaining its shareholding at or above a specified percentage threshold. See “Directors, Senior Management and Employees — Board Observer.”

Furthermore, this concentration of ownership may also discourage, delay or prevent a change in control of our company, which could have the dual effect of depriving our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and reducing the price of the Shares and/or ADSs. As a result of the foregoing, the value of your [REDACTED] could be materially reduced.

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If the custodians or authorized users of our controlling non-tangible assets, including chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these assets, our business and operations may be materially and adversely affected.

Under PRC law, legal documents for corporate transactions, including agreements and contracts such as the leases and sales contracts that our business relies on, are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with the relevant local branch of the SAIC. We generally execute legal documents by affixing chops or seals, rather than having the designated legal representatives sign the documents.

We have three major types of chops – corporate chops, contract chops and finance chops. We use corporate chops generally for documents to be submitted to government agencies, such as applications for changing business scope, directors or company name, and for legal letters. We use contract chops for executing leases and commercial, contracts. We use finance chops generally for making and collecting payments, including, but not limited to issuing invoices. Use of corporate chops and contract chops must be approved by our legal department and administrative department, and use of finance chops must be approved by our finance department. The chops of our subsidiaries and consolidated VIEs are generally held by the relevant entities so that documents can be executed locally. Although we usually utilize chops to execute contracts, the registered legal representatives of our subsidiaries and consolidated VIEs have the apparent authority to enter into contracts on behalf of such entities without chops, unless such contracts set forth otherwise.

In order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to the designated key employees of our legal, administrative or finance departments. Our designated legal representatives generally do not have access to the chops. Although we have approval procedures in place and monitor our key employees, including the designated legal representatives of our subsidiaries and consolidated VIEs, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our key employees or designated legal representatives could abuse their authority, for example, by binding our subsidiaries and consolidated VIEs with contracts against our interests, as we would be obligated to honor these contracts if the other contracting party acts in good faith in reliance on the apparent authority of our chops or signatures of our legal representatives. If any designated legal representative obtains control of the chop in an effort to obtain control over the relevant entity, we would need to have a shareholder or board resolution to designate a new legal representative and to take legal action to seek the return of the chop, apply for a new chop with the relevant authorities, or otherwise seek legal remedies for the legal representative's misconduct. If any of the designated legal representatives obtains and misuses or misappropriates our chops and seals or other controlling intangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve while distracting management from our operations, and our business and operations may be materially and adversely affected.

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Substantial uncertainties exist with respect to the interpretation and implementation of the newly enacted 2019 PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

On March 15, 2019, the National People’s Congress adopted the 2019 PRC Foreign Investment Law, which became effective on January 1, 2020 and replaced three existing laws regulating foreign investment in China, namely, the Wholly Foreign-Invested Enterprise Law of the PRC, the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC and the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC, together with their implementation rules and ancillary regulations. On December 26, 2019, the State Council issued the Regulations on Implementing the 2019 PRC Foreign Investment Law, which came into effect on January 1, 2020, and replaced the Regulations on Implementing the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC, Provisional Regulations on the Duration of Sino-Foreign Equity Joint Venture Enterprise Law, the Regulations on Implementing the Wholly Foreign-Invested Enterprise Law of the PRC, and the Regulations on Implementing the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC. The 2019 PRC Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For example, the 2019 PRC Foreign Investment Law adds a catch-all clause to the definition of “foreign investment” so that foreign investment, by its definition, includes “investments made by foreign investors in China through other means defined by other laws or administrative regulations or provisions promulgated by the State Council” without further elaboration on the meaning of “other means.” It leaves leeway for future legislations to provide for contractual arrangements as a form of foreign investment. It is therefore uncertain whether our corporate structure will be seen as violating the foreign investment rules as we are currently leveraging the contractual arrangements to operate certain businesses in which foreign investors are prohibited from or restricted to investing.

Furthermore, if future legislations mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. If we fail to take appropriate and timely measures to comply with any of these or similar regulatory compliance requirements, our current corporate structure, corporate governance and business operations could be materially and adversely affected.

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Risks Related to Doing Business in the People's Republic of China

Changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.

Substantially all of our operations are conducted in the PRC and a substantial majority of our net revenue is sourced from the PRC. Accordingly, our financial condition and results of operations are affected to a significant extent by economic, political and legal developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, regulating financial services and institutions and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth in the past three decades, such growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. Our financial condition and results of operation could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the PRC government has implemented in the past certain measures to control the pace of economic growth. These measures may cause decreased economic activity, which in turn could lead to a reduction in demand for our services and consequently have a material adverse effect on our businesses, financial condition and results of operations.

There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.

Substantially all of our operations are conducted in the PRC, and are governed by PRC laws, rules and regulations. Our PRC subsidiaries and consolidated VIEs are subject to laws, rules and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

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In 1979, the PRC government began to promulgate a comprehensive system of laws, rules and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investment in China. However, China has not developed a fully integrated legal system, and enacted laws, rules and regulations may not sufficiently cover all aspects of economic activities in China or may be subject to significant degrees of interpretation by PRC regulatory agencies. In particular, because these laws, rules and regulations are relatively new, and because of the limited number of published decisions and the nonbinding nature of such decisions, and because the laws, rules and regulations often give the relevant regulator significant discretion in how to enforce them, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and can be inconsistent and unpredictable. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the occurrence of the violation.

Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business, financial condition and results of operations.

Our business operations are extensively impacted by the policies and regulations of the PRC government. Any policy or regulatory change may cause us to incur significant compliance costs.

We are subject to extensive national, provincial and local governmental regulations, policies and controls. Central governmental authorities and provincial and local authorities and agencies regulate many aspects of Chinese industries, including, among others and in addition to specific industry-related regulations, the following aspects:

- construction or development of new data centers or renovation, rebuilding or expansion of existing data centers;
- banking regulations, as a result of the colocation services we provide to banks and financial institutions, including regulations governing the use of subcontractors in the management and maintenance of facilities;
- environmental protection laws and regulations;
- security laws and regulations;

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- establishment of or changes in shareholder of foreign investment enterprises;
- foreign exchange;
- taxes, duties and fees;
- customs;
- land planning and land use rights;
- energy conservation and emission reduction; and
- cyber security and information protection laws and regulations, including the *Cyber Security Law of the People’s Republic of China*, or the *Cyber Security Law*, and the *Administrative Measures for the Graded Protection of Information Security*.

The liabilities, costs, obligations and requirements associated with these laws and regulations may be material, may delay the commencement of operations at our new data centers or cause interruptions to our operations. Failure to comply with the relevant laws and regulations in our operations may result in various penalties, including, among others the suspension of our operations and thus adversely and materially affect our business, prospects, financial condition and results of operations. While we have endeavored to comply with the relevant laws and regulations in the development and operation of our data centers, we may incur additional costs in order to fulfill such requirements, and we cannot assure you that we have complied with, or will comply with the requirements of all relevant laws and regulations (including obtaining of all relevant approvals required for the development and operation of data centers). Additionally, there can be no assurance that the relevant government agencies will not change such laws or regulations or impose additional or more stringent laws or regulations, and we cannot assure you that we will comply with the requirements of all new laws and regulations. For example, the passage of the PRC Civil Code on May 28, 2020 by the National People’s Congress, which will become effective on January 2021, will abolish among other laws, the General Provisions of the PRC Civil Law, the PRC Marriage Law, the PRC Guarantee Law, the PRC Contract Law, the PRC Property Law and the PRC Tort Liability Law. It remains to be seen how the PRC Civil Code will be implemented and enforced in practice. For another example, see “Regulations — Regulations Related to Information Technology Outsourcing Services Provided to Banking Financial Institutions” for information regarding regulations of banking and financial institutions that outsource their data center services to us, and “Regulations — Regulations Related to Land Use Rights and Construction” for information regarding restrictions on the new construction or expansion of data centers within the boundaries of the Beijing municipality. Compliance with such laws or regulations may require us to incur material capital expenditures or other obligations or liabilities.

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Additionally, the *Cyber Security Law* came into effect on June 1, 2017, which provides certain rules and requirements applicable to network service providers in China. The Cyber Security Law requires network operators to perform certain functions related to cyber security protection and the strengthening of network information management through taking technical and other necessary measures as required by laws and regulations to safeguard the operation of networks, responding to network security effectively, preventing illegal and criminal activities, and maintaining the integrity and confidentiality and usability of network data. In addition, the Cyber Security Law imposes certain requirements on network operators of critical information infrastructure. For example, network operators of critical information infrastructure generally shall, during their operations in the PRC, store the personal information and important data collected and produced within the territory of PRC, and shall perform certain security obligations as required under the Cyber Security Law. However, the Cyber Security Law still leaves a series of gaps to be filled due to the complex and sensitive nature of this regulatory area. While the Cyber Security law sets out a broad set of principles, certain key terms and clauses are uncertain and ambiguous, which appear intended to be clarified through a series of laws, implementing regulations and guidelines to be issued by relevant authorities. For example, data security laws and implementing regulations dealing with "personal information protection," "security assessment of cross-border transfer of personal information and important data" and "protection of critical information infrastructure (CII)" are being formulated. Currently, the Cyber Security Law has not directly impacted our operations, but in light of rapid advances in its implementation, we believe the implementation of the Cyber Security Law involves potential risks to our business because we may be deemed as the network operator of critical information infrastructure thereunder. We are in the process of formulating internal rules to comply with the requirements under the Cyber Security Law, including without limitation, the appointment of designated personnel in charge of data protection, the formation of cyber security committee, the release of privacy protection polices and trainings in relation to the transferring of confidential documentation. However, we cannot assure you that the measures we have taken or will take are adequate under the Cyber Security Law, and we may be held liable in the event of any breach of the relevant requirements under the Cyber Security Law or other relevant laws and regulations. We may also be held liable in the event of any breach of general clauses on our compliance with such statutory requirements as well as some other specific requirements related to data protection under the relevant customer contracts. If further changes in our business practices are required under China's evolving regulatory framework for the protection of information in cyberspace, our business, financial condition and results of operations may be adversely affected.

The approval of the CSRC, may be required under a PRC regulation. The regulation also establishes more complex procedures for acquisitions conducted by foreign investors that could make it more difficult for us to grow through acquisitions.

On August 8, 2006, six PRC regulatory agencies, including MOFCOM, the SASAC, the State Administration of Taxation, or the STA, the SAIC, the CSRC, and the State Administration of Foreign Exchange, or the SAFE, jointly adopted the M&A Rules, which came into effect on September 8, 2006 and were amended on June 22, 2009. The M&A Rules

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include, among other things, provisions that purport to require that an offshore special purpose vehicle formed for the purpose of an overseas listing of securities in a PRC company obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. However, substantial uncertainty remains regarding the scope and applicability of the M&A Rules to offshore special purpose vehicles.

While the application of the M&A Rules remains unclear, we believe, based on the advice of our PRC counsel, King & Wood Mallesons, that the CSRC approval was not required in the context of our [REDACTED] or follow-on public offerings because we had not acquired any equity interests or assets of a PRC company owned by its Controlling Shareholders or beneficial owners who are PRC companies or individuals, as such terms are defined under the M&A Rules. There can be no assurance that the relevant PRC government agencies, including the CSRC, would reach the same conclusion as our PRC counsel. If the CSRC or another PRC regulatory body subsequently determines that its approval was needed for our [REDACTED] or follow-on public offerings or such approval is needed for any future offerings, we may face adverse actions or sanctions by the CSRC or other PRC regulatory agencies. In any such event, these regulatory agencies may impose fines and penalties on our operations in China, limit our operating privileges in China, delay or restrict the repatriation of the [REDACTED] from our [REDACTED] or [REDACTED] into the PRC or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the [REDACTED] of our Shares and/or ADSs.

The regulations also established additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the new regulations to complete such transactions could be time-consuming, and any required approval processes, including approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share. See "Regulations — Regulations Related to M&A and Overseas Listings."

PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries or limit our PRC subsidiaries' ability to increase their registered capital or distribute profits.

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment

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through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as "SAFE Circular 75" promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015.

Mr. Huang has completed the initial SAFE registration pursuant to SAFE Circular 75 in 2012, and is in the process of applying for amendment of such registration. We have notified substantial beneficial owners of ordinary shares who we know are PRC residents of their filing obligation. Nevertheless, we may not be aware of the identities of all of our beneficial owners who are PRC residents. We do not have control over our beneficial owners and there can be no assurance that all of our PRC-resident beneficial owners will comply with SAFE Circular 37 and subsequent implementation rules, and there is no assurance that the registration under SAFE Circular 37 and any amendment will be completed in a timely manner, or will be completed at all. The failure of our beneficial owners who are PRC residents to register or amend their foreign exchange registrations in a timely manner pursuant to SAFE Circular 37 and subsequent implementation rules, or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 and subsequent implementation rules, may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to our company. These risks may have a material adverse effect on our business, financial condition and results of operations.

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Any failure to comply with PRC regulations regarding our Share Incentive Plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies due to their position as director, senior management or employees of the PRC subsidiaries of the overseas companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. Our directors, executive officers and other employees who are PRC residents and who were granted options may follow SAFE Circular 37 to apply for the foreign exchange registration before our company became an overseas listed company. Since our company became an overseas listed company upon completion of our initial public offering, we and directors, executive officers and other employees of our PRC subsidiaries and consolidated VIEs and who have been granted options have been subject to the *Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company*, issued by SAFE in February 2012, or SAFE Circular 7, according to which, among others, employees, directors, supervisors and other management members of PRC companies participating in any stock incentive plan of an overseas publicly listed company who are domestic individuals as defined therein are required to register and make regular periodic filings with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. One of our subsidiaries, as the domestic qualified agent, has completed the registration under SAFE Circular 7 for our share incentive plans and we are making efforts to comply with these requirements stipulated in SAFE Circular 7. Failure to complete the SAFE registrations or meet other requirements may subject relevant participants in our share incentive plans to fines and legal sanctions and may also limit the ability to make payment under our share incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our wholly-foreign owned enterprises in China and limit our wholly-foreign owned enterprises' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional share incentive plans for our directors and employees under PRC laws.

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

There are significant legal and other obstacles in China to providing information needed for regulatory investigations or litigation initiated by regulators outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States involves uncertainty. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation, evidence collection and other activities within the territory of the PRC. While detailed interpretation of or implementation rules under Article 177 have yet

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to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase difficulties faced by you in protecting your interests.

The enforcement of the Labor Contract Law of the People's Republic of China, or the PRC Labor Contract Law, and other labor-related regulations in the PRC may increase our labor costs, impose limitations on our labor practices and adversely affect our business and our results of operations.

On June 29, 2007, the SCNPC enacted the *PRC Labor Contract Law*, which became effective on January 1, 2008 and was amended on December 28, 2012. The PRC Labor Contract Law introduces specific provisions related to fixed-term employment contracts, part-time employment, probation, consultation with labor unions and employee assemblies, employment without a written contract, dismissal of employees, severance, and collective bargaining, which together represent enhanced enforcement of labor laws and regulations. According to the PRC Labor Contract Law, an employer is obliged to sign an unfixed-term labor contract with any employee who has worked for the employer for 10 consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract must have an unfixed term, with certain exceptions. The employer must pay economic compensation to an employee where a labor contract is terminated or expires in accordance with the PRC Labor Contract Law, except for certain situations which are specifically regulated. In addition, the government has issued various labor-related regulations to further protect the rights of employees. According to such laws and regulations, employees are entitled to annual leave ranging from 5 to 15 days and are able to be compensated for any untaken annual leave days in the amount of three times their daily salary, subject to certain exceptions. In the event that we decide to change our employment or labor practices, the PRC Labor Contract Law and its implementation rules may also limit our ability to effect those changes in a manner that we believe to be cost-effective. In addition, as the interpretation and implementation of these new regulations are still evolving, our employment practices may not be at all times deemed in compliance with the new regulations. If we are subject to severe penalties or incur significant liabilities in connection with labor disputes or investigations, our business and financial condition may be adversely affected.

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.

We are a holding company and rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries and on remittances from the consolidated VIEs, for our offshore cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, fund inter-company loans, service any debt we may incur outside of China and pay our expenses. When our principal operating subsidiaries or the consolidated VIEs incur additional debt, the instruments governing the debt may restrict their ability to pay dividends or make other

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distributions or remittances to us. Furthermore, the laws, rules and regulations applicable to our PRC subsidiaries and certain other subsidiaries permit payments of dividends only out of their retained earnings, if any, determined in accordance with applicable accounting standards and regulations.

Under PRC laws, rules and regulations, each of our subsidiaries incorporated in China is required to set aside at least 10% of its net income each year to fund certain statutory reserves until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves, together with the registered capital, are not distributable as cash dividends. As a result of these laws, rules and regulations, our subsidiaries incorporated in China are restricted in their ability to transfer a portion of their respective net assets to their shareholders 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. Our subsidiaries did not have any significant retained earnings available for distribution in the form of dividends as of June 30, 2020. In addition, registered share capital and capital reserve accounts are also restricted from withdrawal in the PRC, up to the amount of net assets held in each operating subsidiary.

Limitations on the ability of VIEs to make remittance to the wholly-foreign owned enterprise and on the ability of our subsidiaries to pay dividends to us could limit our ability to access cash generated by the operations of those entities, including to make investments or acquisitions that could be beneficial to our businesses, pay dividends to our shareholders or otherwise fund and conduct our business.

In January 2017, SAFE promulgated the *Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification*, or SAFE Circular 3, which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) under the principle of genuine transactions, banks shall check board resolutions regarding profit distribution, original copies of tax filing records and audited financial statements; and (ii) domestic entities shall hold income to account for previous years’ losses before remitting any profits. Moreover, pursuant to SAFE Circular 3, domestic entities shall make detailed explanations of their sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with any outbound investment.

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.

Under the *PRC Enterprise Income Tax Law* and its implementing rules, enterprises established under the laws of jurisdictions outside of China with “de facto management bodies” located in China may be considered PRC tax resident enterprises for tax purposes and may be subject to the PRC enterprise income tax at the rate of 25% on their global income. “De facto management body” refers to a managing body that exercises substantive and overall management and control over the production and business, personnel, accounting books and

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assets of an enterprise. The STA issued the *Notice Regarding the Determination of Chinese-controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies*, or STA Circular 82, on April 22, 2009. STA Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. Although STA Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by foreign enterprises or individuals, the determining criteria set forth in STA Circular 82 may reflect the STA general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises. If we were to be considered a PRC resident enterprise, we would be subject to PRC enterprise income tax at the rate of 25% on our global income. In such case, our profitability and cash flow may be materially reduced as a result of our global income being taxed under the Enterprise Income Tax Law. We believe that none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.”

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.

We are a holding company incorporated under the laws of the Cayman Islands and as such rely on dividends and other distributions on equity from our PRC subsidiaries to satisfy part of our liquidity requirements. 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. Pursuant to 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*, 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, including without limitation that (a) the Hong Kong enterprise must be the beneficial owner of the relevant dividends; and (b) the Hong Kong enterprise must directly hold no less than 25% share ownership in the PRC enterprise during the 12 consecutive months preceding its receipt of the dividends.

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.

Under the *Enterprise Income Tax Law* and its implementation regulations issued by the State Council, a 10% PRC withholding tax, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions, is applicable to dividends payable to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within the PRC. Similarly, any

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gain realized on the transfer of Shares and/or ADSs by such investors is also subject to PRC tax at a current rate of 10%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions, if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise, dividends paid on our Shares and ADSs, and any gain realized from the transfer of our Shares and ADSs, would be treated as income derived from sources within the PRC and would as a result be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to individual investors who are non-PRC residents and any gain realized on the transfer of Shares and/or ADSs by such investors may be subject to PRC tax at a current rate of 20%, subject to any reduction or exemption set forth in applicable tax treaties or under applicable tax arrangements between jurisdictions. If we or any of our subsidiaries established outside China are considered a PRC resident enterprise, it is unclear whether holders of our Shares and/or ADSs would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas. If dividends payable to our non-PRC investors, or gains from the transfer of our Shares and/or ADSs by such investors, are deemed as income derived from sources within the PRC and thus are subject to PRC tax, the value of your [REDACTED] in our Shares and/or ADSs may decline significantly.

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.

On February 3, 2015, the STA issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or STA Bulletin 7, which replaced or supplemented previous rules under the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or Circular 698, issued by the STA, on December 10, 2009. Pursuant to STA Bulletin 7, an "indirect transfer" of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be recharacterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to STA Bulletin 7, "PRC taxable assets" include assets attributed to an establishment in China, immovable properties located in China, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining whether there is a "reasonable commercial purpose" of the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable assets; and the tax situation

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of such indirect transfer and applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payor fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. Bulletin 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

On October 17, 2017, the STA issued the Announcement on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises, or STA Circular 37. STA Circular 37 supersedes Circular 698 in its entirety, and amends certain provisions in STA Bulletin 7, but does not touch upon other provisions of STA Bulletin 7, which remain in full force. STA Circular 37 purports to clarify certain issues in the implementation of the above regime, by providing, among others, the definitions of equity transfer income and tax basis, the foreign exchange rate to be used in the calculation of withholding amounts and the date of occurrence of the withholding obligation. Specifically, STA Circular 37 provides that where the transfer income subject to withholding at its source is derived by a non-PRC resident enterprise by way of instalments, the instalments may first be treated as recovery of costs of previous investments; upon recovery of all costs, the tax amount to be withheld shall then be computed and withheld.

There is uncertainty as to the application of STA Bulletin 7 and STA Circular 37. STA Bulletin 7 and STA Circular 37 may be determined by the tax authorities to be applicable to our historical or future offshore restructuring transactions or sale of our Shares or ADSs or those of our offshore subsidiaries, with non-resident enterprises being the transferors. We may be subject to filing obligations or taxed as the transferor, or subject to withholding obligations as the transferee, in such transactions. For transfers of our Shares or ADSs by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist with filings under STA Bulletin 7 and STA Circular 37. For example, in the past, we acquired EDC Holding Limited, or EDC Holding, by issuing shares of GDS Holdings, to its shareholders in exchange for all of the outstanding shares of EDC Holding that were not held by us then. In addition, certain of our direct and indirect shareholders transferred some or all of their equity interest in us through indirect transfers conducted by their respective overseas holding companies which held shares in us. As a result, the transferors and transferees in these transactions, including us may be subject to the tax filing and withholding or tax payment obligation, while our PRC subsidiaries may be requested to assist in the filing. Furthermore, we, our non-resident enterprises and PRC subsidiaries may be required to spend valuable resources to comply with STA Bulletin 7 and STA Circular 37 or to establish that we and our non-resident enterprises

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should not be taxed under STA Bulletin 7 and STA Circular 37, for our previous and future restructuring or disposal of shares of our offshore subsidiaries, which may have a material adverse effect on our financial condition and results of operations.

Restrictions on currency exchange may limit our ability to utilize our net revenue effectively.

Substantially all of our net revenue is denominated in Renminbi. The Renminbi is currently convertible under the "current account," which includes dividends, trade and service-related foreign exchange transactions, but not under the "capital account," which includes foreign direct investment and loans, including loans we may secure from our onshore subsidiaries or consolidated VIEs. Currently, certain of our PRC subsidiaries, may purchase foreign currency for settlement of "current account transactions," including payment of dividends to us, without the approval of SAFE by complying with certain procedural requirements. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase foreign currencies in the future for current account transactions. Foreign exchange transactions under the capital account remain subject to limitations and require approvals from, or registration with, SAFE and other relevant PRC governmental authorities. Since a significant amount of our future net revenue will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize net revenue generated in Renminbi to fund our business activities outside of the PRC or pay dividends in foreign currencies to our shareholders, including holders of our Shares and/or ADSs, and may limit our ability to obtain foreign currency through debt or equity financing for our subsidiaries and consolidated VIEs.

Fluctuations in exchange rates could result in foreign currency exchange losses and could materially reduce the value of your [REDACTED].

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. We cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future or what impact this will have on our results of operations.

Substantially all of our net revenue and costs are denominated in Renminbi. We are a holding company and we rely on dividends paid by our operating subsidiaries in China for our cash needs. Any significant revaluation of the Renminbi may materially reduce any dividends payable on, our Shares and/or ADSs in U.S. dollars. To the extent that we need to convert Hong Kong dollars we received from [REDACTED] into Renminbi for our operations, appreciation of the Renminbi against the Hong Kong dollar would have an adverse effect on the Renminbi

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amount we would receive. Conversely, if we decide to convert our 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 amount.

Our audit reports are prepared by auditors in China who are not currently inspected by the Public Company Accounting Oversight Board and, as such, our investors are deprived of the benefits of such inspection and are exposed to uncertainties. If proposed legislation addressing this issue is enacted into law, it could lead to prohibition on trading in and the [REDACTED] of our securities in the United States.

As auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, our independent registered accounting firm is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in, and organized under the laws of, the Peoples' Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. On November 4, 2019, the SEC announced that the SEC and the PCAOB had dialogue with the "Big Four" accounting firms, which emphasized the need for effective and consistent global firm oversight of member firms, including those operating in China. On February 19, 2020, the SEC and the PCAOB further issued a joint statement on continued dialogue with the "Big Four" accounting firms on audit quality in China, highlighting that the PCAOB continues to be prevented from inspecting the audit work and practices of PCAOB-registered audit firms in China. On April 21, 2020, the SEC and the PCAOB issued a new joint statement, reminding investors that in many emerging markets, including China, there is substantially greater risk that disclosures will be incomplete or misleading and, in the event of investor harm, substantially less access to recourse in

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comparison to U.S. domestic companies, and stressing again the PCAOB's inability to inspect audit work papers in China and the potential resulting harm to investors. However, it remains unclear what further actions, if any, the SEC and the PCAOB will take to address the problem.

In addition, proposed legislation, including the Equitable Act (Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges) and certain other newly introduced bills, also seek to impose requirements that, among other things, foreign issuers that do not make their audit reports subject to PCAOB review within three years would be delisted from American stock exchanges. On May 20, 2020, the U.S. Senate approved the Holding Foreign Companies Accountable Act, or the HFCA Act, which includes requirements similar to those in the Equitable Act for the SEC to identify issuers whose audit reports are prepared by auditors that the PCAOB is unable to inspect or investigate because of restrictions imposed by non-U.S. authorities. The HFCA Act would also require public companies on this SEC list to certify that they are not owned or controlled by a foreign government and make certain additional disclosures in their SEC filings. In addition, for issuers on the SEC list for three consecutive years, the SEC would be required to prohibit the securities of these issuers from being traded on a U.S. national securities exchange, such as the Nasdaq Global Market, or in U.S. over-the-counter markets. Both pieces of proposed legislation would require issuers on the SEC list to make certain disclosures on foreign ownership and control. The U.S. House of Representatives has also introduced and is considering a bill similar to the HFCA Act. Enactment of these legislations or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of our Shares and/or ADSs could be adversely affected, and it may result in prohibitions on the trading of the ADSs on the Nasdaq Global Market or other U.S. exchanges if our auditors fail to be inspected by the PCAOB for three consecutive years. It is unclear if these proposed legislations will be enacted. Furthermore, there have been recent media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets. In August 2020, the President's Working Group on Financial Markets, or the PWG, released the Report on Protecting United States Investors from Significant Risks from Chinese Companies. The PWG recommends that the SEC take steps to implement the recommendations outlined in the report. In particular, to address companies from non-cooperating jurisdictions, or NCJs, such as China, that do not provide the PCAOB with sufficient access to fulfill its statutory mandate the PWG recommends enhanced listing standards on U.S. securities exchanges. This would require, as a condition to initial and continued exchange listing, PCAOB access to work papers of the principal audit firm for the audit of the listed company. Companies unable to satisfy this standard as a result of governmental restrictions on access to audit work papers and practices in NCJs may satisfy this standard by providing a co-audit from an audit firm with comparable resources and experience where the PCAOB determines it has sufficient access to audit work papers and practices to conduct an appropriate inspection of the co-audit firm. To reduce market disruption, the new listing standards could provide for a transition period until January 1, 2022 for currently listed companies. The other recommendations in the report include, among other things, requiring enhanced and prominent issuer disclosures of the risks of investing in certain NCJs such as China.

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Enactment of any of such legislation or other efforts to increase the U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us. In addition, enactment of these legislations may result in prohibitions on the trading of our ADSs on Nasdaq Global Market, if our auditors fail to meet the PCAOB inspection requirement in time. It is unclear if and when any of the proposed legislation will be enacted.

If additional remedial measures are imposed on the “big four” PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging such firms’ failure to meet specific criteria set by the SEC with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

Starting in 2011 the Chinese affiliates of the “big four” accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and Chinese law. Specifically, for certain U.S. listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese accounting firms access to their audit work papers and related documents. The firms were, however, advised and directed that under Chinese law they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the CSRC.

In December 2012 this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act against the Chinese affiliates of the “big four” accounting firms, including our independent registered public accounting firm. In January 2014, the administrative law judge reached an initial decision to impose penalties on the firms including a temporary suspension of their right to practice before the SEC. The accounting firms filed a petition for review of the initial decision. On February 6, 2015, before a review by the commissioners of the SEC had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet the specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm’s performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the current proceeding against all four firms. Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. It is uncertain whether the SEC will further challenge the four PRC-based accounting firms’ compliance with U.S. laws in connection with U.S. regulatory requests for audit work papers or if the results of such challenge would result in the SEC imposing penalties such as suspensions. If additional remedial measures are imposed on the Chinese affiliates of the “big four” accounting firms, including our independent registered public accounting firm, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

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In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our Shares and/or ADSs may be adversely affected.

The perception among investors that the Company is at heightened risk of delisting from Nasdaq could negatively affect the market price of our Shares and/or ADSs and [REDACTED] of our Shares and/or ADSs. If a delisting were to occur, we would face material adverse consequences.

The perception among investors, due to current and proposed rules and regulations relating to the ability of the PCAOB to inspect our auditors and other matters, that the Company is at heightened risk of delisting from Nasdaq could negatively affect the market price of our securities and [REDACTED] of our Shares and/or ADSs. Additionally, any actual delisting determination could seriously decrease or eliminate the value of an [REDACTED] in our Shares and/or ADSs. We could face substantial material adverse consequences, including, but not limited to, among other things: limited availability for market quotations for our Shares and/or ADSs; reduced liquidity with respect to our Shares; a reduced number of investors willing to hold or acquire our Shares and/or ADSs, which could negatively impact our ability to raise equity financing; an impaired ability to provide equity incentives to our employees; and limited news and analyst coverage.

Risks Related to Our Shares, ADSs and [REDACTED]

As a company applying for [REDACTED] under Chapter 19C, we adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange.

As we are applying for [REDACTED] under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules pursuant to Rule 19C.11, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the [REDACTED], we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (WUMP) Ordinance, the Takeovers Codes and the SFO. As a result, we will adopt different practices as to those matters as compared with other companies listed on the Hong Kong Stock Exchange that do not enjoy those exemptions or waivers. For additional information, see “Waivers from Compliance with the Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance.”

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Furthermore, if 55% or more of the total worldwide [REDACTED], by dollar value, of our Shares and ADSs over our most recent fiscal year takes place on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange will regard us as having [REDACTED] in Hong Kong and we will no longer enjoy certain exemptions or waivers from strict compliance with the requirements under the Hong Kong Listing Rules, the Companies (WUMP) Ordinance, the Takeovers Codes and the SFO, which could result in our incurring of incremental compliance costs.

The [REDACTED] price of our ADSs and the [REDACTED] price of our Shares may be volatile, which could result in substantial losses to holders of our Shares and/or ADSs.

The [REDACTED] prices of our ADSs have been, and are likely to continue to be, volatile and could fluctuate widely due to factors beyond our control. The [REDACTED] price of our Shares, likewise, can be volatile for similar or different reasons. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other listed companies based in China. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies' securities after their offerings, including internet and e-commerce companies, may affect the attitudes of investors toward Chinese companies listed in Hong Kong and/or the United States, which consequently may impact the [REDACTED] performance of our Shares and/or ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Furthermore, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the United States, China and other jurisdictions in late 2008, early 2009, the second half of 2011, in 2015 and early 2020. Any additional volatility or further declines in securities markets, such as the Nasdaq, on which our ADSs are listed, may have a material and adverse effect on the [REDACTED] price of our Shares and/or ADSs.

In addition to the above factors, the price and [REDACTED] of our Shares and/or ADSs may be highly volatile due to multiple factors, including the following:

- regulatory developments affecting us or our industry, customers or suppliers;
- announcements of studies and reports relating to the quality of our service offerings or those of our competitors;
- changes in the economic performance or market valuations of other data center services companies;

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- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the market for data center services;
- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures, capital raisings or capital commitments;
- additions to or departures of our senior management;
- any actual or alleged illegal acts of our senior management or other key employees;
- fluctuations of exchange rates between the Renminbi, the Hong Kong dollar and the U.S. dollar;
- political or market instability or disruptions, and actual or perceived social unrest in the United States, Hong Kong or other jurisdictions;
- release or expiry of lock-up or other transfer restrictions on our Shares and/or ADSs;
- sales or perceived potential sales or other dispositions of existing or additional Shares and/or ADSs or other equity or equity-linked securities; and
- attacks by short sellers, including the publication of negative opinions regarding us and our business prospects in order to create negative market momentum and generate profits for themselves after selling a stock short. See “— Techniques employed by short sellers may drive down the market price of our Shares and/or ADSs.”

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our Shares and/or ADSs and [REDACTED] could decline.

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

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Techniques employed by short sellers may drive down the market price of our Shares and/or ADSs.

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

Public companies that have substantially all of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations and, in the interim, are subject to shareholder lawsuits and/or SEC enforcement actions.

We have in the past been, are currently, and may in the future be, the subject of unfavorable allegations made by a short seller. Any such allegations may be followed by periods of instability in the market price of our Shares and ADSs and negative publicity. Regardless of whether such allegations are proven to be true or untrue, it is not clear what effect such negative publicity could have on us, and we could have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which it can proceed against the relevant short seller by principles of freedom of speech, applicable state law or issues of commercial confidentiality. Such a situation could be costly and time-consuming, and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact our business operations and stockholders equity, and any investment in our Shares or ADSs could be greatly reduced or rendered worthless.

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

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our Shares and/or ADSs as a source for any future dividend income.

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Our board of directors has complete discretion as to whether to distribute dividends. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your [REDACTED] in our Shares and/or ADSs will likely depend entirely upon any future price appreciation of our Shares and/or ADSs. There is no guarantee that our Shares and/or ADSs will appreciate in value or even maintain the price at which you purchased the Shares and/or ADSs. You may not realize a return on your [REDACTED] in our Shares and/or ADSs and you may even lose your entire [REDACTED] in our Shares and/or ADSs.

Substantial future sales or perceived potential sales of our Shares, ADSs, or other equity or equity-linked securities in the public market could cause the price of our Shares and/or ADSs to decline significantly.

Sales of our Shares, ADSs, or other equity or equity-linked securities in the public market, or the perception that these sales could occur, could cause the market price of our Shares and/or ADSs to decline significantly. As of the Latest Practicable Date, we had 1,311,179,155 Shares outstanding, comprising 1,243,588,819 Class A ordinary shares (including 50,184,168 Class A ordinary shares held by JPMorgan Chase Bank, N.A., as depository, which are reserved for future delivery upon exercise or vesting of share awards granted under our Share Incentive Plans) and 67,590,336 Class B ordinary shares. All ADSs representing our Class A ordinary shares sold in our public offerings are freely transferable by persons other than our "affiliates" without restriction or additional registration under the Securities Act. All of the other Class A ordinary shares may be available for sale, subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act.

Divestiture in the future of our Shares and/or ADSs by shareholders, the announcement of any plan to divest our Shares and/or ADS, or hedging activity by third-party financial institutions in connection with similar derivative or other financing arrangements entered into by shareholders, could cause the price of our Shares and/or ADSs to decline.

Certain major holders of our ordinary shares have the right to cause us to register under the Securities Act the sale of their shares. Registration of these shares under the Securities Act would result in ADSs representing these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the form of ADSs in the public market could cause the price of our Shares and/or ADSs to decline significantly.

We have adopted Share Incentive Plans, under which we have the discretion to grant a broad range of equity-based awards to eligible participants. We intend to register all ordinary shares that we may issue under these Share Incentive Plans. Once we register these ordinary shares, they can be freely sold in the public market, subject to volume limitations applicable to affiliates. If a large number of our Shares or securities convertible into our Shares are sold

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in the public market after they become eligible for sale, the sales could reduce the [REDACTED] price of our Shares and/or ADSs and impede our ability to raise future capital. In addition, any Shares that we issue under our Share Incentive Plans would dilute the percentage ownership held by the investors [REDACTED].

The Shares and ADSs are equity and are subordinate to our existing and future indebtedness, the convertible preferred stock and any preferred stock we may issue in the future.

The Shares and ADSs are our equity interests and do not constitute indebtedness. As such, Shares and ADSs will rank junior to all indebtedness and other non-equity claims on us with respect to assets available to satisfy claims on us, including in a liquidation of us. Additionally, holders of our Shares and/or ADSs may be subject to prior dividend and liquidation rights of any holders of our preferred stock or depositary shares representing such preferred stock then outstanding.

Our Shares and ADSs will rank junior to our convertible preferred stock with respect to the payment of dividends and amounts payable in the event of our liquidation, dissolution or winding-up of our affairs. This means that, unless accumulated dividends have been paid on all our convertible preferred stock through the most recently completed dividend period, no dividends may be declared or paid on our Shares and ADSs and we will not be permitted to repurchase any of our Shares and ADSs, subject to limited exceptions. Likewise, in the event of our voluntary or involuntary liquidation, dissolution or winding-up of our affairs, no distribution of our assets may be made to holders of our Shares and/or ADSs until we have paid to holders of our preferred stock a liquidation preference equal to the greater of (i) the stated value per convertible preferred share, plus an amount equal to any dividends accumulated but unpaid thereon (whether or not declared), and (ii) the payment such holders would have received had such holders, immediately prior to such liquidation, converted their convertible preferred shares into Class A ordinary shares (at the then applicable conversion rate).

Our board of directors is authorized to issue additional classes or series of preferred stock without any action on the part of the shareholders. The board of directors also has the power, without shareholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our Shares and ADSs with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. If we issue preferred stock in the future that has a preference over our Shares and ADSs with respect to the payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our Shares and ADSs, the rights of holders of our Shares and/or ADSs or the market price of our Shares and/or ADSs could be adversely affected.

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Our dual-class voting structure and concentrated ownership limits your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Shares and/or ADSs may view as beneficial.

As discussed under “— Risks Related to Our Corporate Structure — Our corporate actions are substantially controlled by our principal shareholders, including our founder, chairman and chief executive officer, Mr. Huang, who have the ability to control or exert significant influence over important corporate matters that require approval of shareholders, which may deprive you of an opportunity to receive a premium for your Shares and/or ADSs and materially reduce the value of your [REDACTED]” above, Mr. Huang, our founder, chairman and chief executive officer and our other principal shareholders have considerable influence over matters requiring shareholder approval. To the extent that their interests differ from yours, you may be disadvantaged by any action that they may seek to pursue. This concentrated control could also discourage others from pursuing any potential merger, takeover or other change of control transactions, which could have the effect of depriving the holders of our Shares and/or ADSs of the opportunity to sell their shares at a premium over the prevailing market price.

Holders of ADSs, may have fewer rights than holders of our Shares and must act through the depositary to exercise those rights.

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying Class A ordinary shares in accordance with the provisions of the deposit agreement. Under our amended articles of association, the minimum notice period required to convene a general meeting will be 10 days. When a general meeting is convened, holders of ADSs may not receive sufficient notice of a shareholders’ meeting to permit them to withdraw their Class A ordinary shares to allow them to cast their vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to them or carry out their voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to them in a timely manner, but there can be no assurance that they will receive the voting materials in time to ensure that they can instruct the depositary to vote their ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, holders of ADSs may not be able to exercise their right to vote and they may lack recourse if their ADSs are not voted as they requested. In addition, in their capacity as an ADS holder, they will not be able to call a shareholders’ meeting.

Holders of our ADSs may not receive cash dividends if the depositary decides it is impractical to make them available to them.

The depositary will pay cash dividends on the ADSs only to the extent that we decide to distribute dividends on our ordinary shares or other deposited securities, and we do not have any present plan to pay any cash dividends in the foreseeable future. To the extent that there is a distribution, the depositary of our ADSs has agreed to pay to ADS holders the cash

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dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. ADS holders will receive these distributions in proportion to the number of Class A ordinary shares their ADSs represent. However, the depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property to ADS holders.

You must rely on the judgment of our management as to [REDACTED] from [REDACTED], and such use may not produce income or increase the price of our Shares and/or ADS.

We currently plan to use [REDACTED] of [REDACTED] to expand our platform of high-performance data centers through strategic sourcing across markets, as well as to innovate and develop new technologies related to data center design, construction and operations. Our management will have considerable discretion in the application of the [REDACTED] received by us. You will not have the opportunity, as part of your [REDACTED] decision, to assess whether [REDACTED] are being used appropriately. The [REDACTED] may be used for corporate purposes that do not improve our efforts to achieve or maintain profitability or increase the price of our Shares and/or ADS. The [REDACTED] from [REDACTED] may be placed in [REDACTED] that do not produce income or that lose value.

Holders of our ADSs may be subject to limitations on transfer of their ADSs.

Our ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. We conduct a substantial portion of our operations in the PRC and substantially all of our assets are located in the PRC. In addition, some of our directors and executive officers and the experts named in this document do not reside within the U.S. or Hong Kong, and most of their assets are not located in the U.S. or Hong Kong. As a result, it may be difficult or impossible for you to bring an action against us or against them in the United States or in Hong Kong in the event that you believe that your rights have been infringed under the U.S. federal securities laws, Hong Kong laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands or other relevant jurisdiction may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

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There is no statutory enforcement in the Cayman Islands of judgments obtained in the Hong Kong courts or federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments). A judgment obtained in such jurisdiction will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment (a) is given by a foreign court of competent jurisdiction, (b) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given, (c) is final, (d) is not in respect of taxes, a fine or a penalty, and (e) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from the U.S. or Hong Kong courts under civil liability provisions of the U.S. federal securities law or Hong Kong law if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. Because such a determination has not yet been made by a court of the Cayman Islands, it is uncertain whether such civil liability judgments from U.S. or Hong Kong courts would be enforceable in the Cayman Islands.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of reciprocity with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our director and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

Since we are a Cayman Islands exempted company, the rights of our shareholders may be different from those of shareholders of a company organized in the United States or Hong Kong.

Under the laws of some jurisdictions in the United States, majority and Controlling Shareholders generally have certain fiduciary responsibilities to the minority shareholders. Shareholder action must be taken in good faith, and actions by Controlling Shareholders which are obviously unreasonable may be declared null and void. Cayman Islands law protecting the interests of minority shareholders may not be as protective in all circumstances as the law protecting minority shareholders in some U.S. jurisdictions. In addition, the circumstances in which a shareholder of a Cayman Islands company may sue the company derivatively, and the procedures and defenses that may be available to the company, may result in the rights of shareholders of a Cayman Islands company being more limited than those of shareholders of a company organized in the United States.

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Furthermore, our directors have the power to take certain actions without shareholder approval which would require shareholder approval under Hong Kong law or the laws of most U.S. jurisdictions. Our ability to create and issue new classes or series of shares without shareholders’ approval could have the effect of delaying, deterring or preventing a change in control without any further action by our shareholders, including a tender offer to purchase our ordinary shares at a premium over then current market prices.

Furthermore, our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong, such as the absence of requirements that the appointment, removal and remuneration of auditors must be approved by a majority of our shareholders. See “Information about the [REDACTED]” and “Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance — Shareholder Protection” for further details.

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

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our Memorandum and Articles of Association, the Companies Law and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States or the Hong Kong courts. In particular, the Cayman Islands has a less developed body of securities laws than the United States or Hong Kong. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States or Hong Kong courts.

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

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

Our articles of association contain anti-takeover provisions that could discourage a third party from acquiring us, which could limit our shareholders' opportunity to sell their Shares and/or ADSs at a premium.

We have adopted amended and restated articles of association that contain provisions to limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our Shares and/or ADSs may fall and the voting and other rights of the holders of our Shares and/or ADSs may be materially and adversely affected. In addition, our amended articles of association contain other provisions that could limit the ability of third parties to acquire control of our company or cause us to engage in a transaction resulting in a change of control, as defined in our amended articles of association, including: a provision that entitles Class B ordinary shares to 20 votes per share at general meetings of our shareholders with respect to the election or removal of a simple majority of our directors; a provision that entitles Class B shareholders to nominate one less than a simple majority, or five, of our directors; a provision that allows one of our principal shareholders to appoint up to three directors to our board of directors for so long as they beneficially own certain percentages of our issued share capital; and a classified board with staggered terms for our directors, which will prevent the replacement of a majority of directors at one time.

These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction.

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

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

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

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

We may become a passive foreign investment company, or PFIC, which could result in adverse United States federal income tax consequences to United States investors.

Based on the past and projected composition of our income and assets, and the valuation of our assets, including goodwill, we do not believe we were a passive foreign investment company, or PFIC, for our most recent taxable year and we do not expect to become one in the future, although there can be no assurance in this regard. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, for any taxable year, we will be classified as a PFIC for United States federal income tax purposes if either (i) 75% or more of our gross income in that taxable year is passive income or (ii) the average percentage of our assets (which includes cash) by value in that taxable year which produce, or are held for the production of, passive income is at least 50%. The calculation of the value of our assets will be based, in part, on the quarterly market value of our ADSs, which is subject to change. In addition, there is uncertainty as to the treatment of our corporate structure and ownership of our consolidated VIEs for United States federal income tax purposes. For United States federal income tax

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purposes, we consider ourselves to own the stock of our consolidated VIEs. If it is determined, contrary to our view, that we do not own the stock of our consolidated VIEs for United States federal income tax purposes (for instance, because the relevant PRC authorities do not respect these arrangements), we may be treated as a PFIC.

If we are a PFIC for any taxable year during which you hold our ADSs or Class A ordinary shares, our PFIC status could result in adverse United States federal income tax consequences to you if you are a United States Holder. For example, if we are or become a PFIC, you may become subject to increased tax liabilities under United States federal income tax laws and regulations, and will become subject to burdensome reporting requirements. There can be no assurance that we will not be a PFIC for 2020 or any future taxable year.

We will continue to incur increased costs as a result of being a public company, particularly since we have ceased to qualify as an “emerging growth company.”

Since the completion of our initial public offering, we have incurred significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and Nasdaq, impose various requirements on the corporate governance practices of public companies. Since December 31, 2018, we have been deemed to be a “large accelerated filer” as the term is defined in Rule 12b-2 of the Exchange Act, and we thereby ceased to be an “emerging growth company” as the term is defined in the JOBS Act.

These rules and regulations have increased our legal and financial compliance costs and made some corporate activities more time-consuming and costly. Since we have ceased to be an “emerging growth company,” we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act and the other rules and regulations of the SEC. Operating as a public company has also made it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. In addition, we have incurred additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We will also incur additional costs as a result of the [REDACTED] on the Hong Kong Stock Exchange. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

Shareholders of our company have in the past brought, and may in the future bring, securities class action lawsuits against our company following periods of instability in the market price of our Shares and/or ADSs. On August 2, 2018, a securities class action lawsuit was filed in the United States District Court in the Eastern District of Texas against GDS Holdings, our Chief Executive Officer Mr. Huang, and our Chief Financial Officer Mr. Daniel Newman (collectively, “Defendants”) by Hamza Ramzan, a shareholder of GDS Holdings. The action was subsequently transferred to the Southern District of New York. See “Our Business

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— Legal Proceedings.” On April 7, 2020, the court granted Defendants’ motion to dismiss the amended complaint, and dismissed the action in its entirety against all Defendants. On May 6, 2020, plaintiffs filed a notice of appeal of that decision. On June 29, 2020, plaintiffs voluntarily withdrew their appeal, resulting in the dismissal of the case against all Defendants with prejudice. Any further class action lawsuit could divert a significant amount of our management’s attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action lawsuit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future.

The different characteristics of the capital markets in Hong Kong and the U.S. may negatively affect the [REDACTED] prices of our Shares and/or ADSs.

Upon the [REDACTED], we will be subject to Hong Kong and Nasdaq [REDACTED] and regulatory requirements concurrently. The Hong Kong Stock Exchange and Nasdaq have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules, and investor bases (including different levels of retail and institutional participation). As a result of these differences, the [REDACTED] prices of our Shares and our ADSs may not be the same, even allowing for currency differences. Fluctuations in the price of our ADSs due to circumstances peculiar to the U.S. capital markets could materially and adversely affect the price of our Shares, or vice versa. Certain events having significant negative impact specifically on the U.S. capital markets may result in a decline in the [REDACTED] of our Shares notwithstanding that such event may not impact the trading prices of securities listed in Hong Kong generally or to the same extent, or vice versa. Because of the different characteristics of the U.S. and Hong Kong capital markets, the historical market prices of our ADSs may not be indicative of the [REDACTED] performance of our Shares after the [REDACTED].

Exchange between our Shares and our ADSs may adversely affect the liquidity and/or [REDACTED] of each other.

Our ADSs are currently traded on Nasdaq. Subject to compliance with U.S. securities law and the terms of the deposit agreement, holders of our Class A ordinary shares may deposit Class A ordinary shares with the depositary in exchange for the issuance of our ADSs. Any holder of ADSs may also withdraw the underlying Class A ordinary shares represented by the ADSs pursuant to the terms of the deposit agreement for [REDACTED] on the Hong Kong Stock Exchange. In the event that a substantial number of Class A ordinary shares are deposited with the depositary in exchange for ADSs or vice versa, the liquidity and [REDACTED] of our Class A ordinary shares on the [REDACTED] our ADSs on Nasdaq may be adversely affected.

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The time required for the exchange between Shares and ADSs might be longer than expected and investors might not be able to settle or effect any sale of their securities during this period, and the exchange of Class A ordinary shares into ADSs involves costs.

There is no direct [REDACTED] or settlement between Nasdaq and [REDACTED] on which our ADSs and our Shares are respectively traded. In addition, the time differences between Hong Kong and New York and unforeseen market circumstances or other factors may delay the deposit of Shares in exchange of ADSs or the withdrawal of Shares underlying the ADSs. Investors will be prevented from settling or effecting the sale of their securities during such periods of delay. In addition, there is no assurance that any exchange of Shares into ADSs (and vice versa) will be completed in accordance with the timelines investors may anticipate.

Furthermore, the depository for the ADSs is entitled to charge holders fees for various services including for the issuance of ADSs upon deposit of Shares, cancellation of ADSs, distributions of cash dividends or other cash distributions, distributions of ADSs pursuant to share dividends or other free share distributions, distributions of securities other than ADSs and annual service fees. As a result, shareholders who exchange Shares into ADSs, and vice versa, may not achieve the level of economic return the shareholders may anticipate.

We are exposed to risks associated with the potential spin-off of one or more of our businesses.

We are exposed to risks associated with the potential spin-off of one or more of our businesses. We have applied for, and the Hong Kong Stock Exchange [has granted], a waiver from strict compliance with the requirements in Paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules such that we are able to spin-off a subsidiary entity and list on the Hong Kong Stock Exchange within three years of the [REDACTED]. While we currently do not have any plan with respect to any spin-off listing on the Hong Kong Stock Exchange, we may consider a spin-off listing on the Hong Kong Stock Exchange for one or more of our businesses within the three year period subsequent to the [REDACTED]. The waiver granted by the Hong Kong Stock Exchange is conditional upon us confirming to the Hong Kong Stock Exchange in advance of any spin-off that it would not render our Company incapable of fulfilling the eligibility requirements under Rule 19C.05 of the Hong Kong Listing Rules based on the financial information of the entity or entities to be spun-off at the time of the Company’s [REDACTED] (calculated cumulatively if more than one entity is spun-off). In the event that we proceed with a spin-off, our interest in the entity to be spun-off will be reduced accordingly. For additional information, see “Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance — Three-year Restriction on Spin-offs.”

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Risks Related to the [REDACTED]

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

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

In 2014, the Hong Kong, Shanghai and Shenzhen Stock Exchanges collaborated to create an inter-exchange trading mechanism called Stock Connect that allows international and mainland Chinese investors to trade eligible equity securities listed in each other's markets through the trading and clearing facilities of their home exchange. Stock Connect currently covers over 2,000 equity securities trading in the Hong Kong, Shanghai and Shenzhen markets. Stock Connect allows mainland Chinese investors to trade directly in eligible equity securities listed on the Hong Kong Stock Exchange, known as Southbound Trading; without Stock Connect, mainland Chinese investors would not otherwise have a direct and established means of engaging in Southbound Trading. In October 2019, the Shanghai and Shenzhen Stock Exchanges separately announced their amended implementation rules in connection with Southbound Trading to include shares of WVR companies to be traded through Stock Connect. However, since these rules are relatively new, there remains uncertainty as to the implementation details, especially with respect to shares of those companies with a secondary listing on the Hong Kong Stock Exchange. It is unclear whether and when the Shares of our Company, a WVR company with [REDACTED] in Hong Kong upon the [REDACTED], will be eligible to be [REDACTED] through [REDACTED], if at all. The ineligibility or any delay of our Shares for [REDACTED] through Stock Connect will affect mainland Chinese investors' ability to [REDACTED] our Shares and therefore may limit the liquidity of the [REDACTED] of our Shares on [REDACTED].

Since there will be a gap of several days between [REDACTED] of our Shares, the price of our ADSs traded on Nasdaq may fall during this period and could result in a fall in the [REDACTED] of our Shares [REDACTED].

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

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There is uncertainty as to whether Hong Kong stamp duty will apply to the [REDACTED] or conversion of our ADSs following our [REDACTED] in Hong Kong and [REDACTED] of our Shares [REDACTED].

In connection with our [REDACTED] of Class A ordinary shares in Hong Kong, or [REDACTED], we will establish a branch register of members in Hong Kong, or the Hong Kong share register. Our Class A ordinary shares that are traded on the Hong Kong Stock Exchange, including those to be issued in [REDACTED] and those that may be converted from ADSs, will be registered on the Hong Kong share register, and the [REDACTED] of these Class A ordinary shares on [REDACTED] will be subject to the Hong Kong stamp duty. To facilitate ADS-ordinary share conversion and [REDACTED] between Nasdaq and the Hong Kong Stock Exchange, we also intend to move a portion of our issued Class A ordinary shares from our register of members maintained in the Cayman Islands to our Hong Kong [REDACTED].

Under the Hong Kong Stamp Duty Ordinance, any person who effects any sale or purchase of Hong Kong stock, defined as stock the transfer of which is required to be registered in Hong Kong, is required to pay Hong Kong stamp duty. The stamp duty is currently set at a total rate of 0.2% of the greater of the consideration for, or the value of, shares transferred, with 0.1% payable by each of the buyer and the seller. See “Information About the [REDACTED] — Dealings and Settlement of Class A Ordinary Shares in Hong Kong.”

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

Purchasers of our Shares in [REDACTED] will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The [REDACTED] of our Shares in Hong Kong is higher than the net tangible assets per Share of the outstanding Shares issued to our existing shareholders immediately prior to the [REDACTED]. Therefore, purchasers of our Shares in the [REDACTED] will experience an immediate dilution in terms of the pro forma net tangible asset value. In addition, we may consider offering and issuing additional Shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. Purchasers of our Shares may experience further dilution in terms of the net tangible asset value per Share if we issue additional Shares in the future at a price that is lower than the net tangible asset value per Share.

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THE [REDACTED]

[REDACTED]

Summary of Exemptions as a Foreign Private Issuer in the U.S.

As required by Rule 19C.14 of the Hong Kong Listing Rules, set forth below is a summary of the exemptions from obligations under U.S. securities laws and Nasdaq Listing Rules that we enjoy as a foreign private issuer in the U.S.

Exemptions from Nasdaq Stock Market Rules

Foreign private issuers are exempted from certain corporate governance requirements of Nasdaq. Foreign private issuers are permitted to follow home country practice, i.e., for us, the practice of the Cayman Islands, in lieu of such corporate governance requirements, as long as they disclose any significant ways in which their corporate governance practices differ from those required under the Nasdaq Stock Market Rules and explain the basis for the conclusion that the exemption is applicable. Specifically, we currently enjoy the exemptions from the requirements to:

- have a majority of independent directors;

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- regularly schedule executive sessions without management at which the non-management directors must meet;
- have a nominating/corporate governance committee composed entirely of independent directors;
- have a compensation committee composed entirely of independent directors, whose members must satisfy the additional independence requirements specific to compensation committee membership;
- give shareholders the opportunity to vote on:
 - all equity-compensation plans and material revisions thereto, with limited exceptions;
 - the issuance of securities in connection with the acquisition of the stock or assets of another company if: (i) where, due to the present or potential issuance of common stock, including shares issued pursuant to an earn-out provision or similar type of provision, or securities convertible into or exercisable for common stock, other than a public offering for cash: (A) the common stock has or will have upon issuance voting power equal to or in excess of 20% of the voting power outstanding before the issuance of stock or securities convertible into or exercisable for common stock; or (B) the number of shares of common stock to be issued is or will be equal to or in excess of 20% of the number of shares of common stock outstanding before the issuance of the stock or securities; or (ii) any director, officer or Substantial Shareholder (as defined by Rule 5635(e)(3) of the Nasdaq rules) of the Company has a 5% or greater interest (or such persons collectively have a 10% or greater interest), directly or indirectly, in the company or assets to be acquired or in the consideration to be paid in the transaction or series of related transactions and the present or potential issuance of common stock, or securities convertible into or exercisable for common stock, could result in an increase in outstanding common shares or voting power of 5% or more;
 - private placements (other than a bona fide private placement), if the number of shares of common stock, or of securities convertible into or exercisable for common stock to be issued equals or exceeds 20% of the shares of common stock outstanding before the issuance; or
 - an issuance that will result in a change of control of the listed company.

INFORMATION ABOUT THE [REDACTED]

Exemptions from SEC rules and regulations under U.S. federal securities laws

Foreign private issuers are exempted from Regulation FD under the U.S. Exchange Act. Regulation FD provides that when a domestic U.S. issuer, or someone acting on its behalf, discloses material nonpublic information to certain persons (including securities analysts, other securities market professionals, and holders of the issuer's securities who could reasonably be expected to trade on the basis of the information), it must make simultaneous public disclosure of that information (in the case of intentional disclosure) or prompt public disclosure (in the case of non-intentional disclosure). However, the SEC expects foreign private issuers to conduct themselves in accordance with the basic principles underlying Regulation FD.

Section 16 of the U.S. Exchange Act does not apply to foreign private issuers. Therefore, directors, executive officers and 10% beneficial owners of foreign private issuers are not required to file Forms 3, 4 and 5 with the SEC, and are not required to disgorge to the issuer any profits realized from any non-exempt purchase and sale, or non-exempt sale and purchase, of the issuer's equity securities or security-based swap agreements within a period of less than six months.

Foreign private issuers are exempt from the SEC's rules prescribing the furnishing and content of proxy statements under the U.S. Exchange Act, which specify the procedures and required documentation for soliciting shareholder votes. Accordingly, foreign private issuers are not required to disclose certain information in their annual proxy statements, such as whether the work of any compensation consultant has played any role in determining or recommending the form or amount of executive and director compensation has raised a conflict of interest, and, if so, the nature of the conflict and how it is being addressed.

Foreign private issuers are also not required under the U.S. Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. issuers with securities registered under the U.S. Exchange Act. As a result, our shareholders may be afforded less protection than they would under the U.S. Exchange Act rules applicable to domestic U.S. issuers. Unlike domestic U.S. issuers, foreign private issuers are not required to file quarterly reports (including quarterly financial information) on Form 10-Q. They also are not required to use Form 8-K for current reports, and instead furnish (not file) current reports on Form 6-K with the SEC.

Annual reports on Form 10-K by domestic U.S. issuers are due within 60, 75, or 90 days after the end of the issuer's fiscal year, depending on whether the company is a "large accelerated filer," a "accelerated filer," or a "non-accelerated filer." By contrast, the deadline for foreign private issuers to file annual reports on Form 20-F is four months after the end of their fiscal year.

INFORMATION ABOUT THE [REDACTED]

Exemptions from Hong Kong Listing Rules

Our Articles of Association

We are an exempted company incorporated in the Cayman Islands with limited liability and our affairs are governed by our Memorandum and Articles of Association, the Cayman Companies Law and the common law of the Cayman Islands.

The laws of Hong Kong differ in certain respects from the Cayman Companies Law, and our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong. For example:

- Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange will consider that an issuer such as us seeking [REDACTED] under Chapter 19C has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules for standards of shareholder protection if it has met the shareholder protection standards by reference to eight criteria set out in Rule 19C.07.
- Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors must be approved by a majority of a Qualifying Issuer's (as defined in the Hong Kong Listing Rules) members or other body that is independent of the issuer's board of directors), but our Articles of Association do not contain an equivalent provision. Article 153 of our Articles of Association provides that the board shall appoint an auditor of our Company who shall hold office until the board appoints another auditor and may fix their remuneration. Our board has formally delegated this function to the Audit Committee, and such function is entrenched in the charter of our Audit Committee. Since the listing of our Company on Nasdaq in 2016, we have adopted the practice of putting forward a resolution at each annual general meeting for shareholders to confirm the appointment of the auditors. The resolution in each year has been passed in favor and approved.
- Rule 19C.07(5) of the Hong Kong Listing Rules requires the Qualifying Issuer to give its members reasonable written notice of its general meetings, and our Articles of Association provide that any general meeting may be called by not less than ten (10) clear days' notice. While we consider that such notice period is reasonable and has been adopted since our listing on Nasdaq in 2016, we undertake to (i) put forth a resolution at or before the next annual general meeting after [REDACTED] to revise our Articles of Association to comply with Rule 19C.07(5) of the Hong Kong Listing Rules so that the notice period for any general meeting would be at least 14 calendar days and (ii) provide at least 14 calendar days' notice for any general meeting with effect from [REDACTED] and continue to do so even in the event that the proposed amendment to our Articles of Association to extend the notice for general meeting is not approved by our Shareholders. We have obtained irrevocable

INFORMATION ABOUT THE [REDACTED]

undertakings from the Undertaking Shareholders prior to [REDACTED] to vote in favor of the proposed resolution outlined above with a view to ensuring that there may be adequate votes in favor of such resolution.

- Rule 19C.07(6)(2) of the Hong Kong Listing Rules requires members to have the right to vote at a general meeting except where a member is required, by the Hong Kong Listing Rules, to abstain from voting to approve the matter under consideration. Our Articles of Association do not contain an equivalent provision which restricts members' right to vote at general meeting. We will put forth a resolution at or before the next annual general meeting after [REDACTED] to revise our Articles of Association to comply with Rule 19C.07(6)(2) of the Hong Kong Listing Rules such that where any member is, under the Hong Kong Listing Rules, required to abstain from voting on any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement shall not be counted. We have obtained irrevocable undertakings from the Undertaking Shareholders prior to the [REDACTED] to vote in favor of the proposed resolution outlined above with a view to ensuring that there may be adequate votes in favor of such resolution. In the event that the proposed amendment is not approved by our Shareholders at the next annual general meeting, we will continue to put forth a resolution for the proposed amendment at the following annual general meeting each year until such resolution is passed. Pending the above amendment to our Articles of Association, we will stipulate in our proxy statement that a member with material interest in a transaction or arrangement will be required to abstain from voting on resolutions relating to such transaction or arrangement.
- Rule 19C.07(7) of the Hong Kong Listing Rules provides that the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of a Qualifying Issuer. Article 58(2) of our Articles of Association provides for the requisition of shareholders' meetings, including the following provisions: (a) for so long as STT GDC has the right to appoint any director pursuant to the Articles of Association, any one or more shareholders (other than STT GDC or any affiliate of STT GDC controlled by STT GDC) holding not less than one-third of the issued Class A ordinary shares of our Company (excluding any Class A ordinary shares beneficially owned by STT GDC or any affiliate of STT GDC controlled by STT GDC) shall have the right to requisition an extraordinary general meeting; and (b) for so long as STT GDC ceases to have the right to appoint any director pursuant to our Articles of Association, any one or more shareholders (including STT GDC or any affiliate of STT GDC controlled by STT GDC) holding not less than one-third of the issued Class A ordinary shares of our Company shall have the right to requisition an extraordinary general meeting. In addition, Article 61(2) of our Articles of Association provides that at any general meeting of our Company, two (2) members entitled to vote and present in person or by proxy or (in the case of a member being a corporation) by its duly authorised representative representing not less than one-third in nominal value of the total issued voting

INFORMATION ABOUT THE [REDACTED]

shares in our Company throughout the meeting shall form a quorum for all purposes. We undertake that we will put forth resolutions at or before our next annual general meeting to be held after [REDACTED] in 2021 to revise our Articles of Association such that (i) in addition to the existing provisions of Article 58(2), a provision will be added to provide that the minimum stake required for any shareholder(s) to requisition an extraordinary general meeting and the addition of resolution to the general meeting will be 10% of the voting rights, on a one vote per share basis, in the share capital of our Company; and (ii) the quorum for a requisitioned general meeting of our Company pursuant to the amended provision in (i) above will be 10% of the aggregate voting power of our Company on a one vote per share basis. We have obtained irrevocable undertakings from the Undertaking Shareholders prior to [REDACTED] to vote in favor of the proposed resolutions outlined above with a view to ensuring that there may be adequate votes in favor of such resolutions. Our board and directors undertake to convene general meetings at the request of shareholders holding not less than 10% of the voting rights, on a one vote per share basis, from [REDACTED] until the next annual general meeting is convened or if the shareholders do not approve the above proposed amendments to the Articles of Association. In addition, we will continue to put forth a resolution for the proposed amendment at the following annual general meeting each year until such resolution is passed.

See “Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance” for further details and “Summary of our Constitution and Cayman Companies Law” as set out in Appendix III to this document.

Weighted Voting Rights Structure

Our weighted voting rights structure is specific to us and contain certain features that are different from the requirements under Chapter 8A of the Hong Kong Listing Rules. Material differences in shareholder protection and corporate governance safeguards are set out below:

Requirement under Chapter 8A of the Hong Kong Listing Rules

Rule 8A.10 of the Hong Kong Listing Rules imposes restriction on voting power conferred to WVR beneficiaries to not more than ten times the voting power of ordinary shares.

Our weighted voting rights structure

Our Class B ordinary shares are entitled to 20 votes per share for the following matters at general meetings of our shareholders: (i) the election or removal of a simple majority, or six, of our directors; and (ii) any change to our Articles of Association that would adversely affect the rights of shareholders of Class B ordinary shares.

INFORMATION ABOUT THE [REDACTED]

Requirement under Chapter 8A of the Hong Kong Listing Rules

Rule 8A.17 of the Listing Rules which require cessation of weighted voting rights if (i) the beneficiary is deceased; (ii) no longer a member of the issuer’s board of directors; (iii) deemed by the Hong Kong Stock Exchange to be incapacitated for the purpose of performing his or her duties as a director; or (iv) deemed by the Hong Kong Stock Exchange to no longer meet the requirements of a director set out in the Hong Kong Listing Rules.

Our weighted voting rights structure

Subject to the provisions of our Articles of Association, our Class B ordinary shares may be converted into Class A ordinary shares at the option of the holder or automatically at the occurrence of an automatic conversion event. Such automatic conversion event refers to the first occurrence of (i) Mr. Huang having beneficial ownership in less than 5% of our issued share capital on an as converted basis; (ii) the consultation draft Foreign Investment Law of the People’s Republic of China published by the Ministry of Commerce of the PRC on January 19, 2015 (the “**FIL**”) in the form implemented not requiring VIE entities operating the PRC business to be owned or controlled (as defined in the FIL as officially promulgated by the PRC legislator) by PRC nationals or entities (including without limitation the FIL as officially promulgated by the PRC legislator grandfathering then-existing VIE Entities in the PRC); (iii) the PRC law no longer requiring the conduct of the PRC business to be owned or controlled by PRC nationals or entities; (iv) the promulgation of the FIL as it relates to VIE entities is abandoned by the PRC legislator; or (v) the relevant authorities in the PRC having approved the Company’s VIE structure without the need for the VIE entities to be owned or controlled by PRC nationals or entities.

INFORMATION ABOUT THE [REDACTED]

Requirement under Chapter 8A of the Hong Kong Listing Rules

Our weighted voting rights structure

As of the Latest Practicable Date, there has not been substantial change on the foreign investment restriction in the IDC industry. The Automatic Conversion Event was established in anticipation of the enactment of the draft *Foreign Investment Law of the People's Republic of China* (the “**Draft FIL**”, publicized on January 19, 2015 soliciting public opinion). The National People's Congress promulgated the *PRC Foreign Investment Law* (“**2019 PRC Foreign Investment Law**”) on March 15, 2019, which was enacted according to the *Legislative Plan of the Standing Committee of the National People's Congress and 2018 Legislative Work Plan* issued by the National People's Congress on December 14, 2017, and amended on April 17, 2018, while the Draft FIL has not been officially promulgated as a law as of the Latest Practicable Date. The 2019 PRC Foreign Investment Law does not explicitly require the VIE entities operating the PRC business to be owned or controlled by PRC nationals or entities, nor does the same law expressly abandon the proposed treatment to VIE structures in the Draft FIL. In addition, the 2019 PRC Foreign Investment Law provides that the concept of foreign investment shall include other form of investment as provided by other laws, regulations or as required by the State Council. Therefore, there is no assurance that foreign investment via VIE structure would not be interpreted as a type of foreign investment activities by future legislation (including without limitation, the Draft FIL when officially enacted) or by the State Council, and future legislation may not follow the same proposed treatment to VIE structure as the Draft FIL. Furthermore, the relevant authorities in the PRC have not approved our VIE structure without the need for the VIE entities to be owned or controlled by PRC nationals or entities. Given the above and considering that Mr. Huang has beneficial ownership in more than 5% of our issued share capital on as converted basis, we understand that it is still reasonable in establishing and maintaining the mechanism of the Automatic Conversion Event and none of the above automatic conversion events have occurred, and hence none of the Class B ordinary shares are subject to automatic conversion into Class A ordinary shares.

INFORMATION ABOUT THE [REDACTED]

Requirement under Chapter 8A of the Hong Kong Listing Rules

Under Rule 8A.23 of the Hong Kong Listing Rules, non-WVR shareholders must be able to convene an extraordinary general meeting and add resolutions to the meeting agenda. The minimum stake required to do so must not be higher than 10% of the voting rights on a one vote per share basis in the share capital of the listed issuer.

Rule 8A.24 of the Hong Kong Listing Rules requires weighted voting rights to be disregarded on any resolution to approve certain matters, including (i) changes to the listed issuer’s constitutional documents, however framed; (ii) variation of rights attached to any class of shares; (iii) the appointment or removal of an independent non-executive director; (iv) the appointment or removal of auditors; and (v) the voluntary winding-up of the listed issuer.

Our weighted voting rights structure

Our Articles of Association provide that Mr. Huang shall only acquire Class A ordinary shares in his name or an entity established or controlled by him. Any Class A ordinary shares so acquired (whether by allotment and issue of new shares or acquisition of issued Class A ordinary shares) will be automatically converted into Class B ordinary shares. In the event that Mr. Huang, after ceasing to own not less than 5% of our issued share capital, acquires 5% or more of our Class A ordinary shares, those shares will be converted into Class B ordinary shares.

The minimum stake as currently set out in our Articles of Association is different from the requirement. For further details, please see “Information About [REDACTED] – Exemptions from Hong Kong Listing Rules – Our Articles of Association” and “Waivers from Compliance with the Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance.”

Under our weighted voting rights structure, Class B ordinary shares are entitled to 20 votes per share for the following matters at general meetings of our shareholders: (i) the election or removal of a simple majority, or six, of our directors; and (ii) any change to our Articles of Association that would adversely affect the rights of shareholders of Class B ordinary shares.

INFORMATION ABOUT THE [REDACTED]

Requirement under Chapter 8A of the Hong Kong Listing Rules

Rule 8A.30 of the Hong Kong Listing Rules requires issuer with a WVR structure must establish a Corporate Governance Committee with at least the terms of reference set out in Code Provision D.3.1 of Appendix 14 to the Hong Kong Listing Rules and additional terms as set out under Rule 8A.30 of the Hong Kong Listing Rules.

Our weighted voting rights structure

Our Nominating and Corporate Governance Committee’s charter does not contain all the provisions as required under Code Provision D.3.1 of Appendix 14 to the Hong Kong Listing Rules and additional terms as set out under Rule 8A.30 of the Hong Kong Listing Rules. In particular, with respect to Code Provision D.3.1 of Appendix 14 to the Hong Kong Listing Rules, the charter does not contain the following terms: (1) review and monitor the training and continuous professional development of directors and senior management; (2) review and monitor the issuer’s policies and practices on compliance with legal and regulatory requirements; and (3) review the issuer’s compliance with the corporate governance code and disclosure in the corporate governance report.

INFORMATION ABOUT THE [REDACTED]

Requirement under Chapter 8A of the Hong Kong Listing Rules

Our weighted voting rights structure

With respect to Rule 8A.30 of the Hong Kong Listing Rules, the charter does not contain the following terms: (1) review and monitor whether the listed issuer is operated and managed for the benefit of all its shareholders; (2) confirm, on an annual basis, that the beneficiaries of WVR have been members of the listed issuer's board of directors throughout the year and that no matters under rule 8A.17 (relating to cessation of WVR) have occurred during the relevant financial year; (3) confirm, on an annual basis, whether or not the beneficiaries of WVR have complied with rules 8A.14 (relating to issue of shares carrying weighted voting rights), 8A.15 (relating to purchase of own shares), 8A.18 (relating to restriction on transfer of shares with weighted voting rights) and 8A.24 (relating to matters requiring voting on a one vote per share basis) throughout the year; (4) review and monitor the management of conflicts of interests and make a recommendation to the board on any matter where there is a potential conflict of interest between the issuer, a subsidiary of the issuer and/or shareholders of the issuer (considered as a group) on one hand and any beneficiary of WVR on the other; (5) review and monitor all risks related to the issuer's WVR structure; (6) make a recommendation to the board as to the appointment or removal of the Compliance Adviser; (7) seek to ensure effective and on-going communication between the issuer and its shareholders; (8) report on the work of the committee on at least a half-yearly and annual basis covering all areas of its terms of reference; and (9) to disclose, on a comply or explain basis, its recommendations to the board in respect of the matters in (4) to (6) above.

INFORMATION ABOUT THE [REDACTED]

As we have [REDACTED] of our Shares [REDACTED] of the Hong Kong Listing Rules as a Grandfathered Greater China Issuer, we will not be subject to, among others, the above provisions of the Hong Kong Listing Rules with respect to weighted voting rights structure as set out under Rule 19C.12 of the Hong Kong Listing Rules. This may afford lower level of shareholder protection to our Shareholders.

Compliance Adviser

We have appointed Haitong International Capital Limited as our compliance adviser, or the Compliance Adviser, upon [REDACTED] of our Shares on the Hong Kong Stock Exchange in compliance with Rule 3A.19 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the Compliance Adviser will provide advice to us when consulted by us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where we propose to use [REDACTED] of the [REDACTED] in a manner different from that detailed in this document, or where our business activities, developments or results deviate from any estimate, or other information in this document; and
- where the Hong Kong Stock Exchange makes an inquiry to our Company under Listing Rule 13.10.

The term of the appointment shall commence on the [REDACTED] and end on the date on which we distribute our annual report in respect of our financial results for the first full fiscal year commencing after the [REDACTED].

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

In preparation for [REDACTED], we have sought the following waivers and exemptions from strict compliance with the relevant provisions of the Hong Kong Listing Rules, the SFO and the Companies (WUMP) Ordinance and have applied for a ruling under the Takeovers Codes:

Relevant rule(s) waived	Subject matter
Section 4.1 of the Introduction to the Takeovers Codes	Determination of whether a company is a "public company in Hong Kong"
Part XV of the SFO	Disclosure of interests
Paragraphs 41(4) and 45 of Appendix 1A to the Hong Kong Listing Rules and Practice Note 5 of the Hong Kong Listing Rules	Disclosure of interests information
Rule 19C.07(3) and Rule 19C.07(7) of the Hong Kong Listing Rules	Shareholder protection requirements in relation to approval, removal and remuneration of auditor and requisition of extraordinary general meeting by shareholders
Rule 4.04(2) and Rule 4.04(4)(a) of the Hong Kong Listing Rules	Investments and acquisitions after the Track Record Period
Rule 4.04(3)(a), Rule 4.05 and Rule 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to Companies (WUMP) Ordinance	Disclosure requirements under the Accountants' Report
Paragraphs 33(2), 33(3), 46(2), 46(3) of Appendix 1A to the Hong Kong Listing Rules	Document disclosure requirements under the Hong Kong Listing Rules and Companies (WUMP) Ordinance in respect of directors' and five highest individuals' emoluments
Paragraphs 13, 26, 27 and 29(1) of Appendix 1A to the Hong Kong Listing Rules and Paragraphs 10, 11, 14, 25 and 29 of the Third Schedule to Companies (WUMP) Ordinance	Other document disclosure requirements under the Hong Kong Listing Rules and Companies (WUMP) Ordinance
[REDACTED]	
Rule 2.07A of the Hong Kong Listing Rules	Corporate communications

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS
FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE**

Relevant rule(s) waived	Subject matter
Rule 13.25B of the Hong Kong Listing Rules	Monthly returns
Practice Note 15 of the Hong Kong Listing Rules	Rules related to spin-off listings
[REDACTED]	
Paragraph 28(1)(b)(i) to (v) of Appendix 1A to the Hong Kong Listing Rules	Disclosure requirements in respect of suppliers and customers

[REDACTED]

Not a Public Company in Hong Kong

Section 4.1 of the Introduction to the Takeovers Codes provides that the Takeovers Codes applies to takeovers, mergers and share buy-backs affecting public companies in Hong Kong, companies with a primary listing of their equity interests in Hong Kong. According to the Note to Section 4.2 of the Introduction to the Takeovers Codes, a Grandfathered Greater China Issuer within the meaning of Rule 19C.01 of the Hong Kong Listing Rules with a secondary listing on the Hong Kong Stock Exchange will not normally be regarded as a public company in Hong Kong under Section 4.2 of the Introduction to the Takeovers Codes.

We have applied for, and the SFC [has granted], a ruling that we are not a “public company in Hong Kong” for the purposes of the Takeovers Codes. Therefore, the Takeovers Codes does not apply to us. In the event that the bulk of trading in our Shares migrates to Hong Kong such that we would be treated as having a dual-primary listing pursuant to Rule 19C.13 of the Hong Kong Listing Rules, the Takeover Codes will apply to us.

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS
FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE**

Disclosure of Interests under Part XV of the SFO

Part XV of the SFO imposes duties of disclosure of interests in Shares. Under the U.S. Exchange Act, which we are subject to, any person (including directors and officers of the company concerned) who acquires beneficial ownership, as determined in accordance with the rules and regulations of the SEC and which includes the power to direct the voting or the disposition of the securities, of more than 5% of a class of equity securities registered under Section 12 of the U.S. Exchange Act must file beneficial owner reports with the SEC, and such person must promptly report any material change in the information provided (including any acquisition or disposition of 1% or more of the class of equity securities concerned), unless exceptions apply. Therefore, compliance with Part XV of the SFO would subject our corporate insiders to a second level of reporting, which would be unduly burdensome to them, would result in additional costs and would not be meaningful, since the statutory disclosure of interest obligations under the U.S. Exchange Act that apply to us and our corporate insiders would provide our investors with sufficient information relating to the shareholding interests of our significant shareholders.

We have applied for, and the SFC [has granted], a relevant partial exemption under section 309(2) of the SFO to us, our Substantial Shareholders, directors and chief executives from strict compliance with the provisions of Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO), on the conditions that (i) the bulk of trading in the Shares is not considered to have migrated to Hong Kong on a permanent basis in accordance with Rule 19C.13 of the Hong Kong Listing Rules; (ii) all disclosures of interests filed with the SEC are also filed with the Hong Kong Stock Exchange as soon as practicable, which will then publish such disclosures in the same manner as disclosures made under Part XV of the SFO; and (iii) we will advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the U.S. and any significant changes in the volume of our worldwide share turnover that takes place on the Hong Kong Stock Exchange. This exemption may be reconsidered by the SFC in the event there is a material change in information provided to the SFC.

Disclosure of Interests Information

Part XV of the SFO imposes duties of disclosure of interests in Shares. Practice Note 5, paragraphs 41(4) and 45 of Appendix 1A to the Hong Kong Listing Rules require the disclosure of interests information in respect of shareholders' and directors' interests to be included in this document.

We have applied for, and the SFC [has granted] a partial exemption from strict compliance with Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) as set out above under sub-section headed "Disclosure of Interests under Part XV of SFO." The U.S. Exchange Act and the rules and regulations promulgated thereunder require disclosure of interests by shareholders that are broadly equivalent to Part XV of the SFO. Relevant disclosure in respect of the substantial shareholder's interests can be found in the section headed "Major Shareholders" in this document.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

We undertake to file with the Hong Kong Stock Exchange, as soon as practicable, any declaration of shareholding and securities transactions filed with the SEC. We further undertake to disclose in present and future [REDACTED] in the same manner any shareholding interests as disclosed in an SEC filing and the relationship between our directors, officers, members of committees and their relationship to any controlling shareholder.

On the basis above, we have applied for, and the Hong Kong Stock Exchange [has granted] us, a waiver from the requirements under Practice Note 5, paragraphs 41(4) and 45 of Appendix 1A to the Hong Kong Listing Rules.

Shareholder Protection

For an overseas issuer seeking a secondary listing on the Hong Kong Stock Exchange, Rule 19.30(1)(b) of the Hong Kong Listing Rules requires the overseas issuer’s primary listing is or is to be on an exchange where the standards of shareholder protection are at least equivalent to those provided in Hong Kong. Rule 19C.06 of the Hong Kong Listing Rules provides that Appendix 3 and Appendix 13 to the Hong Kong Listing Rules do not apply to an overseas issuer that is a Non-Greater China Issuer (as defined in the Hong Kong Listing Rules) or a Grandfathered Greater China Issuer (as defined in the Hong Kong Listing Rules) seeking a secondary listing under Chapter 19C of the Hong Kong Listing Rules. Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange will consider that a Non-Greater China Issuer or a Grandfathered Greater China Issuer seeking a secondary listing has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules if it has met the shareholder protection standards by reference to eight criteria set out in Rule 19C.07 of the Hong Kong Listing Rules. We are a Grandfathered Greater China Issuer under Chapter 19C of the Hong Kong Listing Rules.

Approval, removal and remuneration of auditors

Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors must be approved by a majority of the Qualifying Issuer’s members or other body that is independent of the issuer’s board of directors and the note to Rule 19C.07(3) of the Hong Kong Listing Rules provides that an example of such an independent body is the supervisory board in systems that have a two tier board structure (the “**Auditors Provision**”). However, our Articles of Association do not contain an equivalent Auditors Provision. We have applied for, and the Hong Kong Stock Exchange [has granted] us, a waiver from the strict compliance with Rule 19C.07(3) of the Hong Kong Listing Rules on the following conditions and basis:

- While our Articles of Association do not contain an equivalent Auditors Provision, Article 153 of our Articles of Association provides that our board shall appoint an auditor of our Company who shall hold office until the board appoints another

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

auditor and may fix their remuneration. The Board has formally delegated this function to the Audit Committee, and such function is entrenched in the charter of our Audit Committee.

- The charter of our Audit Committee provides that it is directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor, which is in accordance with the requirements of the applicable U.S. securities laws and Nasdaq Listing Rules requirement. Rule 10A-3(b)(2) under the U.S. Securities Act and Rule 5605(c) of the Nasdaq Stock Market Rules requires that the audit committee of each listed issuer must be directly responsible for the appointment, compensation, retention and oversight of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed issuer.
- The Audit Committee is an independent body of our board on the basis of the independence requirements as set out in applicable U.S. federal securities laws and the Nasdaq Listing Rules. Our Audit Committee comprises of three members, all of whom are independent directors as required by the U.S. Sarbanes-Oxley Act and applicable Nasdaq Listing Rules. Section 5605(c)(2) of the Nasdaq Listing Rules and Item 16A of Form 20-F require that at least one member of the Audit Committee must meet the Nasdaq standard for audit committee financial expert. At present, all three members of our Audit Committee meets this standard.
- We and our auditors are also subject to important safeguards with respect to auditor qualifications and independence:
 - (a) we adhere to the SEC's Regulations S-X, which addresses qualifications of auditors, including independence requirements;
 - (b) KPMG Huazhen LLP, who have performed audits of our consolidated financial statements, and audits of our internal control over financial reporting thereof, is subject to the International Ethics Standards Board of Accountants Code of Ethics and the SEC's independence rules. Partners providing audit services to us are also subject to Partner Rotation Requirements under the International Ethics Standards Board of Accountants Code of Ethics; and
 - (c) To ensure that auditors are independent of their audit clients, Rule 10A-3 promulgated under the U.S. Exchange Act mandates that the audit committee, whose voting members must consist entirely of independent directors, be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged (including resolution of disagreements between management and the auditor regarding financial reporting). We believe that this rule effectively prohibits our board from revoking the power delegated to our Audit Committee relating to the operation of the Auditors Provision.

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS
FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE**

- Since our listing on the Nasdaq in 2016, we have adopted the practice of putting forward a resolution at each annual general meeting for shareholders to confirm the appointment of the auditors. The resolution in each year has been passed in favor and approved.
- We are seeking [REDACTED] on the Hong Kong Stock Exchange under Chapter 19C of the Hong Kong Listing Rules.
- The disclosure of the basis of the waiver is set out in this document.

Requisition of extraordinary general meeting by shareholders

Rule 19C.07(7) of the Hong Kong Listing Rules requires that members holding a minority stake in the Qualifying Issuer's total number of issued shares must be able to requisition an extraordinary general meeting and add resolutions to a meeting agenda. The minimum stake required to do so must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of the Qualifying Issuer.

Article 58(2) of our Articles of Association provides for the requisition of shareholders' meetings, including the following provisions:

- (a) for so long as STT GDC has the right to appoint any director pursuant to the Articles of Association, any one or more shareholders (other than STT GDC or any affiliate of STT GDC controlled by STT GDC) holding not less than one-third of the issued Class A ordinary shares of our Company (excluding any Class A ordinary shares beneficially owned by STT GDC or any affiliate of STT GDC controlled by STT GDC) shall have the right to requisition an extraordinary general meeting; and
- (b) for so long as STT GDC ceases to have the right to appoint any director pursuant to our Articles of Association, any one or more shareholders (including STT GDC or any affiliate of STT GDC controlled by STT GDC) holding not less than one-third of the issued Class A ordinary shares of our Company shall have the right to requisition an extraordinary general meeting.

In addition, Article 61(2) of our Articles of Association provides that at any general meeting of our Company, two (2) members entitled to vote and present in person or by proxy or (in the case of a member being a corporation) by its duly authorised representative representing not less than one-third in nominal value of the total issued voting shares in our Company throughout the meeting shall form a quorum for all purposes.

We will amend the Articles of Association after [REDACTED] to comply with Rule 19C.07(7) of the Hong Kong Listing Rules. However, it would be unduly burdensome for us to have to specially convene a meeting of our shareholders for the purpose of amending the Articles of Association given that we are already listed on another exchange.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

We have applied for, and the Hong Kong Stock Exchange [has granted], a waiver from strict compliance with Rule 19C.07(7) of the Hong Kong Listing Rules, subject to the condition that:

- (a) we will put forth resolutions at or before the next annual general meeting of our Company in 2021 after [REDACTED] to revise the Articles of Association, so that (i) in addition to the existing provisions of Article 58(2), a provision will be added to provide that the minimum stake required for any shareholder(s) to requisition an extraordinary general meeting and the addition of resolutions to the general meeting will be 10% of the voting rights, on a one vote per share basis, in the share capital of our Company; and (ii) the quorum for a general meeting of our Company pursuant to the amended provision in (i) above will be 10% of the aggregate voting power of our Company on a one vote per share basis;
- (b) we have obtained irrevocable undertakings from Mr. Huang, STT GDC and EDC Group Limited prior to [REDACTED] to vote in favor of the aforementioned proposed resolutions with a view to ensuring that there may be adequate votes in favor of such resolutions;
- (c) our board and directors undertake to convene general meetings at the request of shareholders holding not less than 10% of the voting rights, on a one vote per share basis, from [REDACTED] until the next annual general meeting is convened or if the shareholders do not approve the above proposed amendments to the Articles of Association. In addition, we will continue to put forth a resolution for the proposed amendment at the following annual general meeting each year until such resolution is passed; and
- (d) disclosure of the basis of this waiver is set out in this document.

Investments and Acquisitions after the Track Record Period

Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules require that, among other things, the accountants' report to be included in a [REDACTED] includes the results and balance sheet of any business or subsidiary acquired, agreed to be acquired or proposed to be acquired since the date to which the latest audited financial statements of the issuer have been made in respect of each of the three financial years immediately preceding the issue of this document.

Pursuant to note 4 of Rule 4.04(4)(b) of the Hong Kong Listing Rules, the Hong Kong Stock Exchange may consider granting a waiver of the requirements under Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances and subject to certain conditions set out thereunder.

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From time to time, we make strategic investments in the ordinary and usual course of business to further our business objectives.

Ordinary course Investment since June 30, 2020

Since June 30, 2020 and up to the Latest Practicable Date, we have made a minority investment in a company (the “**Investment**”). Details of the Investment is set out below:

<u>Investment⁽¹⁾</u>	<u>Consideration</u> (approximately RMB million)	<u>Percentage of shareholding/ equity interest</u>	<u>Principal business activities</u>
Company A.....	4.5	25%	Provision of cloud-related services

Note:

(1) None of the core connected persons at the level of our Company is a controlling shareholder of the Investment.

We confirm that the investment amount for the Investment is the result of commercial arm’s length negotiations, based on factors including market dynamics and a mutually agreed valuation.

Conditions for granting the waiver and its scope in respect of the Investment

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has granted], a waiver from strict compliance with Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules in respect of the Investment on the following grounds:

Ordinary and usual course of business

We make strategic equity investments in business activities relating to our business as part of our ordinary and usual course of business. We have a history of making investments and have conducted a substantial number of investments during the Track Record Period.

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The percentage ratios of the Investment are all less than 5% by reference to the most recent fiscal year of the Track Record Period

The asset ratio, revenue ratio, consideration ratio and gross profit ratio (as an alternative test) calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules for the Investment are all less than 5% by reference to the most recent fiscal year of the Track Record Period. As our Company recorded net loss for the year ended December 31, 2019, the calculation of profit ratio in accordance with Rule 14.13 of the Hong Kong Listing Rules would produce an anomalous result. Gross profit ratio is used as an alternative test in respect profit test as suggested under FAQ Series 1, FAQ No. 53.

Accordingly, we believe that the Investment has not resulted in any significant change to our financial position since June 30, 2020, and all information that is reasonably necessary for [REDACTED] to make an informed assessment of our activities or financial position has been included in this document. As such, a waiver from compliance with the requirements under Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would not prejudice the interests of the investing public.

We are neither able to exercise any control, nor have any significant influence, over the underlying company or business

We only hold and/or will only hold a minority equity interest in the Investment and do not control its board of directors; and we currently expect this to remain the case for any subsequent investments. We are not involved in the day to day management of the Investment and we only enjoy minority strategic shareholder rights. The minority rights given to us are generally commensurate to our status as a minority shareholder and are for the protection of our interests as a minority stakeholder in the Investment. These rights are neither intended, nor are they sufficient to compel or require them to prepare or to disclose in this document audited financial statements for the purposes of compliance with the relevant requirements under Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules. These disclosures are also not required pursuant to applicable rules of the SEC. It could be prejudicial and potentially harmful to our portfolio relationships and commercial interests to do so. In addition, as the portfolio company is private, disclosing this information could harm its interests and bring it into an unfavorable competitive position. As we do not expect the Investment to result in any material changes to our financial position after the Track Record Period, we do not believe the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules would prejudice the interest of the investors to assess us.

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Alternative disclosure of the Investment in this document

We have provided alternative information in connection with the Investment in this document. Such information includes that which would be required for a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules that our directors consider to be material, including, for example, descriptions of the principal business activities, the investment amount, and a statement that none of the core connected persons at the level of our Company is a controlling shareholder of the Investment. For the avoidance of doubt, we have excluded disclosure on the name of the Investment in this document because (i) we have entered into confidentiality agreements with the Investment and do not have consent for such disclosure and/or (ii) given the competitive nature of the industries in which we operate, disclosure of the name of the relevant company in this document is commercially sensitive and may jeopardize our ability to consummate the Investment; and/or (iii) it is commercially sensitive to disclose the identities of the companies the Company invested in or propose to invest in to avoid its competitors anticipating the strategy. Since the relevant percentage ratio of the Investment is less than 5% by reference to the most recent fiscal year of our Track Record Period, the current disclosure is adequate for [REDACTED] to form an informed assessment of us. We do not expect to use any [REDACTED] from [REDACTED] to fund such Investment.

Acquisitions since June 30, 2020

Since June 30, 2020 and up to the Latest Practicable Date, we have made or proposed to make a number of acquisitions, and we expect to continue to enter into further acquisitions subsequent to the Latest Practicable Date and prior to the date of this document, collectively, the Acquisitions. Details of the Acquisitions up to the Latest Practicable Date include:

Targets^{(1) (2)}	Equity consideration	Percentage of shareholding/ equity interest	Principal business activities
	(approximately RMB million)		
Company B	15.0	100%	Data center project company
Company C ⁽³⁾	580.0	82%	Data center project company
Company D ⁽⁴⁾	160.0	88%	Investment company holding property for the data center project
Company E	8.5	100%	Engineering and renovation company
Company F	2.5	100%	Company holding assets in a data center project
Company G	90.0	100%	Investment company holding a data center project company

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Targets^{(1) (2)}	Equity consideration (approximately RMB million)	Percentage of shareholding/ equity interest	Principal business activities
Beijing Ruiwei Cloud Computing Science & Technology Co. Ltd.	797.3	100%	Data center project company
Company H.....	5.1	100%	Data center project company
Company I and Company J ⁽⁵⁾	3,200.0	100%	Data center project companies

Notes:

- (1) Given that the completion of some of the above Acquisitions is subject to conditions including capital contribution in phases according to the negotiation with the counterparties, and the equity consideration is subject to adjustment pursuant to the definitive transaction documents, the information set out above might be subject to further changes.
- (2) None of the core connected persons at the level of our Company is a controlling shareholder of the Target.
- (3) Company C is acquired through purchase of equity and capital increase by our Company through a joint venture owned as to 58% by the Company and as to 42% by an independent third party.
- (4) Company D is acquired by our Company through capital increase through non-wholly owned subsidiaries owned by our Company and independent third parties.
- (5) We have made a binding offer for the acquisition of Company I and Company J which has been accepted by the shareholders of these companies. However, we have not yet entered into definitive agreements.

The acquisition amounts for the Acquisitions are the result of commercial arm's length negotiations, based on factors including stock price (for public companies), market dynamics, a mutually agreed valuation, and/or capital required for the target company's operations.

Conditions to the waiver granted by the Hong Kong Stock Exchange

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has granted], a waiver from strict compliance with Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules in respect of the Acquisitions on the following grounds:

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The percentage ratios of the acquisition of Company F and Company G aggregated together, and each of the remaining Acquisitions are all less than 5% by reference to the most recent fiscal year of our Track Record Period

The transactions for the acquisition of Company F and Company G were entered into with the same counterparty and were aggregated for the purpose of calculation of the percentage ratios under Rule 14.07 of the Hong Kong Listing Rules. The asset ratio, revenue ratio, consideration ratio and gross profit ratio (as an alternative test) calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules for the acquisition of Company F and Company G aggregated together, and for each of the remaining Acquisitions are all less than 5% by reference to the most recent fiscal year of the Track Record Period. As our Company recorded net loss for the year ended December 31, 2019, the calculation of profit ratio in accordance with Rule 14.13 of the Hong Kong Listing Rules would produce an anomalous result. Gross profit ratio is used as an alternative test in respect profit test as suggested under FAQ Series 1, FAQ No. 53.

To the best of our knowledge, other than the transactions for the acquisition of Company F and Company G, which were entered into with the same counterparty, the remaining Acquisitions are not subject to aggregation under Rule 14.22 of the Hong Kong Listing Rules. None of the remaining Acquisitions should be aggregated because (i) each of those Acquisitions involves the acquisition of interests in a different target company; and (ii) they were entered into, or are expected to be entered into, with different counterparties.

Accordingly, the Acquisitions have not resulted in any significant change to our financial position since June 30, 2020, and all information that is reasonably necessary for the [REDACTED] to make an informed assessment of our activities or financial position has been included in this document. As such, a waiver from compliance with the requirements under Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would not prejudice the interests of the investing public.

The historical financial information of the Targets is not available and would be unduly burdensome to obtain or prepare

The Targets do not have historical financial information which is readily available for disclosure in this document in accordance with the Hong Kong Listing Rules. In addition, it will require considerable time and resources for us and our reporting accountants to fully familiarize ourselves with the management accounting policies of the Targets and compile necessary financial information and supporting documents for disclosure in this document. As such, it would be impractical and unduly burdensome for us to disclose the audited financial information of the Targets as required under Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules.

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In addition, having considered the Acquisitions are immaterial and that we do not expect the Acquisitions to have any material effect on our business, financial condition or operations, it would not be meaningful and would be unduly burdensome for us to prepare and include the financial information of the Targets during the Track Record Period in this document. As we do not expect the Acquisitions to result in any material changes to our financial position after the Track Record Period, we do not believe the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules would prejudice the interest of the investors to assess us.

Alternative disclosure of the Acquisitions in this document

We have provided alternative information in this section in connection with the Acquisitions. Such information includes that which would be required for a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules that our directors consider to be material, including, for example, descriptions of the principal business activities, the consideration and a statement that none of the core connected persons at the level of our Company is a controlling shareholder of any of the Targets. For the avoidance of doubt, the names of some of the Targets are not disclosed in this document because (i) we have entered into confidentiality agreements with these companies and do not have consent from them for such disclosure and/or (ii) given the competitive nature of the industries in which we operate, disclosure of the names of the relevant companies in this document is commercially sensitive and may jeopardize our ability to consummate the proposed Acquisitions; and/or (iii) it is commercially sensitive to disclose the identities of the companies we invested in or propose to invest in to avoid our competitors anticipating our strategy. Since the relevant percentage ratio of each Acquisition is less than 5% by reference to the most recent fiscal year of our Track Record Period, the current disclosure is adequate for [REDACTED] to form an informed assessment of us. We do not expect to use any [REDACTED] from [REDACTED] to fund such Acquisitions.

Accountants' Report

Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules and paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance set out certain content requirements in respect of an accountants' report included in a [REDACTED].

Rule 4.04(3)(a) of the Hong Kong Listing Rules requires the accountants' report appended to the document to include, among others, the statement of financial position of the issuer and, if the issuer is itself a holding company, the consolidated statement of financial position of the issuer and its subsidiaries in each case as of the end of each of the three financial years to which the latest audited financial statements of the issuer have been made up.

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Rule 4.05 of the Hong Kong Listing Rules states that the report on results and financial position under Rules 4.04(1) to 4.04(4) of the Hong Kong Listing Rules must include the disclosures required under the relevant accounting standards adopted and disclose separately, among others, an aging analysis of accounts receivable and an aging analysis of accounts payable.

Rule 4.13 of the Hong Kong Listing Rules states that the relevant standards will normally be those current in relation to the last financial year reported on and, wherever possible, appropriate adjustments must be made to show profits for all periods in accordance with such standards.

Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance requires the accountants' report of the issuer include, among other things, the issuer's (other than its subsidiaries') assets and liabilities.

Certain historical financial information required to be disclosed under the Hong Kong requirements and the Third Schedule to the Companies (WUMP) Ordinance are not required to be disclosed under the applicable standards of the U.S. GAAP or SEC regulatory framework, in particular,

- (i) the following specific detail concerning financial information set out in Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules:
 - balance sheets at a company level;
 - aging analysis of accounts receivables;
 - aging analysis of accounts payables; and
 - adjustments made to show profits of all periods in accordance with the relevant accounting standards in relation to the last fiscal year reported on; and
- (ii) balance sheets at a company level required under paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance.

In accordance with U.S. GAAP, we have applied the modified retrospective method or prospective method to account for the impact of the adoption of certain new accounting standards in the Track Record Period. Under the modified retrospective method and prospective method adopted by us, comparative periods in the latest consolidated financial statements are not retrospectively adjusted.

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During the Track Record Period, we adopted, among other new accounting standards that did not have a material impact on our consolidated financial statements, Accounting Standards Update 2014-09 "Revenue from Contracts with Customers" and related amendments and implementation guidance, or Accounting Standards Codification ("ASC") 606 and Accounting Standards Update 2016-02 "Lease", including certain transitional guidance and subsequent amendments, or ASC 842. The relevant accounting policies upon the adoption of these new accounting standards are disclosed in the Accountants' Report in Appendix I to this document.

ASC 606 was adopted on January 1, 2018 using 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 as of January 1, 2018. We elect to apply this guidance retrospectively only to contracts that are not completed contracts as of January 1, 2018. The comparative information has not been adjusted and continues to be reported under ASC 605 Revenue Recognition. We made an immaterial adjustment to decrease the opening balance of accumulated deficit by RMB0.7 million as of January 1, 2018.

ASC 842 was adopted on January 1, 2019 using the modified retrospective transition method by applying the new lease standard to all leases existing as of January 1, 2019, the date of initial application, and no adjustments were made to the comparative periods financial information. We have elected the package of the transition practical expedients, including (1) not to reassess whether any expired or existing contracts, including land easements that were not previously accounted for as leases, are or contain leases, (2) not to reassess the lease classification for any expired or existing leases, and (3) not to reassess initial direct costs for any existing leases. As a practical expedient, we have elected that for all leases, where it is the lessee, not to separate non-lease components from lease components and instead to account for all lease and non-lease components associated with each lease as a single lease component. We did not elect the practical expedient to use hindsight for leases existing at the adoption date. Adoption of the standard had a significant impact on our financial results, including the (1) recognition of new right-of-use ("ROU") assets and liabilities for operating leases; (2) reclassification of intangible assets for favorable leases for operating leases to ROU assets; and (3) de-recognition of other financing obligations and construction in progress for assets under construction in build-to-suit lease arrangements. The adoption of ASC 842 does not have impact to the accumulated deficit as of January 1, 2019.

The following alternative disclosures with respect to certain items identified above which are relevant to us have been included in this document:

- disclosure of the accounting policy for accounts receivable and allowance for doubtful accounts in the Accountants' Report in Appendix I to this document;
- accounting policies as a result of the adoption of ASC 606, which came into effect on January 1, 2018 and was applied retrospectively by our Company as set out in Appendix I to this document;

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- accounting policies adopted prior to and upon the adoption of ASC 842 as well as the impact of adoption, if any, to the consolidated balance sheet as of the initial application date of January 1, 2019 as set out in Appendix I to this document;
- disclosure of the relevant accounting policies adopted for the Track Record Period in the Accountants' Report in Appendix I to this document.

As this document has included the above alternative disclosures and the disclosure in this document contains all information which is necessary for the investing public to make an informed assessment of the business, asset and liability, financial position, [REDACTED] position, management and prospect of our Group, we believe that it would be of no material value to Hong Kong investing public for the Accountants' Report in Appendix I to this document to include certain required information pursuant to Rules 4.04(3), 4.05(2) and 4.13 of the Hong Kong Listing Rules and paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance and the non-disclosure of such information is not material and will not prejudice the interests of the investing public.

On the basis of the matters set out above and on the ground that it would be unduly burdensome to us to include certain disclosures as required under Rules 4.04(3), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance, we have applied for, and the Hong Kong Stock Exchange [has granted], a waiver from strict compliance with Rules 4.04(3)(a), 4.05 and 4.13 of the Hong Kong Listing Rules, and we have applied for an exemption from strict compliance with Paragraph 31(3)(b) of the Third Schedule to the Companies (WUMP) Ordinance. The SFC [has granted] an exemption referred to above on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this document will be issued on or before [REDACTED].

[REDACTED] Disclosure Requirements under the Hong Kong Listing Rules in Respect of Directors' and Five Highest Individuals' Emoluments

Paragraph 33(2) of Appendix 1A to the Hong Kong Listing Rules requires [REDACTED] to include information in respect of directors' emoluments during the three financial years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, Paragraph 46(2) of Appendix 1A to the Hong Kong Listing Rules requires [REDACTED] to include the aggregate of the remuneration paid and benefits in kind granted to the directors of the issuer in respect of the last completed financial year, and Paragraph 46(3) of Appendix 1A to the Hong Kong Listing Rules requires information in relation to an estimate of the aggregate remuneration and benefits in kind payable to directors in respect of the current financial year to be set out in [REDACTED].

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Paragraph 33(3) of Appendix 1A to the Hong Kong Listing Rules requires [REDACTED] to include information with respect to the five individuals whose emoluments were highest in us for the year if one or more individuals whose emoluments were the highest have not been included under paragraph 33(2) of Appendix 1A to the Hong Kong Listing Rules.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has granted], a waiver from strict compliance with paragraphs 33(2), 33(3), 46(2) and 46(3) of Appendix 1A to the Hong Kong Listing Rules. In compliance with our annual reporting requirements with the SEC, we are required to report the aggregate amount of compensation paid, and benefits in kind granted, to our directors and members of our administrative, supervisory or management body (unless individual disclosure is required by the Cayman Islands, our jurisdiction of incorporation or otherwise made public). We provide aggregate compensation disclosure in our annual report on Form 20-F. As such, the additional disclosure would not provide additional meaningful disclosure for [REDACTED] in relation to the directors' emoluments.

The Relevant Requirements under the Hong Kong Listing Rules and the Companies (WUMP) Ordinance in relation to content requirements in respect of this document

We have applied for, and the Hong Kong Stock Exchange (in respect of the Hong Kong Listing Rules) and the SFC (in respect of the Companies (WUMP) Ordinance) [have granted], waivers and exemptions from strict compliance with certain content requirements in respect of this document as follows:

- ***Alterations to share capital and particulars of any commissions, discounts and brokerages:*** Paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraphs 11 and 14 of the Third Schedule of the Companies (WUMP) Ordinance require [REDACTED] to include the particulars of any alterations of our capital within two years immediately preceding the issue of [REDACTED] and the particulars of any commissions, discounts, brokerages or other special terms granted within two years immediately preceding the issue of [REDACTED] in connection with the issue or sale of any of our capital. We have approximately 180 subsidiaries and consolidated affiliated entities. It would be unduly burdensome for us to procure this information in respect of non-Major Subsidiaries as we would have to incur additional costs and devote additional resources in compiling and verifying the relevant information for such disclosure, which would not be material or meaningful to [REDACTED]. We have identified 36 entities that we consider to be the Major Subsidiaries that are primarily responsible for our track record results. The Major Subsidiaries are selected taking into account the strategic and operational significance of such entities (including all the VIEs that hold our Group's internet data center licenses), and the financial contribution (in terms of revenue and total assets of such entities to our Group). By way of illustration, (i) the aggregated revenue of the Major Subsidiaries accounted for more than 90% (after elimination of inter-company transactions) of the revenue of the Company for the year ended

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December 31, 2019; and (ii) the aggregated total assets of the Major Subsidiaries accounted for more than 60% and more than 55% (after elimination of inter-company transactions) of the total assets of the Company as of December 31, 2019 and as of June 30, 2020, respectively. Accordingly, our remaining subsidiaries and consolidated affiliated entities are individually insignificant to our overall results. For further details, see “History and Corporate Structure — Our Major Subsidiaries and Operating Entities.” As such, we have disclosed the particulars of the changes in our share capital and the Major Subsidiaries in the section headed “Statutory and General Information — Further Information about Us” in Appendix IV to this document and particulars of the commissions, discounts and brokerage fee in respect of our Major Subsidiaries and us are set out in the section headed “Statutory and General Information — Other Information — Miscellaneous” of Appendix IV to this document.

- ***Particulars of our capital or debentures of any member of our Group which is under option:*** Paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules requires us to set out in the document particulars of any capital of any of member of our Group that is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee. Paragraph 10 of Part 1 of Third Schedule to the Companies (WUMP) Ordinance further requires us to set out in the document, among other things, details of the number, description and amount of any of our shares or debentures which any person has, or is entitled to be given, an option to subscribe for, together with the certain particulars of the option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration given or to be given (if any) and the names and addresses of the persons to whom it was given.

In relation to our Company, the only options over the capital or debentures are those issued under a share incentive plan adopted in 2014 (the “**2014 Plan**”) and a share incentive plan adopted in 2016 (the “**2016 Plan**”), which are not subject to Chapter 17 of the Hong Kong Listing Rules pursuant to Rule 19C.11 of the Hong Kong Listing Rules. The Share Incentive Plans provide for the granting of options, restricted shares and share appreciation rights. The waiver and exemption therefore only relates to the options that are granted under the Share Incentive Plans. As of June 30, 2020, (i) the number of shares which may be issued pursuant to all outstanding options under the 2014 Plan is 669,000, which only accounted for approximately 0.05% of our total outstanding Shares as of June 30, 2020; and (ii) the number of shares that may be issued pursuant to all outstanding restricted shares units under the 2016 Plan is 29,189,248, which only accounted for approximately 2.28% of our total outstanding Shares as of June 30, 2020.

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Details of the Share Incentive Plans, including outstanding restricted share units, options and other rights held by our directors and executive officers, are set out in the section headed “Directors, Senior Management and Employees — Compensation — Share Incentive Plans,” with details as required by applicable U.S. rules and regulations. However, the details with respect to options are not in strict compliance with the requirements of paragraph 27 of Appendix 1A to the Hong Kong Listing Rules and paragraph 10 of Part 1 of Third Schedule to the Companies (WUMP) Ordinance. In addition, the Share Incentive Plans are not subject to Chapter 17 of the Hong Kong Listing Rules, as it is not applicable pursuant to Rule 19C.11 of the Hong Kong Listing Rules.

Having considered the background that (a) the SFC [has granted] a partial exemption from strict compliance with Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) in respect of disclosure of shareholders’ interests; (b) the current disclosure in this document (including options granted to directors) as set out in the section headed “Directors, Senior Management and Employees — Compensation — Share Incentive Plans,” is substantially the same as that set out in our 20-F filings and complies with applicable U.S. laws and regulations; (c) the details of the options have not been disclosed in any of our filings with the U.S. Securities and Futures Commission, and (d) our Share Incentive Plans are not subject to Chapter 17 of the Hong Kong Listing Rules as it is not applicable pursuant to Rule 19C.11 of the Hong Kong Listing Rules, we have applied to the Hong Kong Stock Exchange (in respect of the Hong Kong Listing Rules) and the SFC (in respect of the Companies (WUMP) Ordinance) for a waiver and/or exemption from strict compliance with the above disclosure requirement in relation to the options granted pursuant to the Share Incentive Plans on the grounds that (i) the options account for an immaterial portion of all the outstanding shares of our Company, (ii) strict compliance with the above requirements or condition would be unduly burdensome, unnecessary and/or inappropriate for us, and (iii) such disclosure of information would not be material or meaningful to [REDACTED].

- ***Particulars of the authorized debentures:*** Paragraph 25 of the Third Schedule of the Companies (WUMP) Ordinance requires particulars of the authorized debentures of us and our subsidiaries in the document. It is unduly burdensome for us to procure this information as we have approximately 180 subsidiaries and consolidated affiliated entities and for the reasons as set out above. As such, only the particulars of debentures in respect of us and our Major Subsidiaries are set out in this document under the section headed “Statutory and General Information — Other Information — Miscellaneous” in Appendix IV to this document.

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- ***Information on subsidiaries whose profits or assets make material contribution to us:*** Paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraph 29 of the Third Schedule of the Companies (WUMP) Ordinance require the [REDACTED] to include information in relation to the name, date and country of incorporation, the public or private status and the general nature of the business, the issued capital and the proportion thereof held or intended to be held, of every company the whole of the capital of which or a substantial proportion thereof is held or intended to be held by us, or whose profits or assets make, or will make a material contribution to the figures in our auditors’ report or to our next financial statements. It is unduly burdensome for us to procure this information as we have approximately 180 subsidiaries and consolidated affiliated entities and disclosure of such information would not be material or meaningful to [REDACTED] for the reasons as set out above. As such, only the particulars in relation to our Major Subsidiaries are set out in this document under the section headed “Our History and Corporate Structure — Our Major Subsidiaries and Operating Entities” and “Statutory and General Information — Further Information about Us” in Appendix IV to this document, which should be sufficient for the [REDACTED] to make an informed assessment of us in their investment decision.

The exemption from strict compliance with the content requirements in respect of the Companies (WUMP) Ordinance set out above was granted by the SFC on the conditions that:

- (i) the particulars of such exemption are set out in this document; and
- (ii) this document will be issued on or before [REDACTED].

We confirm that all information necessary for the public to make an informed assessment of business, asset and liability, financial position, [REDACTED] position, management and prospect of the Group has been disclosed in this document, and that, as such, the granting of the waiver and exemption from strict compliance with the relevant content requirements under the Companies (WUMP) Ordinance and the Hong Kong Listing Rules will not prejudice the interest of the [REDACTED].

[REDACTED]

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS
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[REDACTED]

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS
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[REDACTED]

Corporate Communications

Rule 2.07A of the Hong Kong Listing Rules provides that a listed issuer may send or otherwise make available to the relevant holders of its securities any corporate communication by electronic means, provided that either the listed issuer has previously received from each of the relevant holders of its securities an express, positive confirmation in writing or the shareholders of the listed issuer have resolved in a general meeting that the listed issuer may send or supply corporate communications to shareholders by making them available on the listed issuer's own website or the listed issuer's constitutional documents contain provision to that effect, and certain conditions are satisfied.

The Company's ADSs have been listed on the Nasdaq since 2016. The Company has ADS holders globally and has a diverse shareholder base.

We do not currently produce or send out any corporate communications to our shareholders or holders of ADSs in printed form unless requested or in limited circumstances described below. We publicly file or furnish various corporate communications with the SEC which are posted on the SEC's website. Our annual reports on Form 20-F and periodic reports on Form 6-K and all amendments to these reports, are also available free of charge on our website as soon as reasonably practicable after they are filed with or furnished to the SEC. Further, we post our proxy materials on a publicly accessible website and send a notice including the proxy materials to our shareholders and holders of ADSs. Those documents are also available on our website.

Apart from the [REDACTED] that we will [REDACTED] in Hong Kong, the [REDACTED] will also be [REDACTED] to professional, institutional, corporate and other [REDACTED] in Hong Kong and elsewhere in the world. Given our diverse shareholder base and the potential number of countries in which our shareholders are located, it would not be practicable for us to send printed copies of all our corporate communications to all of our shareholders. Further, given the expected liquidity of the [REDACTED] of the Shares [REDACTED], it would also not be practicable for us to approach our shareholders individually to seek confirmation from them of their wish to receive corporate communications in electronic form, or to provide them with the right to request corporate communication in printed form instead.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

In order to maintain regular and effective communication with our shareholders, with effect from [REDACTED] on the Hong Kong Stock Exchange, we have or will make the following arrangements:

- We will issue all future corporate communications as required by the Hong Kong Listing Rules on our own website in English and Chinese, and on the Hong Kong Stock Exchange’s website in English and Chinese;
- We will continue to provide printed copies of notice including the proxy materials in English and Chinese to our shareholders at no costs; and
- We will also add to the “Investor Relations” page of our website which will direct [REDACTED] to all of our future filings with the Hong Kong Stock Exchange.

On the bases of the above, we have applied for, and the Hong Kong Stock Exchange [has granted] us, a waiver from strict compliance with the corporate communication requirements under Rule 2.07A of the Hong Kong Listing Rules.

Monthly Returns

Rule 13.25B of the Hong Kong Listing Rules requires a listed issuer to publish a monthly return in relation to movements in its equity securities, debt securities and any other securitized instruments, as applicable, during the period to which the monthly return relates. Pursuant to the Joint Policy Statement Regarding the Listing of Overseas Companies, or Joint Policy Statement, companies applying for a secondary listing may seek a waiver from Rule 13.25B subject to satisfying the waiver condition that the SFC [has granted] a partial exemption from strict compliance with Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) in respect of disclosure of shareholders’ interests. As we have obtained a partial exemption from the SFC, we have applied for, and the Hong Kong Stock Exchange [has granted], a waiver from strict compliance with Rule 13.25B of the Hong Kong Listing Rules. We will disclose information about share repurchases, if any, in our quarterly earnings releases and annual reports on Form 20-F which are furnished or filed with the SEC in accordance with applicable U.S. rules and regulations.

Three-year Restriction on Spin-offs

Rule 19C.11 of the Hong Kong Listing Rules provides that, among other things, paragraphs 1 to 3(b) and 3(d) to 5 of Practice Note 15 of the Hong Kong Listing Rules (“**Practice Note 15**”) do not apply to a Qualifying Issuer that has, or is seeking, a secondary listing on the Hong Kong Stock Exchange. Such exception is limited to circumstances where the spun-off assets or businesses are not to be listed on the Hong Kong Stock Exchange’s markets and the approval of shareholders of our Company is not required.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

Paragraph 3(b) of Practice Note 15 provides that [REDACTED] would not normally consider a spin-off application within three years of the date of [REDACTED] of our Company, given [REDACTED] of our Company will have been approved on the basis of our Company's portfolio of businesses at the time of [REDACTED], and that the expectation of investors at that time would have been that our Company would continue to develop those businesses.

While our Company does not have any specific plans with respect to segregating its current business or any potential acquisition or the timing or details of any potential spin-off listing on the Hong Kong Stock Exchange as of the date of this document, in light of our Company's overall business scale, we may consider spinning off one or more of our mature businesses through a listing on the Hong Kong Stock Exchange (each a "Potential Spin-off") within three years after [REDACTED], if there are clear commercial benefits both to our Company and the businesses to be potentially spun-off and there will be no adverse impact on the interests of shareholders of our Company. As of the Latest Practicable Date, we have not identified any target for a potential spin-off.

We have applied for, and the Hong Kong Stock Exchange [has granted] a waiver from strict compliance with the requirements in paragraph 3(b) of Practice Note 15 to the Hong Kong Listing Rules, on the following grounds:

- no shareholders' approval with respect to a Potential Spin-off will be required under our Articles of Association under applicable U.S. regulations and Nasdaq Listing Rules. Further, as our Company is a Grandfathered Greater China Issuer and therefore exempt from the requirements under Chapter 14 of the Hong Kong Listing Rules pursuant Rule 19C.11, no shareholders' approval will be required under the Hong Kong Listing Rules as well;
- the effect of a spin-off to the shareholders of our Company should be the same regardless of whether or not the businesses to be potentially spun-off are to be listed on the Hong Kong Stock Exchange (save with respect to any preferential rights to subscribe for shares that are commonly provided in spin-offs on the Hong Kong Stock Exchange). Given the fact that certain spin-offs by Grandfathered Greater China Issuers are allowed within three years after their listing in Hong Kong pursuant to Rule 19C.11 of the Hong Kong Listing Rules, we believe that the three-year restriction on spin-offs on the Hong Kong Stock Exchange should also be waived and shall not apply to a Potential Spin-off by us;
- our Company and any subsidiary in respect of which a Potential Spin-off is contemplated will be subject to compliance with all other applicable requirements under the Hong Kong Listing Rules, including the remaining requirements of Practice Note 15 and (in the case of the company to be spun-off) the listing eligibility requirements of Chapter 8, 8A or 19C of the Hong Kong Listing Rules (as the case may be), unless otherwise waived by the Hong Kong Stock Exchange;

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS FROM STRICT COMPLIANCE WITH THE COMPANIES (WUMP) ORDINANCE

- under U.S. federal securities laws and Nasdaq Listing Rules, we are not subject to any restrictions similar to the three-year restriction under paragraph 3(b) of Practice Note 15 in relation to the spin-offs of our businesses, nor is there any requirement for our Company to disclose any details of our potential spin-off entities when such information is not available because of the absence of any concrete spin-off plan; and
- our directors owe fiduciary duties to our Company, including the duty to act in what they consider in good faith to be in the best interests of our Company; as such they will only pursue a potential spin-off if there are clear commercial benefits both to our Company and the entity or entities to be spun off; and the directors will not direct our Company to conduct any spin-off if they believe it will have an adverse impact on the interests of our shareholders.

The waiver was granted by the Hong Kong Stock Exchange on the following conditions:

- we undertake that prior to any spin-off of our business through a listing on the Hong Kong Stock Exchange within three years after [REDACTED], we will confirm to the Hong Kong Stock Exchange with basis that the spin-off would not render our Company, excluding the business to be spun off, incapable of fulfilling either the eligibility or suitability requirements under Rules 19C.02 and 19C.05 of the Hong Kong Listing Rules based on the financial information of the entity or entities to be spun-off at the time of our [REDACTED] (calculated cumulatively if more than one entity is spun-off);
- we will disclose in this document our intention relating to any potential spin-off within three years after [REDACTED] and the risks relating to the uncertainty and timing of any potential spin-offs;
- any potential spin-offs by us at the Hong Kong Stock Exchange will be subject to the requirements of Practice Note 15 (other than paragraph 3(b) thereof), including that each of our Company and our businesses to be spun off will satisfy the applicable listing eligibility requirements on a standalone basis; and
- this waiver will be disclosed in this document.

We cannot assure that any spin-off will ultimately be consummated, whether within the three-year period after [REDACTED] or otherwise, and any such spin-off will be subject to market conditions at the time and approval by [REDACTED]. In the event that we proceed with a spin-off, our interest in the entity to be spun-off (and its corresponding contribution to the financial results of our Group) will be reduced accordingly.

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS
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[REDACTED]

Disclosure Requirements in respect of Suppliers and Customers

Paragraphs 28(1)(b)(i) and (ii) of Appendix 1A to the Hong Kong Listing Rules require the [REDACTED] to include a statement of the percentage of purchases attributable to the group's largest supplier and a statement of the percentage of purchases attributable to the group's five largest suppliers combined, respectively.

Paragraphs 28(1)(b)(iii) and (iv) of Appendix 1A to the Hong Kong Listing Rules require the [REDACTED] to include a statement of the percentage of revenue from sales of goods or rendering of services attributable to the group's largest customer and a statement of the percentage of revenue from sales of goods or rendering of services attributable to the group's five largest customers combined, respectively.

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS
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Paragraph 28(1)(b)(v) of Appendix 1A to the Hong Kong Listing Rules requires the [REDACTED] to include a statement of the interest of any of the directors, their close associates; or any shareholder (which to the knowledge of the directors owns more than 5% of the number of issued shares of the issuer) in the group’s top five suppliers and customers. Sub-paragraph (vi) provides that in the event that the percentage which would fall to be disclosed under sub-paragraphs (ii) above is less than 30, a statement of that fact shall be given and the information required in sub-paragraphs (i), (ii) and (v) (in respect of suppliers) may be omitted. Sub-paragraph (vii) further provides that in the event that the percentage which would fall to be disclosed under sub-paragraph (iv) above is less than 30, a statement of that fact shall be given and the information required in sub-paragraphs (iii), (iv) and (v) (in respect of customers) may be omitted.

Rule 19.36(1) of the Hong Kong Listing Rules provides that certain disclosure requirements under Parts A and B of Appendix 1 to the Hong Kong Listing Rules may be inappropriate and allows such requirements to be appropriately adapted so that equivalent information is given.

Percentages of our purchases from our largest supplier and from our top five suppliers and percentages of our revenue from our largest customer and from our top five customers

We believe that the specific percentage figures required to be disclosed by Paragraphs 28(1)(b)(i) to (iv) of Part A of Appendix 1 to the Hong Kong Listing Rules are commercially sensitive and could be exploited by our competitors. We have not publicly disclosed the information strictly required by Paragraphs 28(1)(b)(i) to (iv) of Appendix 1A to the Hong Kong Listing Rules in our SEC filings, nor are we required to do so under U.S. laws and regulations. We have however disclosed that, (a) with respect to our suppliers, that our five largest suppliers accounted for less than 60% of our purchases for each of the three years ended December 31, 2019 and the six months ended June 30, 2020 and none of them individually accounted for more than 30% of our annual purchases over this same period in “Our Business — Our Suppliers”; and (b) with respect to our customers, the percentage of net revenue generated from our customers, end users of the services of our Company which accounted for 10% or more of its total net revenue during the three years ended December 31, 2019 and the six months ended June 30, 2020 in “Our Business — Our Customers.” We, taking into account that we are seeking [REDACTED] on the Hong Kong Stock Exchange, believe that the current disclosure in this document provides sufficient information to [REDACTED] to make an informed assessment of our business.

Statement of interests in our top five suppliers and top five customers

Our five largest suppliers accounted for less than 60% of our purchases for each of the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020; and none of them individually accounted for more than 30% of our annual purchases over this same period. The Group’s five largest customers accounted for less than 65% of the Group’s revenue for each of the three years ended December 31, 2019 and the six months ended June

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS
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30, 2020; and none of them individually accounted for more than 30% of its annual total revenue over this same period. Several of our top five suppliers and top five customers are public companies whose shares are traded on various stock exchanges.

As a Nasdaq-listed company, we are not in a position to compel our public shareholders who own more than 5% in our issued shares based on public filings to disclose to us (in this case 12 West Capital Management and American Century Investment Management) their shareholding interests in our top five suppliers and top five customers during the Track Record Period. It would also be unduly burdensome for these public shareholders of ours to ascertain their shareholding interests in our top five suppliers and top five customers (especially the companies whose shares are publicly traded), because the disclosure requirements under Paragraph 28(1)(b)(v) of Appendix 1A to the Hong Kong Listing Rules are not subject to any materiality or de minimis exemptions or “safe harbours” provisions. The same difficulties would apply to our directors who are otherwise required to disclose their, and their close associates’, shareholding interests in our top five suppliers and top five customers including the companies whose shares are publicly traded. As of the Latest Practicable Date, based on publicly available information, none of our directors or their close associates (as defined in the Hong Kong Listing Rules) or, our Controlling Shareholder, held a 5% or more shareholding interest in our top five suppliers and top five customers. In addition, we do not believe that the information strictly required by Paragraph 28(1)(b)(v) of Appendix 1A to the Hong Kong Listing Rules would provide any additional meaningful information to [REDACTED] given that we will not in any event be subject to the connected transaction requirements under Chapter 14A of the Hong Kong Listing Rules, and details of our related party transactions are disclosed in “Related Party Transactions.” For the above reasons, taking into account the alternative disclosures outlined above, we have applied for, and the Hong Kong Stock Exchange [has granted] us, a waiver from strict compliance with the disclosure requirements under Paragraphs 28(1)(b)(i) to (v) of Appendix 1A to the Hong Kong Listing Rules, to the extent not strictly met by the current disclosure in this document.

[REDACTED]

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS
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[REDACTED]

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS
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[REDACTED]

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS
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[REDACTED]

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS
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[REDACTED]

**WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES AND EXEMPTIONS
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[REDACTED]

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[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Directors

Name	Address	Nationality
Mr. William Wei Huang (黃偉) <i>Chairman and Chief Executive Officer</i>	Flat A, 28/F Garden Terrace One 8 Old Peak Road Mid-levels Hong Kong	Chinese
Mr. Sio Tat Hiang <i>Vice-chairman</i>	7 Oak Ave Singapore 276771	Singaporean
Mr. Satoshi Okada <i>Director</i>	No.618 4-8-33 Kitashinagawa, Shinagawa Tokyo 140-0001 Japan	Japanese
Mr. Bruno Lopez <i>Director</i>	17 Evelyn RD #09-06 Singapore 309306	Singaporean
Mr. Lee Choong Kwong <i>Director</i>	Block 18 Unit 302 Lane 388 Furong Jiang Road Changning District Shanghai China	Singaporean
Mr. Gary J. Wojtaszek <i>Director</i>	3548 Bryn Mawr Dr Dallas, Texas 75225 United States	American
Mr. Lim Ah Doo <i>Independent director</i>	34 Linden Dr Singapore 288707	Singaporean
Ms. Bin Yu (余濱) <i>Independent director</i>	Room 402, No.27, Lane 1880 Longyang Road, Pudong New District Shanghai China	Chinese
Mr. Zulkifli Baharudin <i>Independent director</i>	House 112 Hua Guan Avenue Singapore 589207	Singaporean

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Name	Address	Nationality
Mr. Chang Sun (孫強) <i>Independent director</i>	Flat A, 49/F Tower 7 Bel-Air On The Peak 68 Bel-Air Peak Avenue Cyberport Hong Kong	Chinese
Ms. Judy Qing Ye <i>Independent director</i>	No.165, 699 Lane Jinguang Road, Minhang District Shanghai China	American

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Parties Involved in the [REDACTED]

Joint Sponsors

**J.P. Morgan Securities (Far East)
Limited, or J.P. Morgan**
28/F Chater House
8 Connaught Road Central
Hong Kong

**Merrill Lynch Far East Limited, or BofA
Securities**
Level 55 Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

**China International Capital Corporation
Hong Kong Securities Limited, or CICC**
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

**Haitong International Capital Limited, or
Haitong International**
8/F Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Our Legal Advisers

As to Hong Kong and U.S. laws:

Simpson Thacher & Bartlett

35/F, ICBC Tower
3 Garden Road
Central
Hong Kong

As to PRC laws:

King & Wood Mallesons

17/F, One ICC
Shanghai ICC
999 Huai Hai Road (M)
Shanghai, 200031
China

As to Cayman Islands laws:

Conyers Dill & Pearman

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

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

As to Hong Kong and U.S. laws:

O'Melveny & Myers

31/F, AIA Central
1 Connaught Road Central
Hong Kong

As to PRC laws:

Fangda Partners

24/F, HKRI Centre Two
HKRI Taikoo Hui
288 Shi Men Yi Road
Shanghai
China

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Auditors*

KPMG Huazhen LLP
25th Floor, Tower II, Plaza 66
1266 Nanjing West Road
Shanghai 200040
China

Reporting Accountants

KPMG
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

[REDACTED]

Notes:

- * KPMG Huazhen LLP is the auditor of the Company's consolidated financial statements that are prepared in conformity with U.S. GAAP. After [REDACTED], the Company will propose to appoint, KPMG, Certified Public Accountants and Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance in Hong Kong, to audit the consolidated financial statements which will be included in the coming annual report to be published in Hong Kong.

CORPORATE INFORMATION

Registered Office	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal Executive Offices of Main Operations	F4/F5, Building C, Sunland International No. 999 Zhouhai Road Pudong Shanghai 200137 China
Address in Hong Kong	Room 2005, 20/F, West Tower Shun Tak Centre 200 Connaught Road Central Sheung Wan Hong Kong
Company's Website	<u>www.gds-services.com</u> (The information on the website does not form part of this document)
Authorized Representative	Andy Wenfeng Li (李文峰) F4/F5, Building C, Sunland International No. 999 Zhouhai Road Pudong, Shanghai 200137 China
Audit Committee	Lim Ah Doo (<i>Chairman</i>) Bin Yu Zulkifli Baharudin
Compensation Committee	Sio Tat Hiang (<i>Chairman</i>) William Wei Huang Zulkifli Baharudin
Nominating and Corporate Governance Committee	William Wei Huang (<i>Chairman</i>) Sio Tat Hiang Zulkifli Baharudin

CORPORATE INFORMATION

Executive Committee

Bruno Lopez (*Chairman*)

William Wei Huang

Judy Qing Ye

Jonathan King

[REDACTED]

Compliance Adviser

Haitong International Capital Limited

8/F Li Po Chun Chambers

189 Des Voeux Road Central

Hong Kong

Industry Consultant

Shanghai iResearch Co., Ltd, China

R701 Tower B, Zhongjin International

Caoxi North No. 333, Xuhui District

Shanghai, 200030

China

CORPORATE INFORMATION

Principal Banks

China CITIC Bank

No.15 South Jinshan Road
Mudu District
Suzhou, 215156
China

China Merchants Bank

No.1088, Lu Jia Zui Rd
Pudong District
Shanghai, 200120
China

Industrial and Commercial Bank of China

No.11 East Zhongshan Rd
Huangpu District
Shanghai, 200002
China

Silicon Valley Bank

Unit 2315, China World Office 1
No.1 Jian Guo Men Wai Avenue
Beijing, 100004
China

United Overseas Bank

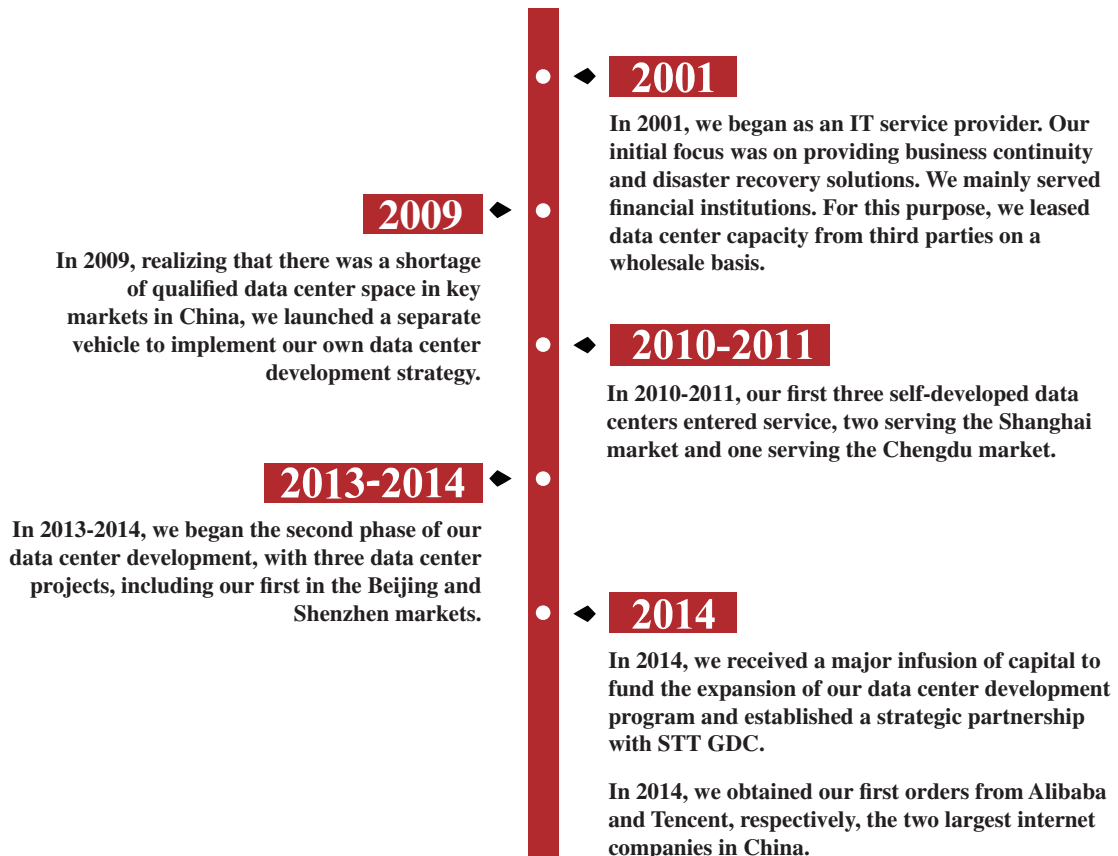
1 Raffles Place #23-61
One Raffles Place
Tower Two
Singapore, 048616

OUR HISTORY AND CORPORATE STRUCTURE

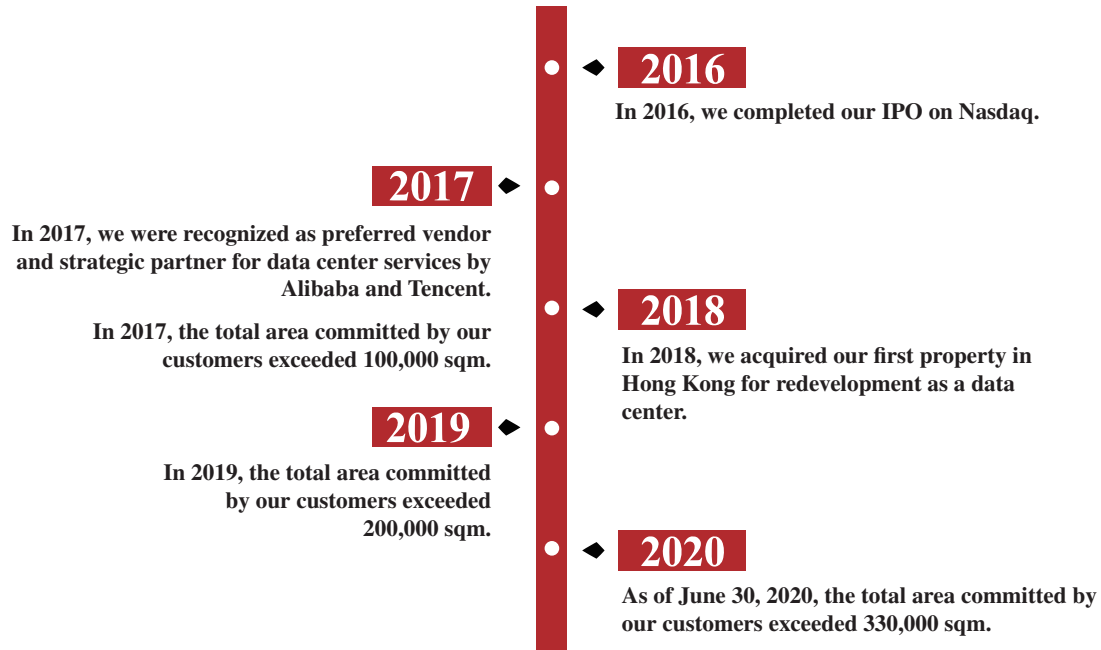
We are a holding company incorporated under the laws of the Cayman Islands on December 1, 2006. We operate our business through our wholly-owned subsidiaries and PRC consolidated VIEs.

Since 2014, we received several rounds of investment from STT GDC, a sophisticated strategic investor. As of the Latest Practicable Date, STT GDC is one of our Controlling Shareholders and we have been benefiting from its industry expertise, access to potential customer and supplier relationships, and solid corporate governance guidance. STT GDC is a wholly owned subsidiary of STTC, which is in turn a wholly owned subsidiary of ST Telemedia. STT GDC is an experienced and strategic data center player that owns a portfolio of data centers in Singapore, Thailand, India, the United Kingdom and China, either directly or through investments in data center operating companies, such as GDS Holdings. Leveraging STT GDC's integrated data center platform, we have access to STT GDC's customer and supplier relationships. We also benefit from STT GDC's platform through knowledge sharing to enhance our technology, operational performance and customer service. We believe that the support, relationships, industry expertise and corporate governance best practices that come from having sophisticated strategic investors provide us with competitive advantages in our industry.

The following is a summary of our key business milestones:



OUR HISTORY AND CORPORATE STRUCTURE



OUR DEVELOPMENTS DURING THE TRACK RECORD PERIOD

Our Strategic Cooperation

Strategic Cooperation with CyrusOne

In October 2017, we entered into a commercial agreement with CyrusOne, a premier global data center REIT company, and established a strategic partnership with them. At the same time, we issued and sold to CyrusOne 64,257,028 Class A ordinary shares, equivalent to approximately 8.0 million ADSs, at a purchase price of US\$1.55625 per ordinary share, or US\$12.45 per ADS, for a total consideration of US\$100 million. Pursuant to the commercial agreement, the parties have exchanged best practices as to sales and marketing, data center design and construction, supply chain management, customer relationship management, as well as operations, leveraging the core competencies of both companies in order to deliver data center solutions to our respective customers and assist in their global expansion.

Strategic Cooperation with GIC

In August 2019, we entered into a strategic cooperation framework agreement with GIC, Singapore’s sovereign wealth fund, to develop and operate hyperscale build-to-suit, or BTS, joint venture data centers at locations in China selected by our customers outside of Tier 1 markets. Together with GIC, we will focus initially on a BTS data center program for a leading internet and cloud service provider, which is our strategic customer. In parallel with the framework agreement, we also signed a memorandum of understanding with the same strategic customer to develop and operate seven BTS data centers at several of its campuses serving different regions of China, including Nantong, Jiangsu Province, Heyuan, Guangdong Province

OUR HISTORY AND CORPORATE STRUCTURE

and Wulanchabu, Inner Mongolia Autonomous Region. Since this strategic customer demand is expanded, we have entered into a strategic cooperation framework agreement with GIC to develop and operate ten BTS data centers.

Our Acquisitions

In addition to organic growth, we have made, or have entered into agreements to make strategic acquisitions that increase and expand our data center network, solidify our position in key markets and provide expanded resources to customers. The financial results for these strategic transactions are reflected in our operating results beginning with the period of their respective completion.

We believe we derive operational synergies from our acquisitions, including by adding strategic locations to our inter-connected data center platform, and expanding our large-scale and high-quality capacity, and high quality customers, which provides strategic benefit to our overall business by solidifying our position in key markets, increasing the attractiveness of our offerings to existing and potential new customers as well as placing us in a better competitive position.

We follow a prudent investment and development strategy according to our investment policy approved by our board. Our investment strategy is to acquire data centers at different stages of construction and at different stages of maturity. Our investment decision-making policy with respect to value is based upon target minimum internal rates of return derived from long-term cash flow forecasts, taking into account any expected remaining costs associated with construction or development of such targets. When evaluating targets, we calculate an enterprise value derived by projecting a stabilized EBITDA for the data center and applying an appropriate valuation multiple. We derive a stabilized EBITDA by estimating stabilized revenue based upon customer contracts that are already in place and our knowledge of prevailing selling prices and expected utilization rates that are reasonably achievable. In addition, we estimate costs based on the specific costs of the facility and our own operating cost benchmarks. We also take into account any estimated costs to complete and time to complete a data center, as well as any assumed liabilities and risks associated with the target to derive a reasonable equity consideration.

We have recorded significant goodwill historically in connection with our acquisitions, with the goodwill primarily representing the expected synergies from combining operations of the target group with those of our Company and intangible assets that do not qualify for separate recognition and are not deductible for tax purposes. See “Risk Factors – Risks Relating to Our Business and Industry – We may experience impairment of goodwill in connection with our acquisition of entities.”

Acquisition of SZ5

In June 2017, we acquired all the equity interests in a target group comprising two onshore entities (Shenzhen Yaode and Shenzhen Jinyao Science & Technology Co., Ltd. or Shenzhen Jinyao) and an offshore entity (RDTJ Limited, or RDTJ, which has an onshore

OUR HISTORY AND CORPORATE STRUCTURE

subsidiary, Guangzhou Shi Wan Guo Yun Lan Data Technology Co., Ltd., or Guangzhou Yunlan) from third parties for an aggregate maximum contingent cash consideration of RMB312.0 million (US\$44.2 million), subject to adjustment, if any, pursuant to the terms and conditions of the equity purchase agreement. As of June 30, 2020, consideration payables of RMB16.8 million (US\$2.4 million) were outstanding, including the contingent portion of RMB5.3 million (US\$0.8 million). The target group owns SZ5 in Shenzhen, China. As of the date of completion of the acquisition, the first phase of the data center, comprising 5,000 sqm net floor area, had just entered service and was 100% committed and the second phase, comprising 5,000 sqm, was under construction. Subsequent to completion of the acquisition, we obtained additional power supply which enabled us to upsize the second phase to 7,858 sqm net floor area and then to add a third phase with capacity of 7,725 sqm net floor area. As of June 30, 2020, SZ5 had a total net floor area of 20,583 sqm in service, 100% of which was committed to a hyperscale cloud service provider customer.

Acquisition of GZ2

In October 2017, we acquired all the equity interests in a target group comprising an onshore entity (Guangzhou Weiteng Network Technology Co., Ltd., or Weiteng Network) and an offshore entity (Raojin Limited, or Raojin, which has an onshore subsidiary, Wan Qing Teng Data (Shenzhen) Co., Ltd., or Wan Qing Teng) from third parties for a cash consideration of RMB234.0 million (US\$33.1 million). The target group owns GZ2 in Guangzhou, China. As of June 30, 2020, the data center was fully operational with a net floor area of 6,131 sqm and was 100% committed.

Acquisition of GZ3

In May 2018, we acquired all the equity interests in a target group comprising an onshore entity (Guangzhou Weiteng Data Science & Technology Co., Ltd., or Weiteng Data) and an offshore entity (PSDC Limited, or PSDC, which has an onshore subsidiary, Shenzhen Qian Hai Wan Chang Technology Services Co., Ltd., or Qian Hai Wan Chang) from third parties for a cash consideration of RMB262.2 million (US\$37.1 million), including a maximum contingent consideration of RMB245.2 million (US\$34.7 million), subject to adjustment, if any, pursuant to the terms and conditions of the equity purchase agreement. Pursuant to a supplemental agreement entered into among Weiteng Data, PSDC, Qian Hai Wan Chang, the sellers of both Weiteng Data and PSDC, and us in May 2020, all parties agreed to reduce the total cash consideration (including contingent consideration) from RMB262.2 million (US\$37.1 million) to RMB207.3 million (US\$29.3 million), subject to the achievement of the revised conditions as set out in the supplemental agreement. As of June 30, 2020, consideration payable of RMB53.1 million (US\$7.5 million) were outstanding, including the contingent portion of RMB37.7 million (US\$5.3 million). The target group owns GZ3 in Guangzhou, China. As of the date of completion of the acquisition, the first phase of the data center, comprising 7,648 sqm net floor area, had just entered service and was 100% committed. As of June 30, 2020, we had completed the second phase of the data center, bringing an additional 3,423 sqm net floor area into service, 100% of which was committed. Subject to obtaining additional power supply, we plan to expand GZ3 further into a third phase with approximately 3,400 sqm net floor area.

OUR HISTORY AND CORPORATE STRUCTURE

Acquisition of SH11

In June 2018, we acquired all the equity interests in a target company (Cai Tuo Cloud Computing (Shanghai) Co., Ltd., or Shanghai Cai Tuo) from third parties for a cash consideration of RMB320.0 million (US\$45.3 million), including a maximum contingent consideration of RMB70.0 million (US\$9.9 million), subject to adjustment, if any, pursuant to the terms and conditions of the equity purchase agreement. As of June 30, 2020, the consideration had been fully paid. The target company owns SH11 in Shanghai, China. As of June 30, 2020, the data center was fully operational with a net floor area of 4,214 sqm and was 100% committed.

Acquisition of greenfield land in Langfang for data center development

In July 2019, we acquired the right of use for greenfield land with a ground area of approximately 20,000 sqm in the city of Langfang, Hebei Province, located approximately 50 kilometers from Beijing, China, from the local government, for a cash consideration of RMB14.3 million (US\$2.0 million). This acquired land is the first part of a contiguous site with a ground area of approximately 127,000 sqm in aggregate (“Langfang Land Site 1”) that we plan to acquire pursuant to the binding framework agreement that we entered into with the local government in February 2019. Under such framework agreement, the government commits to initiate the sales process for land and to provide assistance to us in obtaining necessary government approvals and resources (including water supply, power supply, heating supply, among others) for the construction and operation of the project, and we commit to invest in developing the land for data center use and to generate taxable income. The major commitments of the government and us are subject to the completion of land expropriation and relocation, satisfaction of other grant conditions and subsequently entering into a land use right grant contract through relevant tender, auction or listing-for-sale procedures. As of June 30, 2020, we were constructing our LF3 data center on this land with a net floor area of 11,664 sqm which is 100% pre-committed.

In December 2019, we acquired the right of use for greenfield land with a ground area of approximately 44,000 sqm in the city of Langfang, Hebei Province, from the local government, for a cash consideration of RMB31.2 million (US\$4.4 million). This acquired land is the second part of Langfang Land Site 1. As of June 30, 2020, we commenced developing two data centers on this land, LF4 and LF5. LF4 has a net floor area of 14,832 sqm and is 50% pre-committed and LF5 has a net floor area of 14,832 sqm and is 51.7% pre-committed.

In December 2019, we acquired the right of use for greenfield land with a ground area of approximately 38,000 sqm in the city of Langfang, Hebei Province, from the local government, at a site adjacent to our LF3, LF4 and LF5 data centers (“Langfang Land Site 2”), for a cash consideration of RMB26.9 million (US\$3.8 million). Once developed, it will yield a total net floor area of approximately 24,000 sqm according to the initial design. Construction is expected to commence in the second half of 2020.

OUR HISTORY AND CORPORATE STRUCTURE

Acquisition of BJ9

In August 2019, we entered into an equity purchase agreement to acquire all of the equity interests in a target company, Beijing Ruiwei Cloud Computing Science & Technology Co., Ltd., or Beijing Ruiwei, from a third party for a cash consideration of RMB797.3 million (US\$112.9 million), subject to adjustment, if any, pursuant to the terms and conditions of the equity purchase agreement. The target company owns a data center which we refer to as BJ9 in Beijing, China. As of June 30, 2020, BJ9 was fully operational, with a net floor area of 8,029 sqm in service, 96.2% of which was committed. In December 2019, we entered into contracts with Beijing Ruiwei to operate BJ9 and with all of the existing customers of BJ9 to provide services to them in lieu of Beijing Ruiwei, pending completion of the acquisition. The completion of the acquisition is subject to customary closing conditions. As of the Latest Practicable Date, the acquisition has not been completed.

Acquisition of GZ6

In October 2019, we acquired all the equity interests in a target company, Guangzhou Yinwu Data Science & Technology Co., Ltd., or Guangzhou Yinwu, from a third party for an aggregate cash consideration of RMB431.7 million (US\$61.1 million), including a maximum contingent consideration of RMB243.7 million (US\$34.5 million). As of June 30, 2020, contingent consideration payables of RMB226.7 million (US\$32.1 million) were outstanding. The target company owns a data center which we refer to as GZ6 in Guangzhou, Guangdong Province, China. GZ6 has a net floor area of approximately 6,600 sqm. The contingent consideration payables are subject to performance obligations, including expansion of power capacity. As of June 30, 2020, the data center had entered service with a commitment rate of 22.3%.

Acquisition of a data center project company in Huizhou

In November 2019, we acquired all the equity interests in a target company, Huizhou Jiacheng Information Communications & Technology Co., Ltd., or Huizhou Jiacheng, from third parties for an aggregate cash consideration of RMB15.5 million (US\$2.2 million), including a maximum contingent consideration of RMB6.0 million (US\$0.8 million). The target company holds a leased property in Huizhou, Guangdong Province, China, located approximately 50 kilometers from Shenzhen, which we intend to convert into a data center, HZ1, with a net floor area of approximately 12,500 sqm according to the initial design. As of June 30, 2020, construction had not commenced.

Acquisition of brownfield site in Hong Kong for data center development

In December 2019, we acquired an existing building located in Kwai Chung, New Territories, Hong Kong, nearby our existing HK1 data center project, for a purchase price of RMB788.3 million (US\$111.6 million). We intend to demolish the existing building and

OUR HISTORY AND CORPORATE STRUCTURE

redevelop the site, to which we hold the right of use, as our HK2 data center, with a net floor area of approximately 7,400 sqm according to the initial design. As of June 30, 2020, we were constructing HK1 data center, which has a net floor area of 7,061 sqm, but construction of HK2 had not commenced.

Acquisition of greenfield land in Changshu for data center development

In December 2019, we acquired the right of use for greenfield land with a ground area of approximately 67,000 sqm in the city of Changshu, Jiangsu Province, located approximately 70 kilometers from Shanghai, China, from the local government for a cash consideration of RMB19.9 million (US\$2.8 million). This acquired land is the first phase of a contiguous site with a ground area of approximately 140,000 sqm in aggregate that we plan to acquire pursuant to the binding framework agreement that we entered into with the local government in November 2018. Once the first phase of the land is developed, it will yield a total net floor area of approximately 32,000 sqm according to the initial design. As of June 30, 2020, we commenced construction of the first building on the first phase of this land, known as CS1. CS1 has a net floor area of 11,088 sqm and is 54.7% pre-committed. The remaining phases of this site will yield an additional net floor area of approximately 32,000 sqm once developed.

Acquisition of a building for data center development in Shanghai

In December 2019, we acquired an existing building in the same area as our data center cluster in Waigaoqiao, Shanghai for a total consideration of RMB330.2 million (US\$46.7 million). We intend to convert the building into a data center which we refer to as SH14. It will yield a net floor area of approximately 11,000 sqm. As of June 30, 2020, we commenced the construction of SH14 and it was 63.4% pre-committed.

Acquisition of BJ10, BJ11 and BJ12

In December 2019, we entered into an equity purchase agreement to acquire all of the equity interests in Lanting (Beijing) Information Science and Technology Co., Ltd. and its subsidiary, Lanting Xuntong (Beijing) Science and Technology Co., Ltd. (collectively, the "Lanting Entities"), from third parties. We completed the acquisition in June 2020. The total cash consideration is approximately RMB847.6 million (US\$120.0 million), including a maximum contingent consideration of RMB130.7 million (US\$18.5 million) which is contingent upon future performance. As of June 30, 2020, consideration payables of RMB527.6 million (US\$74.7 million) were outstanding, including the contingent portion of RMB130.7 million (US\$18.5 million). The Lanting Entities own three data centers, which we refer to as BJ10, BJ11, and BJ12, with a total aggregate net floor area of approximately 19,927 sqm. As of June 30, 2020, BJ10, BJ11 and BJ12 are 100% committed, fully operational and in service.

OUR HISTORY AND CORPORATE STRUCTURE

Acquisition of greenfield land in Chongqing for data center development

In February 2020, we acquired the right of use for greenfield land with a ground area of approximately 49,000 sqm in the city of Chongqing from the local government for a consideration of RMB28.0 million (US\$4.0 million) pursuant to a binding framework agreement that we entered into with the local government in August 2018 and August 2019, respectively. Once developed, it will yield an aggregate net floor area of approximately 33,000 sqm according to the initial design. As of June 30, 2020, construction had not commenced and the land is held for future development.

Acquisition of site in Shanghai for major new data center campus

In March 2020, we acquired a site in Pujiang Area, Minhang District of Shanghai, located around 25 kilometers from our existing data center cluster in Waigaoqiao, Shanghai, from a third party for a cash consideration of RMB1.37 billion (US\$193.9 million). Minhang District is an established data center hub due to its proximity to submarine cable landing stations. The site consists of approximately 212,000 sqm of total ground area, of which approximately half is developed land and half is greenfield land. It will be used for a major new data center campus which we intend to develop in multiple phases over several years. As of June 30, 2020, we have commenced the construction of SH16 and the first phase of SH17 by converting the two existing industrial buildings on the site. SH16 has a net floor area of 3,000 sqm and SH17 Phase 1 has a net floor area of 6,188 sqm. SH17 Phase 1 is already 100% pre-committed. The remaining phases of SH17 with roughly 13,400 sqm of potential net floor area, and the subsequent phases of the site with roughly 50,500 sqm of potential net floor area, are held for future development.

Acquisition of a data center project company in Langfang

In June 2020, we acquired all the equity interests in a target company, Langfang Cloud Base, from third parties for an aggregate cash consideration of RMB34.3 million (US\$4.9 million), including a maximum contingent consideration of RMB10.3 million (US\$1.5 million). The target company holds a leased property in Langfang, Hebei Province, China, located approximately 50 kilometers from Beijing, which we intend to convert into a data center, LF9, with a net floor area of approximately 10,830 sqm according to the initial design.

All the vendors of our acquisition targets listed out above are independent third parties.

OUR HISTORY AND CORPORATE STRUCTURE

MAJOR SUBSIDIARIES AND OPERATING ENTITIES

The principal business activities, date of establishment and place of incorporation of each of our Major Subsidiaries are shown below:

Name of Company	Status (private/ public)	Principal Business Activities	Date of Establishment	Place of Incorporation	Shareholding percentage held by our Company
1. GDS Investment Company	Private	Investment holding company	December 30, 2015	PRC	100%
2. Shanghai Waigaoqiao EDC Technology Co., Ltd.* (上海外高橋萬國數據科技發展有限公司)	Private	Assets holding company and company providing IDC services	March 9, 2009	PRC	nil ⁽¹⁾
3. Shanghai Yungang EDC Technology Co., Ltd.* (上海雲港萬國數據科技發展有限公司)	Private	Assets holding company	August 3, 2012	PRC	100%
4. Shanghai Shuchang Data Science & Technology Co., Ltd.* (上海曙長數據科技有限公司)	Private	Assets holding company	June 16, 2017	PRC	100%
5. Shanghai Puchang Data Science & Technology Co., Ltd.* (上海普長數據科技有限公司)	Private	Assets holding company	June 16, 2017	PRC	100%
6. Shanghai Shuge Data Technology Co., Ltd.* (上海曙格數據科技有限公司)	Private	Assets holding company	March 26, 2018	PRC	100%
7. Cai Tuo Cloud Computing (Shanghai) Co., Ltd.* (財拓雲計算(上海)有限公司)	Private	Assets holding company and company providing IDC services	November 24, 2016	PRC	nil ⁽¹⁾
8. Beijing Hengpu'an Data Technology Development Co., Ltd.* (北京恒普安數碼科技發展有限公司)	Private	Assets holding company	April 3, 2014	PRC	100%

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Name of Company	Status (private/ public)	Principal Business Activities	Date of Establishment	Place of Incorporation	Shareholding percentage held by our Company
9. Beijing Wan Qing Teng Science & Technology Co., Ltd.* (北京萬青騰科技有限公司)	Private	Assets holding company	April 2, 2018	PRC	100%
10. Shou Rong Yun (Beijing) Science & Technology Co., Ltd.* (首融雲(北京)科技有限公司)	Private	Assets holding company	December 29, 2017	PRC	1.6%
11. Shenzhen Yungang EDC Technology Co., Ltd.* (深圳雲港萬國數據科技發展有限公司)	Private	Assets holding company	March 20, 2013	PRC	100%
12. Shenzhen Qian Hai Wan Chang Technology Services Co., Ltd.* (深圳前海萬長技術服務有限公司)	Private	Assets holding company	December 1, 2017	PRC	100%
13. Guangzhou Weiteng Data Services Co., Ltd.* (廣州市維騰數據服務有限公司) (formerly known as Guangzhou Weiteng Construction Co., Ltd.* (廣州市維騰建設有限公司))	Private	Assets holding company and company providing IDC services	May 12, 2015	PRC	nil ⁽¹⁾
14. Guangzhou Weiteng Network Technology Co., Ltd.* (廣州市維騰網絡科技有限公司)	Private	Assets holding company and company providing IDC services	July 11, 2014	PRC	nil ⁽¹⁾
15. Guangzhou Weiteng Data Science & Technology Co., Ltd.* (廣州市維騰數據科技有限公司)	Private	Assets holding company and company providing IDC services	April 15, 2016	PRC	nil ⁽¹⁾

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Name of Company	Status (private/ public)	Principal Business Activities	Date of Establishment	Place of Incorporation	Shareholding percentage held by our Company
16. Guangzhou Shi Wan Guo Yun Lan Data Technology Co., Ltd.* (廣州市萬國雲藍數據科技有限公司)	Private	Assets holding company	August 17, 2016	PRC	100%
17. EDC (Chengdu) Industry Co., Ltd.* (萬國數據(成都)實業有限公司)	Private	Assets holding company	January 31, 2008	PRC	100%
18. Zhangbei Yuntong Data Technology Co., Ltd.* (張北雲通數據網絡科技有限公司)	Private	Assets holding company	April 1, 2017	PRC	nil ⁽¹⁾
19. Langfang Wanguo Yunxin Data Science & Technology Co., Ltd.* (廊坊萬國雲鑫數據科技有限公司)	Private	Assets holding company	February 2, 2019	PRC	100%
20. Beijing Wan Teng Yun Science & Technology Co., Ltd.* (北京萬騰雲科技有限公司)	Private	Assets holding company	December 15, 2017	PRC	100%
21. Beijing Hua Wei Yun Science & Technology Co., Ltd.* (北京華威雲科技有限公司)	Private	Assets holding company	December 15, 2017	PRC	100%
22. GDS Shanghai	Private	Company providing IDC services and other VATS	May 4, 2011	PRC	nil ⁽¹⁾
23. GDS Beijing	Private	Company providing IDC services and other VATS	May 30, 2006	PRC	nil ⁽¹⁾

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Name of Company	Status (private/ public)	Principal Business Activities	Date of Establishment	Place of Incorporation	Shareholding percentage held by our Company
24. Beijing Wan Chang Yun Science & Technology Co., Ltd.* (北京萬長雲科技有限公司)	Private	Assets holding company and company providing IDC services and other VATS	November 8, 2017	PRC	nil ⁽¹⁾
25. GDS Suzhou	Private	Company providing IDC services and other VATS	September 30, 2000	PRC	nil ⁽¹⁾
26. Kunshan Wanyu Data Service Co., Ltd.* (昆山萬宇數據服務有限公司)	Private	Assets holding company and company providing IDC services and other VATS	October 25, 2010	PRC	nil ⁽¹⁾
27. Shenzhen Yaode Data Services Co., Ltd.* (深圳耀德數據服務有限公司)	Private	Assets holding company and company providing IDC services and other VATS	April 5, 2016	PRC	nil ⁽¹⁾
28. Nantong Wanguo Yunzhen Data Science & Technology Co., Ltd.* (南通萬國雲臻數據科技有限公司)	Private	Company providing IDC services	May 17, 2019	PRC	nil ⁽¹⁾
29. Management HoldCo	Private	Management holding company	October 16, 2019	PRC	nil ⁽²⁾
30. Lanting (Beijing) Information Science and Technology Co., Ltd.* (藍廳(北京)信息科技有限公司)	Private	Assets holding company	June 28, 2016	PRC	100%
31. Lanting Xuntong (Beijing) Science and Technology Co., Ltd.* (藍廳訊通(北京)科技有限公司)	Private	Assets holding company	March 27, 2018	PRC	100%

OUR HISTORY AND CORPORATE STRUCTURE

Name of Company	Status (private/ public)	Principal Business Activities	Date of Establishment	Place of Incorporation	Shareholding percentage held by our Company
32. Shanghai Jingshuo Data Science & Technology Co., Ltd.* (上海景燦數據科技有限公司)	Private	Assets holding company	December 30, 2019	PRC	100%
33. GDS (Hong Kong) Limited (萬國數據服務(香港)有限公司)	Private	Company providing IDC services	April 18, 2008	Hong Kong	100%
34. EDP I (HK) Limited	Private	Assets holding company	June 28, 2018	Hong Kong	100%
35. EDJ II (HK) Limited	Private	Assets holding company	December 13, 2018	Hong Kong	100%
36. Wulanchabu Saile Data Science & Technology Co., Ltd.* (烏蘭察布塞勒數據科技有限公司)	Private	Company providing IDC services	December 19, 2019	PRC	nil ⁽¹⁾

Notes:

- (1) These subsidiaries are directly or indirectly wholly-owned by Management HoldCo which is held by five management personnel designated by our board of directors, details of which are set out in note below.
- (2) Management HoldCo is held as to 20% by five management personnel designated by our board of directors namely, 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), respectively. Management HoldCo is controlled by our Company through a series of contractual arrangements, details of which are set out in the paragraph headed “Contractual Arrangements” below.

LISTING ON NASDAQ AND REASONS FOR [REDACTED] ON THE HONG KONG STOCK EXCHANGE

On November 2, 2016, we completed an initial public offering and listing of our ADSs on Nasdaq under the symbol “GDS”. Since the date of our listing on Nasdaq and up to the Latest Practicable Date, our directors confirm that we had no instances of non-compliance with the rules of Nasdaq in any material respects and to the best knowledge of our directors after having made all reasonable enquiries, there is no matter that should be brought to investors’ attention in relation to our compliance record on Nasdaq.

We believe that [REDACTED] on the Hong Kong Stock Exchange will present us with an opportunity to further expand our investor base and broaden our access to capital markets.

OUR HISTORY AND CORPORATE STRUCTURE

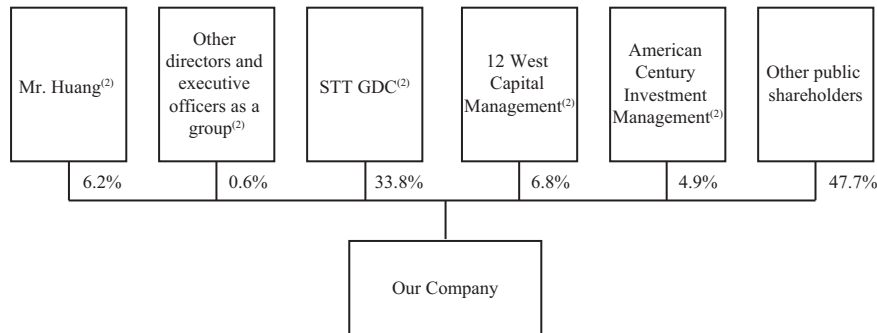
Notes:

1. EDC Holding Limited has 59 direct and indirect subsidiaries incorporated in Hong Kong, and 4 direct and indirect subsidiaries incorporated in British Virgin Islands, Macau and Singapore.
 2. GDS Investment Company directly or indirectly holds equity interest of 37 subsidiaries in China.
 3. Management HoldCo is held as to 20% by five management personnel designated by our board of directors namely, 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) respectively.
 4. Jiangsu Wan Guo Xing Tu Data Services Co., Ltd.* (江蘇萬國星圖數據服務有限公司) or Jiangsu Wan Guo Xing Tu, effectively controls a project company, Nantong Wanguo Yunzhen Data Science & Technology Co., Ltd.* (南通萬國雲臻數據科技有限公司) or Nantong Yunzhen, to operate the joint venture data center in Nantong, China through a series of contractual arrangements among Jiangsu Wan Guo Xing Tu, Nantong Yunzhen’s shareholder, Shanghai Xingchang Enterprise Management Company Limited or Shanghai Xingchang, and Shanghai Xingchang’s shareholders.
- * The diagram above does not include our subsidiaries that are insignificant individually and in the aggregate.

OUR HISTORY AND CORPORATE STRUCTURE

SHAREHOLDING STRUCTURE

The following diagram illustrates our shareholding structure expressed in terms of voting power, with Class A ordinary shares and Class B ordinary shares voting on a 1:1 basis as of the Latest Practicable Date (without taking into account, the Shares to be issued on conversion of convertible bonds, 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 that we may make)⁽¹⁾:

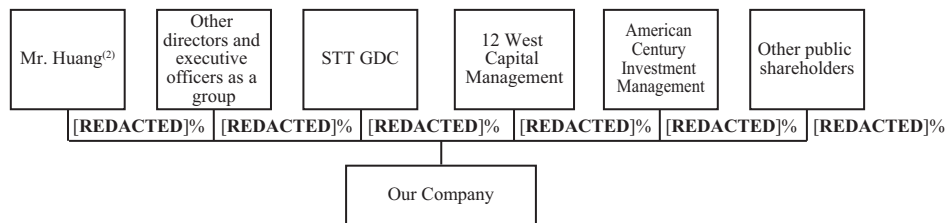


Notes:

- (1) The calculations in the chart above assume there are 1,294,702,851 Shares (including (i) 67,590,336 Class B ordinary shares, (ii) 1,243,588,819 Class A ordinary shares and (iii) the 33,707,864 votes to which the holders of the 150,000 Series A convertible preferred shares are entitled, but excluding ordinary shares issuable upon (x) conversion of our convertible senior notes, (y) the exercise or vesting of share awards granted under our Share Incentive Plans, and the 50,184,168 Class A ordinary shares held by JPMorgan Chase Bank, N.A., as depositary, which are reserved for future delivery upon the exercise or vesting of share awards granted under our Share Incentive Plans) outstanding as of Latest Practicable Date.
- (2) Shares held by Mr. Huang represents (i) 3,286,144 Class B ordinary shares held by Solution Leisure Investment Limited, (ii) 42,975,884 Class B ordinary shares held by EDC Group Limited, (iii) 21,328,308 Class B ordinary shares held by GDS Enterprises Limited, and (iv) 12,855,904 Class A ordinary shares in the form of 1,606,988 ADSs held by himself. See “Major Shareholders” for further details on the voting rights and the beneficial ownership of each of Mr. Huang, STT GDC, EDC Group Limited, 12 West Capital Management and American Century Investment Management. With respect to (i) the election or removal of a simple majority of our directors and (ii) any change to our amended articles of association that would adversely affect the rights of the holders of Class B ordinary shares, at general meetings of our shareholders, each Class A ordinary share is entitled to one vote per share, and each Class B ordinary share is entitled to 20 votes per share. With respect to any other matters at general meetings of our shareholders, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to one vote, voting together as a combined class.

OUR HISTORY AND CORPORATE STRUCTURE

The following diagram illustrates our shareholding structure expressed in terms of voting power, with Class A ordinary shares and Class B ordinary shares voting on 1:1 basis immediately upon the completion of the [REDACTED] (assuming all major shareholders’ shareholding remain unchanged as of the Latest Practicable Date but assuming the [REDACTED] and without taking into account the Shares to be issued on conversion of convertible bonds, the Shares to be issued pursuant to the Share Incentive Plan, 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 that we may make and assuming the [REDACTED] is not exercised)⁽¹⁾:



Notes:

- (1) The calculations in the chart above are based on the total number of [REDACTED] ordinary shares in issue (including (i) 67,590,336 Class B ordinary shares, (ii) 1,243,588,819 Class A ordinary shares and (iii) the 33,707,864 votes to which the holders of the 150,000 Series A convertible preferred shares are entitled, but excluding ordinary shares issuable upon (x) conversion of our convertible senior notes, (y) the exercise or vesting of share awards granted under our Share Incentive Plans, and the 50,184,168 Class A ordinary shares held by JPMorgan Chase Bank, N.A., as depositary, which are reserved for future delivery upon the exercise or vesting of share awards granted under our Share Incentive Plans; and assuming the [REDACTED] is not exercised) following the completion of the [REDACTED].
- (2) Shares held by Mr. Huang represents (i) 3,286,144 Class B ordinary shares held by Solution Leisure Investment Limited, (ii) 42,975,884 Class B ordinary shares held by EDC Group Limited, (iii) 21,328,308 Class B ordinary shares held by GDS Enterprises Limited, and (iv) 12,855,904 Class A ordinary shares in the form of 1,606,988 ADSs held by himself.

SPECIAL RIGHTS GRANTED TO SPECIFIC SHAREHOLDERS

Our Company has granted certain special rights to specific holders of our Class A ordinary shares and our convertible preferred shares which are not available to other shareholders of Class A ordinary shares. See “Risk Factors — Risks Related to Our Corporate Structure — Our corporate actions are substantially controlled by our principal shareholders, including our founder, chairman and chief executive officer, Mr. Huang, who have the ability to control or exert significant influence over important corporate matters that require approval of shareholders, which may deprive you of an opportunity to receive a premium for your Shares and/or ADSs and materially reduce the value of your [REDACTED].”

OUR HISTORY AND CORPORATE STRUCTURE

Special Rights Granted to STT GDC

Our Company has granted STT GDC the following special rights pursuant to the investor rights agreements between the Company and STT GDC, originally dated October 23, 2017 (together with its interim amendments on March 27, 2019 and December 10, 2019) and dated June 26, 2020 (together with its interim amendment on August 4, 2020, the "**STT GDC Investor Rights Agreement**"), the sixth amended and restated members agreement dated May 19, 2016 entered into between the Company and certain investors including STT GDC (the "**Members Agreement**"), the information rights agreement between the Company and STT GDC dated November 7, 2016 (the "**Information Rights Agreement**") and under our Articles of Association and charters of our Compensation Committee, Nominating and Corporate Governance Committee and Executive Committee:

Anti-dilution right: Pursuant to the STT GDC Investor Rights Agreement, STT GDC was granted a pre-emptive right with respect to future issuances of equity or equity linked securities by our Company any time within 18 months following June 26, 2020, whereby STT GDC has the right to subscribe for up to a 35% pro rata share of any such future issuances of securities.

Appointment of directors: In connection with our Company's IPO in November 2016, we have granted directors' appointment rights to STT GDC. Our Articles of Association provides that for so long as STT GDC beneficially owns: (i) not less than 25% of our issued and outstanding share capital on an as converted basis, they may appoint three directors to our board, including its vice-chairman; (ii) less than 25%, but not less than 15%, of our issued and outstanding share capital on an as converted basis, they may appoint two directors to the board, including its vice-chairman; and (iii) less than 15%, but not less than 8%, of our issued and outstanding share capital on an as converted basis, they may appoint one director to the board, including its vice-chairman, none of which appointments will be subject to a vote by our shareholders.

OUR HISTORY AND CORPORATE STRUCTURE

Right to requisition an extraordinary general meeting: In connection with our Company's IPO in November 2016, we have granted requisition right to STT GDC. For so long as STT GDC has the right to nominate or appoint directors to the board according to our Articles of Association, STT GDC shall at all times have the right, by written requisition to the board or the secretary of our Company, to require an extraordinary general meeting to be called by the board for the transaction of any business necessary for the nomination and appointment of any such directors.

Committee rights: In connection with our Company's IPO in November 2016, we have granted committee rights to STT GDC. The charters (or terms of reference) of three of our board's committees contain provisions regarding representation by STT GDC:

- a. Under the Compensation Committee Charter of our Company, the Compensation Committee must consist of three members, one of whom shall be a STT GDC director for so long as STT GDC has the right to appoint one or more directors to the board. The chairman of the Compensation Committee shall be a Compensation Committee member that is a STT GDC director for so long as STT GDC has the right to appoint one or more directors to the board.
- b. Under the Nominating and Corporate Governance Committee Charter of our Company, the Nominating and Corporate Governance Committee must consist of three members, one of whom shall be a STT GDC director for so long as STT GDC has the right to appoint one or more directors to the board.

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- c. Under the Executive Committee Charter of the Company, the Executive Committee must consist of at least four members, initially one of whom shall be a STT GDC director and one of whom shall be a person designated by STT GDC for so long as STT GDC has the right to appoint one or more directors to the board. The chairman shall initially be a member that is a STT GDC director for so long as STT GDC has the right to appoint one or more directors to the board.

Registration rights:

Pursuant to the Members Agreement, our Company granted STT GDC registration rights to effect a registration, qualification or compliance with respect to Registrable Securities (as defined in the Members Agreement) to permit or facilitate the sale and distribution of such Registrable Securities within a specified time after receipt of a written request remain effective. Such registration rights shall expire five years after our Company's listing in the U.S. in November 2016, but according to the Investor Rights Agreement, our Company undertook to STT GDC that it shall either (i) modify the Members Agreement to provide that such registration rights will terminate only when all such Registrable Securities may then be sold under Rule 144 under the Securities Act without volume limitations; (ii) grant registration rights to STT GDC substantially identical to those as described in the immediately preceding clause (i); or (iii) in the event that our Company is unable to perform the actions described in the immediately preceding clauses (i) and (ii), act so as to effect the intent of clause (i) to the greatest extent possible under the circumstances.

Information rights:

Pursuant to the Information Rights Agreement, the Company granted to STT GDC the right to receive certain information from our Company on a periodic basis for so long as STT GDC or any of its affiliates has the right to appoint one or more directors to the board.

OUR HISTORY AND CORPORATE STRUCTURE

[REDACTED]

Special Rights Granted to PA Goldilocks, Hillhouse and other shareholders

Our Company granted to PA Goldilocks Limited (“**PA Goldilocks**”), an affiliate of China Ping An Insurance Overseas (Holdings) Limited (“**Ping An**”, a subsidiary of Ping An Insurance (Group) Company of China), which holds US\$150 million convertible preferred shares of the Company convertible into Class A ordinary shares (33,707,864 Class A ordinary shares or 4,213,483 ADSs at a conversion rate corresponding to a conversion price of US\$35.60 per ADS, representing 2.64% of the enlarged Class A ordinary share capital prior to [REDACTED] on an as converted basis) at any time at Ping An’s election (through an Investor Rights Agreement dated March 13, 2019, the “**Ping An IRA**”, entered into with PA Goldilocks and amended on June 26, 2020): (a) pre-emptive rights with respect to issuances of new securities in unregistered offerings for 18 months from the date of the agreement, or until September 13, 2020; and (b) registration rights to effect a registration, qualification or compliance with respect to Registrable Securities (as defined in the agreement) to permit or facilitate the sale and distribution of such Registrable Securities within a specified time after receipt of a written request. Through the Ping An IRA, our Company also granted to PA Goldilocks the right to designate one non-voting observer to attend any meetings of our board, subject to it and/or its affiliates continuing to hold such number of convertible preferred shares, or Class A ordinary shares post-conversion, which are equal to at least ninety percent (90%) of the total number of convertible preferred shares that were originally issued to PA Goldilocks, which percentage shall be subject to adjustment for any Recapitalization (as defined in the Ping An IRA) that does not trigger an adjustment of the conversion rate of the convertible preferred shares pursuant to and in accordance with their terms.

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Our Company has also granted to Hillhouse Capital ("Hillhouse") (through an Investor Rights Agreement dated June 26, 2020, the "Hillhouse Investor Rights Agreement", entered into with its affiliates, Gaoling Fund L.P. and YHG Investment, L.P.) registration rights to effect a registration, qualification or compliance with respect to Registrable Securities (as defined in the Hillhouse Investor Rights Agreement) to permit or facilitate the sale and distribution of such Registrable Securities within a specified time after receipt of a written request.

Pursuant to the Members Agreement, other than STT GDC, our Company granted Seabright SOF(I) Paper Limited, Maxpoint Development Limited, Forebright Management Limited, SBCVC Fund II, L.P., SBCVC Fund II-Annex, L.P., SBCVC Company Limited, SBCVC Venture Capital and SBCVC Fund III L.P., registration rights to effect a registration, qualification or compliance with respect to Registrable Securities (as defined in the Members Agreement) to permit or facilitate the sale and distribution of such Registrable Securities within a specified time after receipt of a written request remain effective. Such registration rights shall expire five years after our Company's listing in the U.S. in November 2016.

Unless otherwise disclosed above, all special rights granted to the above shareholders will survive after [REDACTED].

Reasons for Granting such Special Rights

The special rights to STT GDC were granted in recognition of the strategic importance of STT GDC as an investor of our Company and as part of the governance structure agreed with STT GDC in connection with our Company's IPO in November 2016, as part of the arrangement that gave Mr. Huang super voting rights to nominate/appoint/elect a simple majority of our board. The registration rights are customary rights granted for a U.S. listed company and information rights are granted in consideration of prior investments by STT GDC. It was commercially and strategically reasonable from our Company's perspective to facilitate STT GDC's maintenance of its significant shareholding in our Company. We consider STT GDC's support and participation in our capital markets financing transactions to be for the benefit of our Company as well as our shareholders as a whole.

The special rights to PA Goldilocks were granted in recognition of the significant investment made by the investor as well as our desire to see such investor maintain its significant shareholding interest in our Company. The registration rights to Hillhouse and to Seabright SOF(I) Paper Limited, Maxpoint Development Limited, Forebright Management Limited, SBCVC Fund II, L.P., SBCVC Fund II-Annex, L.P., SBCVC Company Limited, SBCVC Venture Capital and SBCVC Fund III L.P. under the Members Agreement are customary rights granted for a U.S. listed company. As such, we consider that the granting of special rights to PA Goldilocks, Hillhouse, Seabright SOF(I) Paper Limited, Maxpoint Development Limited, Forebright Management Limited, SBCVC Fund II, L.P., SBCVC Fund II-Annex, L.P., SBCVC Company Limited, SBCVC Venture Capital and SBCVC Fund III L.P. to be beneficial to both our Company and our shareholders as a whole.

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Our directors have reviewed the terms of the STT GDC Investor Rights Agreement, the Members Agreement, the Information Rights Agreement, the Ping An IRA and the Hillhouse Investor Rights Agreement, including the special rights granted to STT GDC, PA Goldilocks, Hillhouse, Seabright SOF(I) Paper Limited, Maxpoint Development Limited, Forebright Management Limited, SBCVC Fund II, L.P., SBCVC Fund II-Annex, L.P., SBCVC Company Limited, SBCVC Venture Capital and SBCVC Fund III L.P. and, with a view to the best interests of our Company and the commercial benefits to our Company, our directors have approved the relevant documentation in a duly-convened board meeting. Having considered that our directors have exercised fiduciary duty in approving the relevant documents with a view to the best interests of us and the commercial benefits to our Company, and granting of such rights was driven by commercial reasons, and after consultation with our legal advisers, we are of the view that (i) the granting of such special rights does not contravene with the shareholders' protection required under Rule 19C.07 of the Hong Kong Listing Rules, the relevant U.S. federal securities law and the Nasdaq Listing Rules; and (ii) the terms of the relevant investment agreements in relation to the grant of such special rights do not violate the applicable laws and regulation in the Cayman Islands.

Sponsors' confirmation

The Joint Sponsors have reviewed the relevant documents and information in relation to the grant of the special rights set out in the paragraph headed "SPECIAL RIGHTS GRANTED TO SPECIFIC SHAREHOLDERS" above, have participated in the due diligence and discussions with our management and relevant legal advisers, and have reviewed the practices of other listed companies in the United States and Hong Kong in relation to the grant to specific investors of certain rights which are similar to those granted by our Company. Based on the above, the Joint Sponsors are of the view that nothing has come to their attention that would lead them to cast doubt on the conclusion of the Company that (i) granting of the special rights does not contravene with the shareholders' protection requirements under Rule 19C.07 of the Hong Kong Listing Rules, the relevant U.S. federal securities law and the Nasdaq Listing Rules; and (ii) the terms of the relevant investment agreements in relation to the grant of such special rights do not violate the applicable law and regulation in the Cayman Islands.

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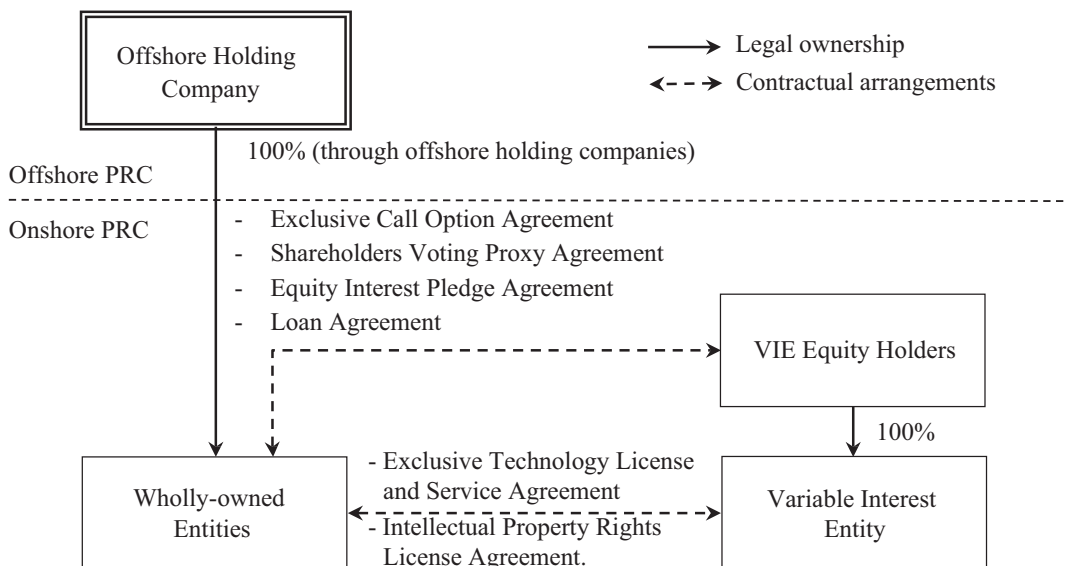
CONTRACTUAL ARRANGEMENTS

Due to PRC legal restrictions on foreign ownership and investment in value-added telecommunications businesses in China, and internet data center or IDC services in particular, we currently conduct these activities mainly through our PRC consolidated VIEs, namely Management HoldCo, GDS Shanghai, GDS Beijing and its subsidiaries. Each of GDS Beijing and GDS Shanghai holds an IDC license which is required to operate our business. We effectively control GDS Beijing, GDS Shanghai and their shareholder, Management HoldCo, through a series of contractual arrangements among these consolidated VIEs, Management HoldCo's shareholders and GDS Investment Company. These contractual arrangements allow us to:

- exercise effective control over our consolidated VIEs, namely Management HoldCo, GDS Shanghai, GDS Beijing and its subsidiaries;
- receive substantially all of the economic benefits of our variable interest entities; and
- have an exclusive option to purchase all or part of the equity interests in Management HoldCo, GDS Beijing and GDS Shanghai when and to the extent permitted by PRC law.

As a result of these contractual arrangements, we are the primary beneficiary of Management HoldCo, GDS Beijing, GDS Shanghai, and their subsidiaries. We have consolidated their financial results in our consolidated financial statements in accordance with U.S. GAAP.

The following diagram is a simplified illustration of the ownership structure and contractual arrangements for variable interest entities of our Group:



OUR HISTORY AND CORPORATE STRUCTURE

Contractual Arrangements with GDS Shanghai, GDS Beijing and Management HoldCo and its shareholders

Our relationships with GDS Shanghai, GDS Beijing and Management HoldCo and its shareholders are governed by a series of contractual arrangements. The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, GDS Investment Company, GDS Shanghai, GDS Beijing, Management HoldCo and its shareholders.

Agreements that Provide us with Effective Control over GDS Beijing, GDS Beijing’s subsidiaries and GDS Shanghai

Equity Interest Pledge Agreements. Pursuant to the equity interest pledge agreements, Management HoldCo has pledged all of its equity interest in GDS Beijing and GDS Shanghai as a continuing first priority security interest, as applicable, to respectively guarantee GDS Beijing’s, GDS Shanghai’s and Management HoldCo’s performance of their obligations under the relevant contractual arrangement, which include the exclusive technology license and service agreement, loan agreement, exclusive call option agreement, shareholder voting rights proxy agreement, and intellectual property rights license agreement. If GDS Beijing or GDS Shanghai or Management HoldCo breaches their contractual obligations under these agreements, GDS Investment Company, as pledgee, will be entitled to certain rights regarding the pledged equity interests, including receiving proceeds from the auction or sale of all or part of the pledged equity interests of GDS Beijing and GDS Shanghai in accordance with PRC law. Management HoldCo agrees that, during the term of the equity interest pledge agreements, it will not dispose of the pledged equity interests or create or allow creation of any encumbrance on the pledged equity interests without the prior written consent of GDS Investment Company. The equity interest pledge agreements remain effective until GDS Beijing and GDS Shanghai and Management HoldCo discharge all their obligations under the contractual arrangements. We have registered the equity pledge by both GDS Beijing and GDS Shanghai in favor of GDS Investment Company with the relevant office of the Administration for Market Regulation in accordance with the PRC Property Rights Law.

Shareholder Voting Rights Proxy Agreement. Pursuant to the shareholder voting rights proxy agreements, each of GDS Beijing, GDS Shanghai and Management HoldCo has irrevocably appointed the PRC citizen(s) as designated by GDS Investment Company to act as GDS Beijing’s, GDS Shanghai’s and Management HoldCo’s exclusive attorney-in-fact to exercise all shareholder rights, including, but not limited to, voting on all matters of GDS Beijing, GDS Beijing’s subsidiaries and GDS Shanghai requiring shareholder approval, and appointing directors and executive officers. GDS Investment Company is also entitled to change the appointment by designating another PRC citizen(s) to act as exclusive attorney-in-fact of GDS Beijing, GDS Shanghai and Management HoldCo with prior notice to Management HoldCo. Each shareholder voting rights proxy agreement will remain in force for so long as Management HoldCo remains a shareholder of GDS Beijing or GDS Shanghai, as applicable.

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Agreements that Provide us with Effective Control over our Management HoldCo

Equity Interest Pledge Agreements. Pursuant to the equity interest pledge agreements, each shareholder of Management HoldCo has pledged all of his or her equity interest in Management HoldCo as a continuing first priority security interest, as applicable, to respectively guarantee Management HoldCo's and its shareholders' performance of their obligations under the relevant contractual arrangement, which include the exclusive technology license and service agreement, loan agreement, exclusive call option agreement, shareholder voting rights proxy agreement, and intellectual property rights license agreement. If Management HoldCo or any of its shareholders breaches their contractual obligations under these agreements, GDS Investment Company, as pledgee, will be entitled to certain rights regarding the pledged equity interests, including receiving proceeds from the auction or sale of all or part of the pledged equity interests of Management HoldCo in accordance with PRC law. Each of the shareholders of Management HoldCo agrees that, during the term of the equity interest pledge agreements, he or she will not dispose of the pledged equity interests or create or allow creation of any encumbrance on the pledged equity interests without the prior written consent of GDS Investment Company. The equity interest pledge agreements remain effective until Management HoldCo and its shareholders discharge all their obligations under the contractual arrangements. We have registered the equity pledge by Management HoldCo in favor of GDS Investment Company with the relevant office of the Administration for Market Regulation in accordance with the PRC Property Rights Law.

Shareholder Voting Rights Proxy Agreement. Pursuant to the shareholder voting rights proxy agreements, each of the shareholders of Management HoldCo and Management HoldCo has irrevocably appointed the PRC citizen(s) as designated by GDS Investment Company to act as such shareholder's and Management HoldCo's exclusive attorney-in-fact to exercise all shareholder rights, including, but not limited to, voting on all matters of Management HoldCo and its subsidiaries requiring shareholder approval, and appointing directors and executive officers. GDS Investment Company is also entitled to change the appointment by designating another PRC citizen(s) to act as exclusive attorney-in-fact of the shareholders of Management HoldCo and Management HoldCo with prior notice to such shareholders. Each shareholder voting rights proxy agreement will remain in force for so long as the shareholder remains a shareholder of Management HoldCo, as applicable.

Agreements that Allow us to Receive Economic Benefits from GDS Beijing and GDS Shanghai

Exclusive Technology License and Service Agreements. Under the exclusive technology license and service agreements, GDS Investment Company licenses certain technology to each of GDS Beijing and GDS Shanghai and GDS Investment Company has the exclusive right to provide GDS Beijing and GDS Shanghai with technical support, consulting services and other services. Without GDS Investment Company's prior written consent, each of GDS Beijing and GDS Shanghai agrees not to accept the same or any similar services provided by any third party. Each of GDS Beijing and GDS Shanghai agrees to pay service fees on a yearly basis and at an amount equivalent to all of its net profits as confirmed by GDS Investment Company.

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GDS Investment Company owns the intellectual property rights arising out of its performance of these agreements. In addition, each of GDS Beijing and GDS Shanghai has granted GDS Investment Company an exclusive right to purchase or to be licensed with any or all of the intellectual property rights of either GDS Beijing or GDS Shanghai at the lowest price permitted under PRC law. Unless otherwise agreed by the parties, these agreements will continue remaining effective.

Intellectual Property Rights License Agreement. Pursuant to an intellectual property rights license agreement between GDS Investment Company and each of GDS Beijing and GDS Shanghai, GDS Beijing and GDS Shanghai has granted GDS Investment Company an exclusive license to use for free any or all of the intellectual property rights owned by each of them from time to time, and without the parties' prior written consent, GDS Beijing and GDS Shanghai cannot take any actions, including without limitation to, transferring or licensing outside its ordinary course of business any intellectual property rights to any third parties, which may affect or undermine GDS Investment Company's use of the licensed intellectual property rights from GDS Beijing and GDS Shanghai. The parties have also agreed under the agreement that GDS Investment Company should own the new intellectual property rights developed by it regardless whether such development is dependent on any of the intellectual property rights owned by GDS Beijing and GDS Shanghai. This agreement can only be early terminated by prior mutual consent of the parties and need to be renewed upon GDS Investment Company's unilateral request.

Agreements that Allow us to Receive Economic Benefits from our Management HoldCo

Exclusive Technology License and Service Agreements. Under the exclusive technology license and service agreements, GDS Investment Company licenses certain technology to Management HoldCo and GDS Investment Company has the exclusive right to provide Management HoldCo with technical support, consulting services and other services. Without GDS Investment Company's prior written consent, Management HoldCo agrees not to accept the same or any similar services provided by any third party. Management HoldCo agrees to pay service fees on a yearly basis and at an amount equivalent to all of its net profits as confirmed by GDS Investment Company. GDS Investment Company owns the intellectual property rights arising out of its performance of these agreements. In addition, Management HoldCo has granted GDS Investment Company an exclusive right to purchase or to be licensed with any or all of the intellectual property rights of Management HoldCo at the lowest price permitted under PRC law. Unless otherwise agreed by the parties, these agreements will continue remaining effective.

Intellectual Property Rights License Agreement. Pursuant to an intellectual property rights license agreement between GDS Investment Company and Management HoldCo, Management HoldCo has granted GDS Investment Company an exclusive license to use for free any or all of the intellectual property rights owned by Management HoldCo from time to time, and without the parties' prior written consent, Management HoldCo cannot take any actions, including without limitation to, transferring or licensing outside its ordinary course of business any intellectual property rights to any third parties, which may affect or undermine

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GDS Investment Company's use of the licensed intellectual property rights from Management HoldCo. The parties have also agreed under the agreement that GDS Investment Company should own the new intellectual property rights developed by it regardless whether such development is dependent on any of the intellectual property rights owned by Management HoldCo. This agreement can only be early terminated by prior mutual consent of the parties and need to be renewed upon GDS Investment Company's unilateral request.

Agreements that Provide Us with the Option to Purchase the Equity Interest in GDS Beijing and GDS Shanghai

Exclusive Call Option Agreements. Pursuant to the exclusive call option agreements, Management HoldCo has irrevocably granted GDS Investment Company an exclusive option to purchase, or have its designated person or persons to purchase, at its discretion, to the extent permitted under PRC law, all or part of Management HoldCo's equity interests in GDS Beijing and GDS Shanghai. The purchase price should be equal to the minimum price required by PRC law or such other price as may be agreed by the parties in writing. Without GDS Investment Company's prior written consent, Management HoldCo has agreed that each of GDS Beijing and GDS Shanghai shall not amend its articles of association, increase or decrease the registered capital, sell or otherwise dispose of its assets or beneficial interest, create or allow any encumbrance on its assets or other beneficial interests, provide any loans, distribute dividends to the shareholders and etc. These agreements will remain effective until all equity interests of GDS Beijing and GDS Shanghai held by their shareholders have been transferred or assigned to GDS Investment Company or its designated person(s).

Loan Agreements. Pursuant to the loan agreements between GDS Investment Company and Management HoldCo, GDS Investment Company has agreed to extend loans in an aggregate amount of RMB310.1 million to Management HoldCo solely for the capitalization of GDS Beijing and GDS Shanghai. Pursuant to the loan agreements, GDS Investment Company has the right to require repayment of the loans upon delivery of 30 days' prior notice to Management HoldCo, and Management HoldCo can repay the loans by either sale of their equity interests in GDS Beijing and GDS Shanghai to GDS Investment Company or its designated person(s) pursuant to their respective exclusive call option agreements, or other methods as determined by GDS Investment Company pursuant to its articles of association and the applicable PRC laws and regulations.

Agreements that Provide Us with the Option to Purchase the Equity Interest in Management HoldCo

Exclusive Call Option Agreements. Pursuant to the exclusive call option agreements, each shareholder of Management HoldCo has irrevocably granted GDS Investment Company an exclusive option to purchase, or have its designated person or persons to purchase, at its discretion, to the extent permitted under PRC law, all or part of such shareholder's equity interests in Management HoldCo. The purchase price should be equal to the minimum price required by PRC law or such other price as may be agreed by the parties in writing. Without GDS Investment Company's prior written consent, the shareholders of Management HoldCo

OUR HISTORY AND CORPORATE STRUCTURE

have agreed that Management HoldCo shall not amend its articles of association, increase or decrease the registered capital, sell or otherwise dispose of its assets or beneficial interest, create or allow any encumbrance on its assets or other beneficial interests, provide any loans, distribute dividends to the shareholders and etc. These agreements will remain effective until all equity interests of Management HoldCo held by its shareholders have been transferred or assigned to GDS Investment Company or its designated person(s).

Loan Agreements. Pursuant to the loan agreements between GDS Investment Company and the shareholders of Management HoldCo, GDS Investment Company has agreed to extend loans in an aggregate amount of RMB1 million to the shareholders of Management HoldCo solely for the capitalization of Management HoldCo. Pursuant to the loan agreements, GDS Investment Company has the right to require repayment of the loans upon delivery of 30 days' prior notice to the shareholders, and the shareholders can repay the loans by either sale of their equity interests in Management HoldCo to GDS Investment Company or its designated person(s) pursuant to their respective exclusive call option agreements, or other methods as determined by GDS Investment Company pursuant to its articles of association and the applicable PRC laws and regulations.

As a result of these contractual arrangements, we have the power to direct the activities of GDS Shanghai and GDS Beijing and its subsidiaries, and through the service fees paid to us under the exclusive technology license and service agreement, we can receive substantially all of the economic benefits of GDS Shanghai and GDS Beijing and its subsidiaries even though we do not receive all of the revenues generated by GDS Shanghai and GDS Beijing and its subsidiaries.

In the opinion of King & Wood Mallesons, our PRC legal counsel,

- (i) the ownership structures of GDS Investment Company, Management HoldCo, GDS Shanghai and GDS Beijing, currently do not violate any of the applicable PRC laws or regulations currently in effect; and
- (ii) the contractual arrangements among GDS Investment Company, Management HoldCo, GDS Shanghai, GDS Beijing, and the shareholders of Management HoldCo, are governed by PRC law, and are currently valid, binding and enforceable in accordance with the applicable PRC laws or regulations currently in effect, and do not violate any of the applicable PRC laws or regulations currently in effect.

Furthermore, as of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our business through the various variable interest entities under the contractual arrangements.

However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules; accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws

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or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or our VIEs are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. See “Risk Factors — Risks Related to Our Corporate Structure.”

If the current foreign ownership restrictions under the relevant PRC laws in the value-added telecommunications business in China, and internet data center or IDC services in particular, cease to exist, we will assess and consider unwinding the above contractual arrangements as appropriate after taking into account factors such as policy, cost and tax considerations at the relevant time.

We have determined that the costs of insurance for the risks associated with our corporate structure and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Accordingly, as of the Latest Practicable Date, we did not purchase any insurance to cover the risks relating to the contractual arrangements.

INDUSTRY OVERVIEW

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications, and from the market research report prepared by iResearch, which was commissioned by us. We believe that the information has been derived from appropriate sources such as iResearch's database, publicly available information sources, industry reports, as well as data obtained from interviews and other sources. We believe that we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading, or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us, [REDACTED], the Joint Sponsors, [REDACTED], any of our or their respective directors, officers, representatives, employees, agents or professional advisers, or any other person or party (except iResearch) involved in [REDACTED], and no representation is given as to its completeness, accuracy or fairness. Accordingly, such information should not be unduly relied upon. The information and statistics may not be consistent with other information and statistics compiled within or outside of China.

Introduction to the Data Center Industry

Data Center Services

A data center is a specialized facility designed to house server, storage and networking equipment used to deliver mission-critical business applications, data and content.

Data centers can be owned and operated in-house by the companies that use such infrastructure, or outsourced to professional data center service providers, who typically offer colocation services and managed services.

- Colocation generally refers to a data center configuration where shared or private space in a secure environment with power and cooling is available for use by customers. Such space, power and cooling are used to house and support customers' servers and related IT equipment.
- Managed services generally encompass a wider array of value-added services related to use of colocation facilities, such as business continuity and disaster recovery solutions, management of IT operations, direct private connection to cloud services, and platforms for managing hybrid clouds.

INDUSTRY OVERVIEW

Benefits of Outsourcing Data Center Services

In the past, outsourced data center facilities were mainly used by enterprises as an alternative to on-premise capacity or for the purpose of IT system redundancy. In recent years, as enterprises increasingly adopt multi-cloud technologies, they are faced with greater technical challenges in hosting their IT infrastructure on their premises. Moreover, cloud service providers have themselves emerged as a major new customer segment for data center services. By aggregating demand from multiple users, including large enterprises, SMEs, internet companies and government, the leading cloud service providers have reached an unprecedented scale in terms of their IT capacity. As compared with traditional enterprise customers, they require larger data centers, with proportionately more power capacity, the ability to expand flexibly, optimum operating efficiency, and multi-market presence. Given the challenges of developing and operating this kind of data center resource, cloud service providers have chosen to outsource a significant part of their requirement to specialist data center companies.

Significant cost saving. Outsourcing data center infrastructure allows companies to avoid the investments associated with building their own facilities, to access higher-quality infrastructure and professional services, and to benefit from economies of scale. Companies that outsource data center infrastructure can concentrate their capital and management resources on core business activities. Specifically, cloud service providers realize cost savings and other operational benefits over the data center life cycle by outsourcing selectively to data center companies.

Continuous supply with flexibility and customizability. Data center service providers can expand flexibly as the capacity requirements of customers increases. Data center service providers plan and implement their capacity expansion based on the requirements of all their customers. Furthermore, data centers can be designed and configured to serve a wide range of customers with different space, power, network and cloud configuration requirements inside the same facility, including those proprietary design and specifications for IT hardware, server racks, and computer rooms required by cloud service providers.

Reliability and efficiency. Data center service providers offer highly secure and reliable environments to house servers and related IT equipment with significant redundancy, which delivers high availability to customers. Outsourced data centers may also have high power density and superior power management, resulting in operational efficiency and reduced carbon footprint.

Key Customer Segments

Major customer verticals include cloud service providers, internet companies, financial institutions, and other large enterprises and public services. Availability, reliability and efficiency are the key value propositions appealing to these customers.

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Cloud service providers. Hyperscale cloud service providers require large data center capacity and the ability to expand flexibly. They operate their IT infrastructure at much higher levels of utilization than most enterprises, which requires data centers with a higher ratio of power to net floor area. They also have their own proprietary design specifications for IT hardware, server racks, and computer rooms. Data center service providers are required to develop their own in-house data center design capability to meet the evolving demand of cloud service providers, which can only be achieved through advanced technical design and execution.

Internet companies. Certain large internet companies are among the leading cloud service providers in China. They use their cloud platforms for their own internal IT, as well as to provide services to their external customers. Other large internet companies have their own private clouds and, in certain cases, also use public cloud services. As such, the data center requirements of large internet companies as a customer segment overlap to a large degree with the requirements of cloud service providers as a customer segment.

Financial institutions. Financial institutions, including banks, insurance companies, and securities firms, are required by the government to house their IT systems in high availability data centers, whether self-built or outsourced, in order to ensure the uptime and security of their applications and data. Outsourced data center service providers must meet stringent design and operational compliance requirements in order to host the IT systems of financial institutions.

Large enterprise and public services. Businesses and government agencies in China are becoming more digitalized. The e-government initiatives by Chinese government increase public sector demand for data center space. Availability and reliable operations of data center services are their primary considerations.

To meet the demands of different customer segments, data center service providers usually operate on two different business models: wholesale and retail. In general, cloud service providers and large internet companies require a large net floor area per facility and a certain level of customization in order to house their own proprietary design of servers and racks. Under the wholesale model, data center service providers typically commit a significant portion or the entirety of a data center to such customers and obtain such commitments while new data centers are still under construction. The contract term can last as long as five to ten years with low churn rate. On the other hand, financial institutions, large enterprise and public services customers, which typically require fewer number of cabinets and no customization, can be satisfied under the retail model which entails multiple customers colocating in the same facility. The contract term for retail customers is typically shorter with higher unit pricing based on cabinets.

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Key Growth Drivers

Digitalization in China

China’s economy is increasingly digitalized both in its consumer and business sectors. Demand from the expanding internet user base, which is expected to grow from 881 million in 2019 to 1.1 billion in 2024 according to iResearch, has been driving the digitalization of consumer sectors. Various internet consumer services, including online videos, live streaming, online games and e-commerce, have experienced strong growth and will use increasing amounts of data. Business sectors have embraced digitalization with the support of developed digital infrastructures and favorable government policies.

Total data generation in China is expected to grow at a CAGR of 29.7% from 9.6 zettabytes in 2019 to 35.2 zettabytes in 2024 according to iResearch. To more effectively manage the higher demand for processing, storage, and transmission of data, enterprises and technology companies increasingly outsource some or all of their computing needs to cloud service providers, resulting in strong demand for cloud services and the underlying data center infrastructure.

Application of Emerging Technologies

The maturity and mass adoption of emerging technologies, such as cloud computing, 5G, artificial intelligence (“AI”), big data, machine learning, blockchain, internet of things (“IoT”), augmented reality (“AR”) and virtual reality (“VR”) is further adding to the demand for data processing, storage and transmission capacity. The increasing popularity of work-from-home and the development of smart cities, telemedicine and online education are accelerating the digitalization of traditional industries and bringing data usage to a new level.

5G has enhanced internet connectivity across China with significantly higher transmission speed and considerable reduction of latency, enabling applications with high data processing and transmission requirements. The shipment of 5G mobile phones in China is expected to grow from 13.8 million in 2019 to 290.4 million in 2024, growing at a CAGR of 84.0%, according to iResearch.

AI requires significant data computing and processing power, and has been adopted across various industries and verticals, such as autonomous driving. Market size in China for AI applications, which includes revenue derived from application of AI in major industries, is expected to increase from RMB57.0 billion in 2019 to RMB262.3 billion in 2024, growing at a CAGR of 35.7%, according to iResearch.

IoT improves the interconnectivity and control of devices, resulting in more devices being connected to the internet and to each other. The number of IoT devices is expected to increase from 4.6 billion in 2019 to 18.4 billion in 2024, growing at a CAGR of 32.1%, according to iResearch. AR and VR devices enabled by IoT also require significant graphics computing power and high-speed, real-time connections to the internet.

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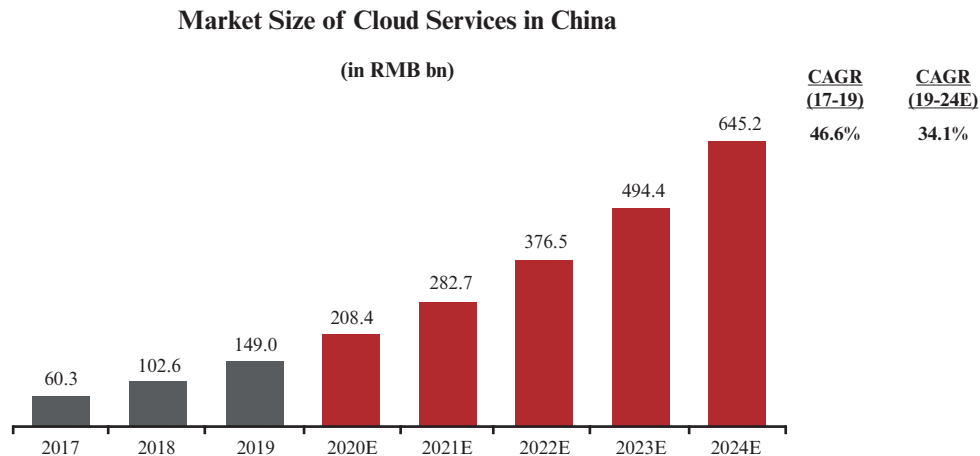
Support from Government Policies

Recently, the PRC government has promoted the concept of “new infrastructure” which includes largescale data centers, artificial intelligence and industrial internet. Such policy orientation is ushering in new waves of investment at all levels of the economy, which will give rise to numerous opportunities benefiting the data center industry.

During the National People’s Congress and Chinese People’s Political Consultative Conference in May 2020, data centers were highlighted as key beneficiaries of the exponential growth of data traffic from 5G and IoT.

Rapid Adoption of Cloud Computing

Digitalization, new technologies and new infrastructure all contribute to the rapid adoption of and increased spending in public, private and hybrid cloud services by enterprises and government agencies in China. According to iResearch, China’s cloud services market in terms of revenue was RMB149.0 billion in 2019, as compared with US\$61.4 billion for the U.S. iResearch expects China’s cloud services market to increase at a CAGR of 34.1% from 2019 to 2024, as compared with a CAGR of 5.5% for the U.S.



The exponential growth of cloud services need to be supported by more and better data center services. Largescale and high-performance data centers are increasingly preferred by the companies that rely on cloud computing services.

Overview of the Data Center Industry in China

China’s data center market can be categorized as (1) carrier-neutral data centers and (2) carrier-operated data centers.

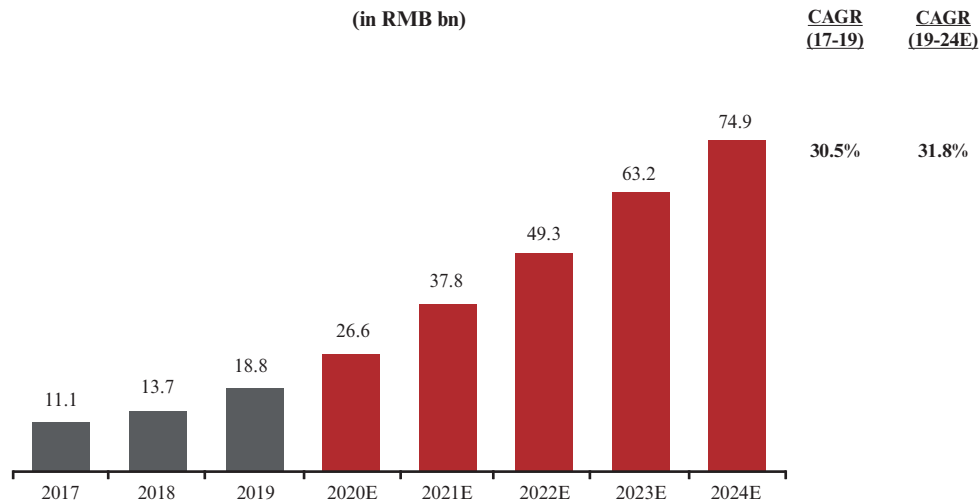
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Carrier-neutral data centers. Carrier-neutral data centers enable customers to connect with all the telecommunications networks present within their facilities. Carrier-neutral data center service providers vary in terms of data center quality, operational track record and differentiated managed service capabilities. Carriers may sometimes partner with carrier-neutral data centers to deliver a complete service package to customers.

Carrier-operated data centers. Telecommunications carriers develop data centers in part to facilitate the sale of related network services. In locations outside of the key economic hubs of China, telecommunications carriers sometimes are the only available providers of data center services.

According to iResearch, the total size of China’s data center services market in terms of revenue⁽¹⁾ was RMB33.4 billion in 2019, of which the carrier-neutral market accounted for RMB18.8 billion, representing 56.3% of the total market. This compares with a total size of the data center market in the U.S. of US\$29.8 billion in 2019. iResearch expects the carrier-neutral market to increase at a CAGR of 31.8% from 2019 to 2024, compared with a CAGR of 9.3% for the U.S. during the same period.

Market Size of Carrier-neutral Data Center Industry in China



Competitive Landscape

Carrier-operated data centers, offered by China’s three major telecommunications carriers, often rely on carriers’ own networks for connectivity and lack flexibility for customers to connect to other carriers’ networks. In contrast, carrier-neutral data centers offer connectivity to multiple telecommunications carriers in their facilities, providing customers the flexibility to choose which carrier to use based on cost and/or network and application requirements. As specialist data center service providers, carrier-neutral data center companies

Note:

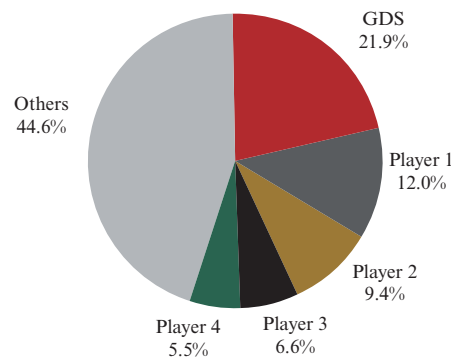
(1) For the purpose of this forecast, data center market revenue is based on data center related colocation and managed services, and excludes any non-data center related revenue.

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also compete based on service standards, data center performance, and responsiveness to customer requirements. As the data center industry further develops, carrier-neutral data centers have grown more rapidly than telecommunications carrier data centers.

The carrier-neutral data center market is fragmented with a few leading service providers with presence across several or all Tier 1 markets competing with different regional companies in each market. According to iResearch, GDS is the leading operator of carrier-neutral data centers in China in terms of revenue with 21.9% market share in 2019.

Market Share* of Carrier-neutral Data Center Players in 2019



High-performance Data Centers

High-performance data centers offer customers a high level of availability, power density and power efficiency. In order to achieve a high level of availability, high-performance data centers are typically equipped with 2N redundant delivery paths for power, cooling and other critical systems that satisfy or exceed the Tier III standard as defined by the Uptime Institute. 2N redundancy refers to a fully redundant, mirrored system with two independent power distribution systems and entails significant additional up-front investment and decreases the yield of net floor area in a building of a given size. According to iResearch, the power density of high-performance data centers is typically over 1.5kW/sqm, as compared to the industry average power density of 1kW/sqm in China, while the PUE level of high-performance data centers need to be lower than 1.5x, as compared to the average PUE level of 1.7x in China in 2019.

Benefits of high-performance data centers include (i) high availability, which satisfies the requirements of customers for housing their mission-critical IT infrastructure, and (ii) high power density and low PUE to allow customers to deploy their IT infrastructure more efficiently with optimal performance. High-performance data centers have become more valuable to customers to ensure continuous uptime for mission-critical IT systems, applications and data.

Notes:

* The market share of each industry player is presented in terms of its respective data center market revenue. The data center market revenue is based on data center related colocation and managed services, and excludes any non-data center related revenue.

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Regional Markets

According to iResearch, the major Chinese data center markets are primary economic hubs such as the areas in and around Shanghai, Beijing, Shenzhen, Guangzhou, Hong Kong, Chengdu and Chongqing, also known as Tier 1 markets. These locations are also telecommunications network hubs. However, due to scarcity in land supply and power supply permission in Tier 1 markets, data center players have started to develop data centers at the outer edge of Tier 1 markets. Such data centers can fulfill customers' requirements for larger deployments of IT capacity on a single site and to upscale over time, while remaining within acceptable parameters for network latency. According to iResearch, Tier 1 markets, together with the outer edge of Tier 1 markets, accounted for approximately 68% of China's data center market in terms of net floor area in 2019.

In addition to Tier 1 markets, data center players are also penetrating other locations via various models, such as build-to-suit, to accommodate customers' needs to house offline and less critical data and applications in larger capacities and more cost-effectively.

Future Trends

Through aggregation of demand from enterprises adopting emerging technologies with increasing data usage, cloud services providers will continue to be the key customer segment driving demand for data center services. The leading cloud service providers are mainly looking for data center service providers that can meet their specific requirements, including high capacity, high availability and high redundancy in each of availability zone in multiple presences in Tier 1 cities.

With increasing focus on energy consumption and efficiency by the government and enterprises, optimization of operational flows, improvement in power utility efficiency, and use of alternative energy are expected for data center providers to lower operating costs and reduce carbon footprint.

Entry Barriers

Limited supply of suitable sites: Due to constraints in securing suitable land, power supply, and regulatory approvals, it is challenging to develop new data center capacity, particularly in Tier 1 markets where demand is concentrated.

Platform with network effect: Leading players with a nationwide presence in Tier 1 markets have already built a platform of interconnected data centers across the largest Chinese cities that host all of the major public clouds. Such platform is able to deliver a multitude of benefits to customers, including direct and private access to all public cloud platforms, hybrid cloud solutions for large enterprise customers, connectivity across all telecommunications carriers and interconnection to other enterprise companies within and across facilities in China.

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It also enables its cloud service provider customers to expand their presence in the largest Chinese cities, creating a network effect around the enterprises and cloud service providers that reinforces the leading position of data center service providers.

Development and operational know-how: Data center development requires sourcing land and buildings, obtaining the necessary regulatory approvals, accessing adequately redundant power supply and high-quality telecommunications connectivity, carbon emission quotas, and the knowledge and know-how associated with designing, building, fitting out and commissioning high-performance facilities.

Track record: Due to the mission-critical nature of the IT equipment it houses, a data center must maintain continuous operations, monitoring and a high level of security. Operators with a strong operating track record are preferred by customers.

Customer relationships: Once customer equipment is installed in a data center, the relocation cost is high. If customers need additional space, they typically seek to stay in the same data center facility or with the same service provider.

Financial capacity: The development of data center sites and facilities requires significant upfront investment, especially for high-performance data centers.

Impact of COVID-19 on the Data Center and Cloud Services Industries

According to iResearch, the COVID-19 outbreak has had a generally positive impact on the data center and cloud services industries in China.

The increased awareness and implementation of social distancing during the outbreak have resulted in a surge in online activities and consumption of digital content including online video, online games and e-commerce. Businesses in various industries have also accelerated digitalization of their operations and migration to cloud. As a result, there has been increase in data volume and utilization of cloud services, which in turn translates into demand for data center services.

Although the outbreak has gradually been contained in the second quarter of 2020 in China, with work and school activities gradually resuming to pre-outbreak levels, there have been sustainable and structural changes in many industries as well as in consumer behaviors such as the increasing popularity of work-from-home, online education, telemedicine and online grocery shopping. These structural changes further drive long-term demand for cloud services and data center services.

The outbreak did, however, cause minor operational disruptions. There were challenges in achieving scheduled delivery of data center capacity and move-in of certain customers. These challenges were temporary and have gradually been resolved as lock-down restrictions imposed by local governments were lifted.

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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. We also build-to-suit and operate data centers at other locations selected by our customers in order to fulfill their broader requirements. 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 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 innovative and unique platform of interconnected data centers enables cloud service providers to expand in a flexible way in their key markets, and also enables enterprises to deploy their hybrid clouds in close proximity to the networked nodes of leading public clouds. 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. We have long-term contracts with our customers, which consist predominantly of hyperscale cloud service providers, large internet companies, financial institutions, telecommunications carriers and IT service providers, and large domestic private sector and multinational corporations. Many of our customers are leaders in their respective industries. 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. As of June 30, 2020, we had three joint venture data centers under construction with an aggregate net floor area of 11,665 sqm and three joint venture data centers in services with an aggregate net floor area of 11,665 sqm. As of June 30, 2020, the joint venture data centers were 100% committed or pre-committed.

We believe the market for high-performance data center services in China is experiencing strong growth. According to iResearch, the total size of China’s data center services market in terms of revenue was RMB33.4 billion in 2019, of which the carrier-neutral market accounted for RMB18.8 billion, representing 56.3% of the total market. iResearch expects the carrier-neutral market to increase at a CAGR of 31.8% from 2019 to 2024. Demand is driven by rapid growth in the volume of data created, transmitted, processed and stored as a result of the accelerating trend of digital transformation and the rising adoption of new technologies such as cloud computing, 5G, artificial intelligence, big data, machine learning, blockchain, internet of things (“IoT”), augmented and virtual reality, e-payments and digital currency. Demand is also driven by PRC government policies which consistently and actively support technology-driven development and the growth of the digital economy. Recently, the PRC government has promoted the concept of “new infrastructure” which includes, among other things, largescale data centers, artificial intelligence and industrial internet. Public cloud

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service providers aggregate demand from many users and, as result, have emerged as a rapidly growing customer segment for data center services with unprecedented capacity requirements. In 2019, China’s public cloud market became the second largest globally in terms of revenue, after the United States. According to iResearch, China’s cloud services market in terms of revenue is expected to grow from RMB149.0 billion in 2019 to RMB645.2 billion in 2024, representing a CAGR of 34.1%.

To satisfy such demand requires data centers which are largescale, both in terms of net floor area and power capacity, highly reliable in terms of uptime (which is referred to as “high availability”), and highly efficient in terms of power usage. With increasing scale, it has become increasingly challenging to source, develop and operate new facilities that meet the required standard, in particular to secure suitable land and buildings which can be developed or converted into data center facilities and to obtain the necessary regulatory approvals and power supply in China’s primary economic hubs where demand is concentrated. As a result, we believe that there is a relative scarcity of high-performance data center capacity in these areas.

Our platform of interconnected data centers and secured expansion capacity is strategically located to address this growing demand. We develop and operate our data centers predominantly in and around Shanghai, Beijing, Shenzhen, Guangzhou, Hong Kong, Chengdu and Chongqing, the primary financial, commercial, industrial and communications hubs in each region of China. We refer to the areas in and around these hubs as Tier 1 markets. Our customers typically use our data centers in Tier 1 markets to house their mission-critical, latency-sensitive data and applications. Our data center locations provide convenient access for our customers and, furthermore, the extensive multi-carrier telecommunications networks in these markets enable our customers to enhance the performance and lower the cost of connectivity to our facilities. In the past, our data centers were mainly clustered in key urban districts within each Tier 1 market in accordance with customer preference. More recently, in order to keep pace with demand and overcome the challenge of creating new supply, we are developing more data centers at strategic locations on the outer edge of these markets, including on campuses where we can expand capacity in multiple phases. These outer edge developments, which we still consider Tier 1 markets, enable our hyperscale customers to fulfill their requirement for larger deployments of IT capacity on a single site and to upscale over time, while remaining within acceptable parameters for network latency. In addition to our presence in Tier 1 markets, we build-to-suit and operate our own data centers and joint venture data centers at other locations selected by our customers in order to house their offline and less critical data and applications in lower cost areas where, at times, renewable energy sources are also accessible.

From our inception, we have built up our own in-house data center design capability, which we believe is unparalleled in the industry. We were one of the first movers in developing high-performance data centers in China, anticipating the trend for IT to become increasingly mission-critical, and then in combining high availability with larger net floor area and power capacity to meet the unprecedented requirements of hyperscale cloud service providers and large internet companies under the wholesale model. Our data centers are largescale, highly reliable and highly efficient facilities that provide a flexible, modular and secure operating

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environment in which our customers can house, power and cool the computer systems and networking equipment that support their mission-critical IT. We install high power density (which refers to the ratio of power capacity to net floor area) and optimize PUE, which enables our customers to deploy their IT systems more efficiently and reduce their operating and capital costs. As a result of our advanced data center design, high technical specifications and robust operating procedures, we are able to make service level commitments related to service availability and other key metrics that meet our customers’ required standards. Within our data centers, we have also developed an innovative service platform to assist our enterprise customers to integrate and control every aspect of their hybrid cloud computing environment across their private servers and one or more public cloud service providers.

As of June 30, 2020, we operated 42 self-developed data centers with an aggregate net floor area of 256,750 sqm in service. We also operated capacity at approximately 19 third-party data centers with an aggregate net floor area of 9,510 sqm in service, which we lease on a wholesale basis and use to provide colocation and managed services to our customers. As of the same date, we had a further 17 new self-developed data centers with an aggregate net floor area of 133,208 sqm under construction. In addition, we also operated three joint venture data centers with a net floor area of approximately 11,665 sqm in service and had three joint venture data centers with an aggregate net floor area of approximately 11,665 sqm under construction. As of the same date, we had an estimated aggregate developable net floor area of approximately 323,014 sqm held for potential future development.

A summary of our self-developed data center portfolio by market as of June 30, 2020 is set forth below.

	In service	Under construction	Held for future development	Total	Market as % of total
(Sqm, except for percentages)					
Greater Shanghai	77,073	48,270	122,082	247,425	34.7%
Greater Beijing	77,674	70,877	64,830	213,381	29.9%
Greater Bay Area-Mainland...	69,023	7,000	74,156	150,179	21.1%
Greater Bay Area-Hong Kong Region.....	—	7,061	7,440	14,501	2.0%
Chengdu/Chongqing	14,512	—	54,506	69,018	9.7%
Other	18,468	—	—	18,468	2.6%
Total⁽¹⁾	256,750	133,208	323,014	712,972	100%

Note:

⁽¹⁾ Excludes third-party data center capacity of 9,510 sqm in service, zero under construction and zero held for future development.

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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%.

Our Strengths

We believe that the following key competitive strengths differentiate us from other data center service providers in China and position us well to capitalize on the rapid growth in demand for largescale and high-performance data center services.

We are a leader in one of the largest and fastest growing data center markets in the world

We were the largest carrier-neutral data center service provider in China in terms of revenue in 2019 with 21.9% market share, according to iResearch. China is one of the largest and fastest growing digital economies globally. China's rapid adoption of new technologies, such as cloud computing, 5G, artificial intelligence, big data, machine learning, blockchain, IoT, augmented and virtual reality, e-payments and digital currency is expected to increase exponentially the volume of data created, transmitted, processed and stored, much of which will take place within and between data centers. As a result, demand for carrier-neutral data center services is estimated to increase by a CAGR of 31.8% in the next five years, according to iResearch.

China's cloud market, the second largest in the world, is still at an early stage of development with strong multi-year growth potential as indicated by the lower market penetration compared to that in the United States. According to iResearch, the size of China's cloud market was RMB149.0 billion in 2019 and is expected to grow at a 34.1% CAGR to reach RMB645.2 billion in 2024. We are well-positioned to capture the large and growing market opportunities on the back of favorable industry tailwinds, government policies and a proven track record and reputation for operational excellence.

OUR BUSINESS

Well-established and rapidly expanding relationships with large, fast-growing and diverse customers

We focus on serving customers who require continuously expanding high-performance data center capacity in China’s primary economic hubs. Our customers include hyperscale cloud service providers, large internet companies, financial institutions, telecommunications carriers and IT service providers, and large domestic private sector and multinational corporations.

Our data centers are well-suited for fulfilling the flexible expansion and unprecedented capacity requirements of hyperscale cloud service providers and large internet companies. Alibaba and Tencent, the top two cloud service providers and internet companies in China, are among our largest customers contributing about 55% of our total area committed as of June 30, 2020.

Our other large internet customers include some of China’s leaders across various verticals including e-commerce, video streaming, local services, online gaming and mobility. We also serve some of China’s largest private sector enterprises and prestigious multinational corporations.

Innovative and unique platform of interconnected data centers hosting all of the leading cloud service providers

We have created an innovative and unique new IT infrastructure platform. As of June 30, 2020, the Company had an interconnected platform of 59 self-developed data centers in service and under construction. Our facilities are clustered across all of China’s Tier 1 markets and are accessible over all the major telecom networks, hosting all the major public cloud service providers, including AliCloud, Tencent Cloud, Amazon Web Services, Microsoft Azure, Huawei Cloud, Kingsoft Cloud, UCloud, QingCloud, JD Cloud and Baidu AI Cloud.

Our platform delivers a multitude of benefits to its customers, including direct and private access to the leading public cloud platforms, hybrid cloud solutions for large enterprise customers, connectivity across all telecommunications carriers and interconnection to other enterprise companies within and across facilities in China. We believe that there is no other carrier-neutral data center service provider in China which has a comparable platform of interconnected data centers across all of China’s Tier 1 markets that host all of the major public clouds.

Largescale, high-performance data centers are strategically located in China’s Tier 1 markets

Given the high proportion of data and applications which are mission-critical and latency-sensitive, we have located our facilities in key markets in close proximity to major existing and prospective customers. As of June 30, 2020, approximately 98% of our self-developed data center portfolio was located in Tier 1 markets such as Shanghai, Beijing,

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Shenzhen, Guangzhou, Hong Kong, Chengdu and Chongqing, the primary financial, commercial, industrial and communications hubs in each region of China, where data center demand is highly concentrated. With increasing scale of data creation and usage, it has become extremely challenging for hyperscale cloud service providers, large internet companies, financial institutions and large enterprises in China to obtain data center capacity in these locations. As a result, we continue to be more competitive in serving customers in Tier 1 markets with our existing facilities.

Large secured expansion capacity and a proven ability to source and develop additional data centers

There are inherent challenges in China to successfully source and develop largescale high-performance data centers, including obtaining the necessary regulatory approvals, a scarcity of appropriate and sufficiently large sites, access to adequate redundant power supply and high-quality telecommunications connectivity, carbon emission quotas, and the knowledge and know-how associated with designing, building, fitting out and commissioning high-performance facilities.

To address these challenges, we have secured a large amount of land and buildings in Tier 1 markets which we are holding for potential future development. We have also successfully acquired and integrated a number of data centers and established partnerships with leading financial investors to supplement our supply of capacity. As a result, we have high certainty of being able to expand our capacity to meet demand which gives us a further competitive advantage in serving customers in these strategic locations.

We have a proven set of capabilities and processes that have allowed us to source and develop the data centers we need to grow our business. We have a substantial in-house team dedicated to sourcing, feasibility analysis, technical design, costing and project management. Our team works closely with local government authorities to obtain necessary permits and approvals, with electric utilities to obtain sufficient power infrastructure and supply, and with different telecommunications carriers to ensure multi-carrier connectivity to our data centers. We have extensive experience in developing greenfield purpose-built facilities to achieve a high level of performance. We also have the capability to convert existing industrial buildings into data centers without compromising on performance standards, and a proven track record of acquiring data centers to meet our customers' demand. Our diversified approach to sourcing and developing data centers gives us the necessary flexibility to ensure a strong pipeline of high-quality sites for future development.

Visionary and experienced management team supported by sophisticated strategic investors

Our management team consists of entrepreneurs and professionals, all of whom possess in-depth knowledge and expertise in the IT services industry. Our founder, chairman and chief executive officer, William Huang, is a visionary pioneer with 19 years of experience in China's data center industry. Our senior management team has significant experience from previous employment in leading multinational IT service providers.

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We also benefit from having major shareholders who provide industry expertise, access to potential customer and supplier relationships, and solid corporate governance guidance. For example, STT GDC, is an experienced and strategic data center investor and service provider that, in addition to its longstanding investment in us, owns a portfolio of data centers in Singapore, Thailand, India and the United Kingdom, either directly or through investments in data center operating companies. Leveraging STT GDC's integrated data center platform, we have access to STT GDC's customer and supplier relationships. We also benefit from STT GDC's platform through knowledge sharing to enhance our technology, operational performance and customer service.

We believe that the support, relationships, industry expertise and corporate governance best practices that come from having sophisticated strategic investors provide us with competitive advantages in our industry.

Proven ability to develop and implement innovative new technologies to meet increasingly demanding customer requirements

Our self-developed data centers are designed to achieve high power efficiency, resulting in low PUE ratios. A low PUE ratio is of particular importance to hyperscale cloud service providers and large internet customers who have the most demanding performance targets. We are able to achieve much higher power efficiency due to our proprietary know-how in data center designs, construction and operations.

We take a modular approach to developing, commissioning, equipping and fitting out our data center facilities. The modular approach is an innovative construction technique designed to shorten the development timeline and lower costs. We are also adopting off-site pre-fabrication technology to shorten the lead time of the delivery of data centers to customers. These technologies allow us to cater to a range of customer requirements with regard to redundancy, power density, cooling, rack configuration and other technical specifications.

We have developed a proprietary Data Center Operation Management Platform, which provides real-time information on many aspects of data center operating performance and enables us to streamline our data center management processes. In addition, we also have self-developed additional operation enhancement tools and technologies, including robots, AI and smart buildings. This system was developed based on our proprietary know-how in customer service and data center operations.

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Our Strategies

We intend to further grow our business and reinforce our leading market position by pursuing the following strategies.

Capitalize on the rising adoption of cloud computing and emerging technologies in China

We intend to capitalize on the growth of cloud computing in China by further solidifying our position as the preferred data center service provider for cloud service providers by enabling them to expand their data center capacity flexibly and continuously in key markets, while maintaining our operational excellence. In addition, we intend to leverage the operational benefits provided by our unique platform of interconnected data centers in Tier 1 markets hosting leading clouds to become the preferred provider of cloud-related managed services to our enterprise customers.

Expand our unique platform of strategically located, interconnected, high-performance data centers

We will continue to expand our unique platform of interconnected, high-performance data centers in China's Tier 1 markets. We will undertake build-to-suit projects in other locations in China selected by our customers where there is a feasible opportunity to fulfill their broader requirements. In the next few years, we may expand into overseas markets including Southeast Asia where there is both a desire to work with us and a critical mass of demand from our home market customers.

Strategic sourcing of data center resources to expand our data center platform across markets

Our resource strategy is multi-faceted. We were one of the first movers among carrier-neutral companies in developing largescale data centers to serve customers in Tier 1 markets and locations outside Tier 1 markets, according to iResearch. Despite the high entry barriers in Tier 1 markets to obtain suitable land, power, and regulatory approvals, among others, we continue to grow organically in these constrained markets by generating continuous supply both directly by ourselves and through creative approaches by working with various partners. We will also supplement our growth by acquiring data centers in Tier 1 markets where there is a strong strategic fit and we can generate acceptable financial returns.

Increase market share by leveraging customer relationships and attracting new customers

We intend to leverage our market insight and strong customer relationships to further increase our market share. We plan to attract new customers, increase customer spending by upselling more managed services, capture demand for largescale capacity from major customers, and create a network effect around the enterprises and cloud service providers which we host.

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Continue to focus on operational excellence and capital efficiency

We will strive to remain at the forefront of the data center industry in China by continuing to set benchmarks for operational excellence. We will continue to maintain a high level of customer satisfaction by adopting and automating best-in-class business processes. We will continue to attract and nurture highly skilled employees to strengthen our resource acquisition and operations management capabilities to support our business growth.

In addition, we will continue to improve our PUE, employ energy conservation technology, and utilize renewable energy whenever it is available to further lower operating costs and reduce our carbon footprint.

Our Business Model

Our core business operations entail the planning and sourcing of new data centers, developing such facilities, securing customer commitments, providing our colocation and managed services to customers, and maintaining high levels of service and customer satisfaction to develop and maintain long-term relationships with our customers. We focus on developing and operating what we refer to as high-performance data centers. These are data centers that feature large net floor area and power capacity, high power density and efficiency, and multiple redundancy across all critical systems.

Sourcing

Our strong customer and industry relationships offer us insight into the size, timing, and location of future demand which is reflected in our data center capacity development plan. Based on this insight, we aim to secure land and buildings in Tier 1 markets for future development commensurate with anticipated demand for our services. Our in-house team begins sourcing potential sites a few years in advance of planned development. We source new data center capacity 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.

Regardless of the source of our data center capacity, we ensure that the facilities meet the high-performance standards required by our target customers.

Construction

After procuring greenfield or brownfield sites or existing industrial buildings or purpose-built building shells, we design and, through cooperation with developers, contractors, and suppliers, build out the facility to achieve our advanced design and high technical specifications.

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We take a modular approach to developing, commissioning, equipping and fitting out of facilities, so that we can cater to a range of customer requirements with regard to redundancy, power density, cooling, rack configuration and other technical specifications. In addition, by taking a modular approach, we are able to phase our capital expenditures related to equipping and fitting out individual computer rooms in accordance with proven sales demand or contractual delivery commitments to customers.

Marketing

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. Such pre-commitments typically come from anchor customers who require largescale capacity, such as hyperscale cloud service providers and large internet companies. 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 commitment rates for each of our data centers.

Due to the strength of customer demand, for certain sites, we deliberately do not seek pre-commitments, in order to reserve sufficient capacity for our financial institution and large enterprise customers who typically procure with a shorter lead time once data centers are in service. This also helps to ensure that we have sufficient capacity available to fulfill the anticipated expansion requirements of strategic customers who we are already serving in the same location. As a result of this sales approach, some of our data centers under construction and in service have lower pre-commitment and commitment rates, respectively.

Delivery

Once construction is complete, and the data center enters service, we re-categorize area under construction as area in service.

Anchor customers with largescale commitments typically move in over a period of 12 to 24 months, whereas financial institutions and large enterprise customers typically move in over a period of three to six months. Such move-in periods are common in our industry, according to iResearch. The longer move-in period for anchor customers is due to the larger scale of their deployments and operational models, under which they increase utilization of committed data center capacity in multiple phases and in-line with the increasing load on their IT systems. During such move-in periods, customers have the right to use part or 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 the sales agreements. Such minimum billable amount typically steps up over time. In practice, during the move-in period, most customers' actual usage and billing is higher than the minimum. Customers are not allowed to terminate

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their sales agreements before the end of the move-in period. See "Our Business — Our Customers — Sales Agreements." The portion of area committed by customers which is revenue generating is referred to as area utilized. As a result of the flexibility granted to customers to use part or all of the services during the move-in period, some of our data centers have lower utilization rates.

Commitment and Utilization Rates

Our business model provides us with high levels of revenue visibility due to the long-term nature of our customer agreements and substantial backlog. 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). As of December 31, 2017, 2018 and 2019 and June 30, 2020, we had backlog of 40,815 sqm, 75,417 sqm, 108,856 sqm and 140,299 sqm, respectively. The increase in backlog across these periods was primarily due to higher levels of customer commitments and pre-commitments. We endeavor to provide high levels of customer service, support, and satisfaction so as to maintain long-term customer relationships and high rates of agreement renewals for our services. We had a very low incidence of sales agreements that expired without renewal or terminated early, as evidenced by our average quarterly churn rate of 2.1%, 0.9%, 0.5% and 0.6% for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively.

For our in-service data centers, we aim to maintain high levels of long-term commitment and utilization rates. 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. Until the end of the move-in period, the area committed is not fully categorized as area utilized.

Due to the typical time lag for move-in, our continual expansion of our data center capacity, and the high proportion of anchor customers with largescale commitments, we expect that our utilization rate will continue to lag behind our commitment rate. For data centers that have been in operation for a longer period of time, the commitment rate and utilization rate will tend to converge, as customers have fully moved in.

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Our Data Centers

Our data centers are largescale, highly reliable and highly efficient facilities that provide a flexible, modular and secure operating environment in which our customers can house, power and cool the computer systems and networking equipment that support their mission-critical IT infrastructure. We install large power capacity, together with engineering technologies to optimize PUE, enabling our customers to deploy their IT infrastructure more efficiently and reduce their operating and capital costs.

We develop and operate our data centers predominantly in and around Shanghai, Beijing, Shenzhen, Guangzhou, Hong Kong, Chengdu and Chongqing, the primary financial, commercial, industrial and communications hubs in each region of China. We refer to the areas in and around these hubs as Tier 1 markets. Our customers typically use our data centers in Tier 1 markets to house their mission-critical, latency-sensitive data and applications. Our data center locations provide convenient access for our customers and, furthermore, the extensive multi-carrier telecommunications networks in these markets enable our customers to enhance the performance and lower the cost of connectivity to our facilities. We also build-to-suit and operate data centers at other locations selected by our customers in order to fulfill their broader requirements.

In the first half of 2020, we commenced construction of seven new self-developed data centers with a total net floor area 63,643 sqm. As of June 30, 2020, we had an aggregated net floor area under construction of 133,208 sqm, 62.3% of which was pre-committed. In the first half of 2020, we completed construction and brought into service four new self-developed data centers with a total net floor area of 21,128 sqm, acquired BJ10, BJ11 and BJ12 with a net floor area of 19,927 sqm which were in service when acquired. As of June 30, 2020, we had an aggregate net floor area of 266,260 sqm in service, 94.1% of which was committed and 72.5% of which was utilized. In addition to the above, in the first half of 2020, we also commenced construction of three joint venture data centers with a total net floor area of approximately 11,665 sqm under construction. As of June 30, 2020, we had three joint venture data centers under construction with an aggregate net floor area of 11,665 sqm and three joint venture data centers in services with an aggregate net floor area of 11,665 sqm. As of June 30, 2020, the joint venture data centers were 100% committed or pre-committed.

The following table presents certain information relating to our data center portfolio (excluding joint venture data centers) as of June 30, 2020:

(Sqm)	Area in service⁽¹⁾	Area under construction⁽¹⁾	Area held for development
<i>Location⁽²⁾</i>			
Greater Shanghai	77,073	48,270	122,082
Greater Beijing	77,674	70,877	64,830
Greater Bay Area-Mainland.....	69,023	7,000	74,156

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(Sqm)	Area in service⁽¹⁾	Area under construction⁽¹⁾	Area held for development
Greater Bay Area-Hong Kong region ...	—	7,061	7,440
Chengdu/Chongqing	14,512	—	54,506
Other	18,468	—	—
Total	256,750	133,208	323,014
Type			
Self-developed.....	256,750	133,208	323,014
Third-party	9,510	—	—
Total	266,260	133,208	323,014

Notes:

- (1) Excludes approximately 11,665 sqm net floor area relating to three joint venture data centers in service, 100% of which were committed and approximately 11,665 sqm net floor area relating to three joint venture data centers under construction, 100% of which were pre-committed as of June 30, 2020.
- (2) Greater Shanghai includes the area in and around Shanghai such as Kunshan and Changshu. Greater Beijing includes the area in and around Beijing such as Langfang. Greater Bay Area-Mainland includes Guangzhou, Shenzhen and Huizhou. Greater Bay Area-Hong Kong region includes Hong Kong and Macau.

As of June 30, 2020, our total area committed (excluding joint venture data centers) and pre-committed was 333,461 sqm, of which 250,467 sqm and 82,994 sqm related to data centers in service and under construction, respectively.

Self-Developed Data Centers

As of June 30, 2020, we operated 42 self-developed data centers with an aggregate net floor area of 256,750 sqm in service. As of the same date, we had another 17 new self-developed data centers with an aggregate net floor area of 133,208 sqm under construction. In addition, as of June 30, 2020, we had an estimated aggregate developable net floor area of approximately 323,014 sqm held for potential future development in Tier 1 markets and have secured a further estimated aggregate developable net floor area of approximately 30,000 sqm area held for potential future development in Tier 1 markets subsequent to June 30, 2020.

High-Performance Features. Our self-developed data centers generally feature:

- *High Availability.* Over 90% of our self-developed data center capacity in service and under construction is equipped with 2N redundant delivery paths for power, cooling and other critical systems. 2N redundancy entails significant additional

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up-front investment and decreases the yield of net floor area in a building of a given size. By installing 2N redundancy and operating our facilities to the highest standards, we are able to satisfy the requirements of the most demanding customers for housing their mission-critical IT infrastructure.

- *High Power Density.* Our self-developed data center capacity in service and under construction has an average power density of approximately 2.2 kW/sqm, which we believe is far above the average for data centers in China. High power density must be incorporated into the data center design from inception and entails increased development cost per sqm of net floor area. By installing high power density, we enable our customers to deploy their IT infrastructure more efficiently and to optimize their IT infrastructure performance. This is of particular importance to hyperscale cloud service providers and large internet customers as it reduces their IT investment and operating costs.
- *High Power Efficiency.* Our self-developed data centers are designed to achieve high power efficiency, which is expressed conversely by a low PUE ratio. Our self-developed data centers had around 1.25-1.4 times PUE on average in stabilized operation, which we believe is significantly below the average for data centers in China. High power efficiency reduces operating costs, for the benefit of our customers and ourselves, and reduces our carbon footprint. A low PUE ratio is of particular importance to hyperscale cloud service providers and large internet customers who have the most demanding performance targets.

In addition to the high-performance features described above, our data centers provide flexible fit-out, sufficient floor load bearing strength and clear slab-to-slab height to support dense deployment of IT hardware, multiple layers of physical security, early fire detection monitoring and fire suppression systems, diverse connectivity, and other amenities.

We believe that this combination of high availability, high power density, high power efficiency and other features enables us to serve the most sophisticated and demanding users of data center services who seek cost efficient solutions for their requirements, without compromise on performance across multiple operating parameters.

Types of Data Centers. We have a diversified and flexible approach to developing our data center portfolio. We categorize our self-developed data centers into the following three types:

- *Purpose-Built.* Purpose-built data centers are facilities which are designed and constructed specifically for use as data centers. Our purpose-built facilities comprise those that we design ourselves and for which we directly oversee the construction and fit out, as well as certain of the facilities that we lease or have acquired from third parties. Purpose-built and build-to-suit facilities represent approximately 43.9% by aggregate net floor area of our self-developed data centers in service and under construction as of June 30, 2020.

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- *Converted.* Conversion involves repurposing existing industrial buildings for use as data centers. We undertake conversions in order to fulfill demand where time-to-market and site opportunity do not allow us to purpose-build. We carefully select such buildings based on their suitability for use as data centers. We design and construct to the same high technical specifications as our purpose-built data centers, so as to ensure that the end product is of a comparable standard. Converted facilities represent approximately 56.1% by aggregate net floor area of our self-developed data centers in service and under construction as of June 30, 2020.
- *Build-To-Suit.* Build-to-suit data centers are facilities which are located in other locations to fulfill the broader requirements of our strategic customers. We develop and operate build-to-suit projects independently, as well as through the joint ventures which we are establishing with GIC. The projects are typically greenfield developments on the customer's own campus.

Data Center Tenure. We hold our self-developed data center buildings either through direct ownership or lease. In China, land cannot be owned outright, but is secured through land use rights. For data center buildings which we own, we have the right to use the underlying land for up to 50 years, which is the longest permissible period, except for our Guangzhou Land where the period of the land use right is 20 years, plus ownership of the buildings and other fixed assets comprising the data center. In Hong Kong, almost all the land is leasehold land leased from the Hong Kong government. The tenure of the relevant government leases for the two parcels of brownfield land where our HK1 and HK2 are located that were purchased by us in 2018 and 2019 respectively will expire in June 2047 and the residue of the term of years of the relevant government leases is approximately 27 years. For data centers that we lease, we enter into long-term leases with the owners of the building generally for periods of 15 to 20 years, which is the longest permitted lease period under PRC law. However, in the case of the build-to-suit projects which we have undertaken to date, where the owner of the building shell is our customer, the lease term is usually 10 years.

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Stage of Development. We categorize our data centers, and the corresponding net floor area, according to the following stages of development:

- *In Service.* Data centers are categorized as in service once the construction of the building is complete, critical systems have been installed, the facility has passed rigorous integrated system testing, government approvals for operation are obtained, and one or more computer rooms have been fully equipped and fitted out ready for utilization by customers. Once this stage has been reached, we categorize the entire net floor area of the data center (or phase of a data center) as area in service, including the net floor area of computer rooms, if any, which may require additional capex for equipping and fitting out prior to utilization by customers.
- *Under Construction.* Data centers are categorized as under construction once we have secured control of the site, obtained the necessary construction and other permits, established the design, and building and engineering works are in progress. We also categorize data centers as under construction when the shell and core are being developed by the building landlord under certain circumstances. We usually construct our data centers in a single phase. However, in some cases, we construct data centers in several distinct phases for reasons such as optimal design, sales plan, and timing of activation of power supply. When we successfully secure pre-commitments from customers, we calculate pre-commitment rate based on the area under construction.
- *Held for Future Development.* Area held for future development consists of the estimated data center net floor area that we have secured for potential future development by different means, including greenfield and brownfield land which we have acquired or which we expect to acquire pursuant to binding framework agreements with local governments, building shells which we have purpose-built on land which we own, and existing buildings for which we have entered into agreements in connection with the acquisition or lease with the intention of converting or redeveloping into data centers, but which are not actively under construction. Our in-house team begins sourcing potential greenfield and brownfield land several years in advance of planned delivery. We begin construction of a facility from six months to over two years in advance of planned delivery, depending on the complexity of the project. The developable net floor area estimates are subject to a number of contingencies and uncertainties.

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Self-Developed Data Centers in Service: The following table sets forth additional details concerning our portfolio of self-developed data centers in service as of June 30, 2020:

Market	Data center	Date ready for service (HHYY)	Type	Tenure	Area in service ⁽⁴⁾	Area committed ⁽⁴⁾	Commitment rate ⁽¹⁾⁽⁴⁾	Area utilized	Utilization rate ⁽²⁾
Greater									
Shanghai.....	SH1	2H11	Purpose-Built	Leased	6,432	6,300	98%	6,128	95%
	SH2	2H15	Purpose-Built	Leased	7,712	7,617	99%	7,412	96%
	SH3	2H16	Purpose-Built	Leased	7,950	7,943	100%	7,732	97%
	SH4	2H17	Purpose-Built	Leased	8,415	8,304	99%	7,811	93%
	SH5	1H18	Converted	Leased	2,062	1,540	75%	855	41%
	SH6	2H18	Purpose-Built	Leased	7,620	7,181	94%	3,052	40%
	SH7	2H19	Purpose-Built	Leased	6,352	2,110	33%	1,142	18%
	SH8	2H18	Converted	Leased	4,924	4,787	97%	4,447	90%
	SH9	1H19	Converted	Leased	3,330	3,330	100%	3,122	94%
	SH10	1H19	Converted	Leased	3,745	3,745	100%	1,609	43%
	SH11	1H18	Converted	Leased	4,214	4,214	100%	3,216	76%
	KS1	2H10	Purpose-Built	Owned	6,546	6,430	98%	6,161	94%
	KS2	1H20	Purpose-Built	Owned	7,771	7,771	100%	0	0%
Greater									
Beijing.....	BJ1	2H15	Converted	Leased	2,435	2,237	92%	2,189	90%
	BJ2	2H17	Converted	Leased	5,819	5,802	100%	5,432	93%
	BJ3	2H17	Converted	Leased	3,144	3,144	100%	3,028	96%
	BJ4	1H19	Converted	Leased	4,695	4,122	88%	1,561	33%
	BJ5	1H19	Converted	Leased	13,366	13,239	99%	11,344	85%
	BJ6	2H19	Converted	Leased	5,965	5,786	97%	2,943	49%
	BJ9	2H19	Converted	Leased	8,029	7,722	96%	7,598	95%
	BJ10	1H20	Converted	Leased	6,440	6,440	100%	6,120	95%
	BJ11	1H20	Converted	Leased	6,471	6,471	100%	6,066	94%
	BJ12	1H20	Converted	Leased	7,016	7,016	100%	2,802	40%
	LF1	2H19	Converted	Leased	4,949	4,949	100%	2,090	42%
	LF6	1H20	Converted	Leased	3,787	3,787	100%	2,060	54%
	LF7	1H20	Converted	Leased	5,558	5,558	100%	0	0%
Greater									
Bay Area- Mainland.....	SZ1	2H14	Converted	Leased	4,286	4,272	100%	4,264	99%
	SZ2	1H16	Converted	Leased	4,308	4,308	100%	4,308	100%
	SZ3	2H16	Converted	Leased	2,678	2,655	99%	2,565	96%
	SZ4	2H17	Converted	Leased	4,678	4,678	100%	3,262	70%
	(Phase 1) ⁽³⁾								
	SZ5	2H19	Converted	Leased	20,583	20,583	100%	20,079	98%
	SZ6	2H19	Converted	Leased	2,133	17	1%	0	0%
	GZ1	1H16	Converted	Leased	6,548	6,531	100%	6,526	100%
	GZ2	2H17	Converted	Leased	6,131	6,131	100%	6,069	99%
	GZ3	1H18	Purpose-Built	Leased	7,648	7,648	100%	7,518	98%
	(Phase 1) ⁽³⁾								
	GZ3	2H19	Purpose-Built	Leased	3,423	3,423	100%	2,857	83%
	(Phase 2) ⁽³⁾								
	GZ6	2H19	Converted	Leased	6,608	1,477	22%	35	1%

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Market	Data center	Date ready for service (HHYY)	Type	Tenure	Area in service ⁽⁴⁾	Area committed ⁽⁴⁾	Commitment rate ⁽¹⁾⁽⁴⁾	Area utilized	Utilization rate ⁽²⁾
Chengdu.....	CD1	1H17 ⁽⁵⁾	Purpose-Built	Owned	6,262	5,962	95%	4,615	74%
	CD2 (Phase 1) ⁽³⁾	2H18	Purpose-Built	Owned	8,250	8,250	100%	1,602	19%
Other.....	ZB1	1H18	Build-To-Suit	Leased	5,132	5,132	100%	4,870	95%
	ZB2	2H18	Build-To-Suit	Leased	4,662	4,662	100%	4,353	93%
	ZB3	2H18	Build-To-Suit	Leased	4,662	4,662	100%	4,240	91%
	ZB4	1H20	Build-To-Suit	Leased	4,012	4,012	100%	3,219	80%

Notes:

- (1) The ratio of area committed to area in service.
- (2) The ratio of area utilized to area in service.
- (3) We are developing our SZ4, GZ3 and CD2 data centers in phases. The categorization of data centers by stage of development is applied to each phase of the SZ4, GZ3 and CD2 projects.
- (4) Excludes approximately 11,665 sqm net floor area relating to three joint venture data centers in service, 100% of which were committed as of June 30, 2020.
- (5) We developed CD1 in phases, of which phase 1 was in service during the first half of 2011 while the whole data center was completed and in service during the first half of 2017.

As of June 30, 2020, 11.2% of our self-developed area in service was in data center buildings which we own and 88.8% was in data center buildings which we lease. Our self-developed area in service had an average power density of approximately 2.0 kW/sqm.

Apart from the current lease period for our SZ2 data center, which expires in May 2025, in the above table, no other self-developed data center that is leased has a remaining lease period of less than five years. The lease agreement for the SZ2 data center provides that, in the event that the lessee notifies the lessor of the lessee's request to renew the lease within three months prior to the expiration of the foregoing lease term, the lessor will be obligated to renew the lease on the same terms for another five years as long as the rental fee is not lower than the recent highest rental fee under the existing agreement, and not higher than the average rent of similar buildings in the area where the lease property is located. For self-developed data center buildings leased from third parties, we have entered into long-term leases with the owners of the buildings generally for periods of 15 to 20 years, which is the longest permitted lease period under PRC law. Accordingly, based on the current status of its leases, the directors believe that terminations and renewals of the Company's lease terms are not anticipated to have any material or adverse impact on our Company's operations or business in the near term.

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Self-Developed Data Centers Under Construction. The following data table presents certain information relating to our self-developed data centers under construction as of June 30, 2020:

Market	Data center	Estimated date ready for service (HHYY)	Type	Tenure	Area under construction ⁽²⁾	Area pre-committed	Pre-commitment rate ⁽¹⁾⁽²⁾
Greater Shanghai	KS3	2H20	Purpose-Built	Owned	5,290	5,290	100%
	SH12	2H20	Purpose-Built	Leased	3,653	3,653	100%
	SH13	2H20	Converted	Leased	6,493	4,250	65%
	SH14	2H20	Converted	Owned	11,040	7,000	63%
	SH15	2H20	Converted	Leased	1,518	1,518	100%
	SH16	2H20	Converted	Owned	3,000	0	0%
	SH17	1H21	Converted	Owned	6,188	6,188	100%
	(Phase 1) ⁽³⁾						
	CS1	2H21	Purpose-Built	Owned	11,088	6,060	55%
Greater Beijing	BJ7	2H20	Converted	Leased	11,116	3,857	35%
	BJ8	1H21	Converted	Leased	10,911	10,911	100%
	LF2	2H20	Converted	Leased	4,859	4,859	100%
	LF3	1H21	Purpose-Built	Owned	11,664	11,664	100%
	LF4	2H21	Purpose-Built	Owned	14,832	7,416	50%
	LF5	2H21	Purpose-Built	Owned	14,832	7,665	52%
	LF8	2H20	Converted	Leased	2,663	2,663	100%
Greater Bay Area-Mainland	GZ4	1H21	Converted	Leased	7,000	0	0%
Greater Bay Area-Hong Kong Region	HK1	2H22	Purpose-Built	Owned	7,061	0	0%

Notes:

- (1) The ratio of area pre-committed divided by the area under construction.
- (2) Excludes approximately 11,665 sqm net floor area relating to three joint venture build-to-suit data centers under construction, 100% of which were pre-committed as of June 30, 2020.
- (3) We are developing our SH17 data center in phases. The categorization of data centers by stage of development is applied to each phase of SH17 project.

As of June 30, 2020, 63.8% of our self-developed area under construction was in data center buildings which we own and 36.2% was in data center buildings which we lease. Our self-developed area under construction had an average power density of approximately 2.6 kW/sqm.

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Self-Developed Data Center Capacity Held for Future Development. We have also secured data center capacity that we classify as held for future development. We have acquired land and entered into binding framework agreements with local governments for further land acquisitions, and we have entered into agreements in connection with the acquisition and lease for buildings which could potentially be developed into data centers with an estimated aggregate developable net floor area of approximately 323,014 sqm in Tier 1 markets as of June 30, 2020.

Self-developed data center capacity held for future development in Tier 1 markets includes the following:

- (i) SH17 Remaining Phases, which is the remaining capacity of an existing industrial building in Shanghai Pujiang Land we previously acquired;
- (ii) Shanghai Pujiang site Remaining Phases, which we acquired together with SH16 and SH17, is held for future development;
- (iii) Changshu Land Phase 1 (except for CS1), which is the remaining capacity of a site in Changshu for which we have acquired the land use right;
- (iv) Changshu Land Remaining Phases, for which we have signed a binding framework agreement with the local government. Under the framework agreement the government commits to initiate the sales process for acquiring the land use right and provide assistance to us in obtaining necessary government approvals and resources for the construction and operation of the project and to allocate power capacity, and we commit to invest in developing the land for data center use and to generate taxable income. The land is reserved subject to the completion of land expropriation and relocation, satisfaction of other grant conditions and subsequently entering into a land use right grant contract through relevant tender, auction or listing-for-sale procedures;
- (v) KS4, a site in Kunshan which we have leased and which is approximately 6 kilometers from our existing KS1, KS2 and KS3 data centers;
- (vi) Langfang Land Site 1 Phase 3, for which we have signed a binding framework agreement with the local government. Under the framework agreement, the government commits to initiate the tender, auction or listing-for-sale process for the acquisition of the land use right and to provide assistance to us in obtaining the necessary government approvals and resources (including water supply, power supply, heating supply, among others) for the construction and operation of the project, and we commit to invest in developing the land for data center use and to generate taxable income. The major commitments of the government and us are subject to the completion of land expropriation and relocation, satisfaction of other grant conditions and subsequently entering into a land use right grant contract through relevant tender, auction or listing-for-sale procedures;

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- (vii) Langfang Land Site 2, adjacent to our Langfang Land Site 1, for which we have acquired land use rights;
- (viii) LF9, a site in Langfang, located approximately 50 kilometers from Beijing, for which we acquired the project company in June 2020;
- (ix) SZ4 (Phase 2), an existing building in Shenzhen which we have leased and which we are developing in two phases;
- (x) a site in Guangzhou for which we have entered into a land use right grant contract;
- (xi) GZ3 (Phase 3), which is an extension of an existing building in Guangzhou which we have leased and are developing in three phases;
- (xii) HZ1, which is an existing building in Huizhou, Guangdong Province, China that we have leased;
- (xiii) SZ7, which is a site in Shenzhen that we have leased;
- (xiv) HK2, which is a brownfield site in Hong Kong nearby HK1 which we have acquired and intend to redevelop;
- (xv) CD2 (Phase 2), which is an extension of an existing building shell in Chengdu which we own and are developing in two phases;
- (xvi) CD3, which is a site in Chengdu adjacent to CD1 and CD2 for which we have secured land use rights; and
- (xvii) a Chongqing site, for which we have acquired land use rights.

The following table presents certain information relating to our self-developed data centers held for future development in Tier 1 markets as of June 30, 2020:

Market	Data center	Tenure	Area held for future development (sqm)
Greater Shanghai	(i) SH17 Remaining Phases	Owned	13,468
	(ii) Shanghai Pujiang site Remaining Phases	Owned	50,500
	(iii) Changshu Land Phase 1 except for CS1	Owned	21,763
	(iv) Changshu Land Remaining Phases	Owned	32,851

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Market	Data center	Tenure	Area held for future development (sqm)
	(v) KS4	Leased	3,500
Greater Beijing	(vi) Langfang Land Site 1 Phase 3	Owned	30,000
	(vii) Langfang Land Site 2	Owned	24,000
	(viii) LF9	Leased	10,830
Greater Bay Area- Mainland	(ix) SZ4 (Phase 2) ⁽¹⁾	Leased	5,268
	(x) Guangzhou Land	Owned	34,200
	(xi) GZ3 (Phase 3) ⁽¹⁾	Leased	3,441
	(xii) HZ1	Leased	12,533
	(xiii) SZ7	Leased	18,714
Greater Bay Area- Hong Kong Region...	(xiv) HK2	Owned	7,440
Chengdu/ Chongqing	(xv) CD2 (Phase 2) ⁽¹⁾	Owned	11,286
	(xvi) CD3	Owned	10,220
	(xvii) Chongqing	Owned	33,000

Note:

- (1) We are developing our SZ4, GZ3 and CD2 data centers in phases. The categorization of data centers by stage of development is applied to each phase of the SZ4, GZ3 and CD2 projects.

As of June 30, 2020, 83.2% of our Tier 1 market self-developed area held for future development was related to property which we own or expect to own pursuant to binding framework agreements and 16.8% was related to property which we lease or expect to lease pursuant to the relevant binding agreements.

The following table presents certain information relating to our self-developed data centers that have a further aggregate developable net floor area of approximately 30,000 sqm area held for future development in Tier 1 markets which we secured subsequent to June 30, 2020:

Market	Data center	Tenure	Area held for future development (sqm)
Greater Shanghai	KS5	Leased	6,400
	KS6	Leased	6,400
Greater Beijing	BJ13	Owned	18,000

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Between August 2019 and June 2020, we have entered into several framework agreements or equivalent legal documents with relevant local governments and development agencies with a view to potentially acquiring the land use rights for certain parcels of land for the development of data centers in (i) Wulanchabu, located approximately 300 kilometers from Beijing, and (ii) Nantong, located approximately 100 kilometers from Shanghai. The acquisition of such land use rights is subject to execution of definitive agreements. We expect that the consummation of these acquisitions would provide us with additional developable net floor area of approximately 34,000 sqm in locations outside Tier 1 markets. The developable net floor area estimates are subject to a number of contingencies and uncertainties.

Third-Party Data Centers

In addition to operating and providing services in our self-developed data centers, we also provide data center services with respect to net floor area that we lease from third-party data center providers on a wholesale basis and use to provide colocation and managed services to our customers. For this kind of facility, we typically enter into leases for fixed terms of three to ten years. As of June 30, 2020, we operated capacity at approximately 19 third-party data centers with an aggregate net floor area of 9,510 sqm in service.

The third-party data centers where we lease capacity on a wholesale basis were not purpose-built or converted according to our design and technical specifications. However, on a selective basis, we may carry out improvement work at third-party data centers in order to attain the performance levels required to serve our customers. In particular, one of our third-party data centers is a facility in which we leased increasing amounts of space over time, so that we now lease the entire data center. As we accumulated leased data center capacity in the data center over time, and we never conducted any comprehensive conversion or repurposing of the facility, we continue to categorize that data center as a third-party data center.

Joint Venture Data Centers

In August 2019, we entered into a strategic cooperation framework agreement with GIC to develop and operate ten hyperscale build-to-suit data centers in locations outside Tier 1 markets in China for a leading internet and cloud service provider, which is a strategic customer of us. In parallel with the strategic cooperation framework agreement, we also signed a memorandum of understanding with the same strategic customer to develop seven build-to-suit data centers at several of its campuses serving different regions of China, including Nantong, Jiangsu Province, Heyuan, Guangdong Province and Wulanchabu, Inner Mongolia Autonomous Region. According to the strategic cooperation framework agreement, we will set up individual project companies to undertake the development of each data center and own 100% during the construction phase. Upon completion of each data center, subject to certain conditions, we will sell a 90% equity interest in the project company to GIC and accordingly the project company will become a joint venture. We will continue to hold the remaining 10% equity interest of the project company and provide management and operating services to the joint venture, and GIC will pay us management fees for our provision of management services. As of June 30, 2020, we had approximately 11,665 sqm net floor area relating to three joint venture data centers in service, 100% of which were committed, and approximately 11,665 sqm net floor area relating to three joint venture data centers under

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construction, 100% of which were pre-committed. We still held 100% of the equity interests in the project companies holding such joint venture data centers as of June 30, 2020, as certain equity transfer conditions had not been met.

Lease Agreements Relating to Our Data Centers

We enter into leases in connection with our self-developed data centers. In addition, certain third-party data centers in which we lease capacity on a wholesale basis are subject to property lease agreements. Under relevant PRC laws and regulations, lease agreements are required to be registered or filed with the relevant housing authorities. Among the data centers that we lease, including those under construction, the majority of the lease agreements have not been filed with relevant authorities in accordance with the applicable PRC laws and regulations. The failure to register or file the lease will not affect the legal validity of the lease agreements but may subject us to fines. In order to address the situations where the relevant leases have not been registered by the lessors, we have communicated with the relevant lessors with regard to completing the registration of the relevant lease agreements to the extent practicable. However, there is no guarantee that the lessors will respond to our requests or take remedial action with regard to the lack of registration and filing, and we, or the third-party lessors, may be liable if timely rectifications are not made. A portion of any such losses will be recoverable from the lessors according to the terms of certain of the lease agreements. See “Risk Factors — Risks Relating to Our Business and Industry — Our failure to comply with regulations applicable to our leased data center buildings may materially and adversely affect our ability to use such data centers.”

Our Services

We offer a broad range of services including colocation services and managed services, which includes managed hosting services and managed cloud services. We also provide certain other services, including consulting services. We primarily provide colocation services to cloud service providers while we provide both colocation services and managed services to all other customers.

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)	
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

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	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
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	<u>1,616,166</u>	<u>2,792,077</u>	<u>4,122,405</u>	<u>1,877,030</u>	<u>2,582,623</u>

Colocation Services

We offer our customers a highly secure, reliable and fault-tolerant environment in which to house their servers and related IT equipment. Our core colocation services primarily comprise the provision of critical facilities space, customer-available power, racks and cooling. Our customers have several choices for hosting their servers, networking and storage equipment. They can place their equipment in a shared or private space that can be customized to their requirements. We offer a variety of power options to suit individual customer requirements, including high power density racks. In some instances, colocation customers will request that we provide IT equipment for their use in our data centers. In such cases, we will sell such IT equipment to the colocation customer.

Our data centers are high-performance, with high availability, high power density and high power efficiency, which combination is critical to satisfying the most demanding needs of hyperscale customers. Our IT infrastructure platform of interconnected data centers is located strategically in and around Tier 1 markets, enabling high performance while lowering connectivity costs. Our ecosystem has attracted all leading public cloud service providers to our platform and thereby offers value to enterprises that have hybrid clouds or need to connect to cloud service providers. For these reasons, we believe our colocation services are innovative.

Managed Services

Managed Hosting 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 business continuity and disaster recovery, or BCDR, solutions, network management services, data storage services, system security services, operating system services, database services and server middleware services. Our managed hosting services are tailored to meet the specific objectives of individual customers. We help our customers reduce their costs, re-engineer existing processes, improve the quality of service delivery and realize a better return on their investment.

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Our network management services help our customers to design and maintain their private network systems. Our data storage services provide storage architecture design and customization for specific requirements. Our system security services include identity and access control, firewall management, intrusion protection and vulnerability protection services. Our operating system services provide pro-active administration, management, monitoring and reporting across a wide range of operating systems. Our database services provide database customization and performance tuning operation, administration and monitoring services across a range of database platforms. Our server middleware services provide customization and performance tuning services across a range of platforms. We also offer consulting services for customers who request additional know-how and guidance relating to disaster recovery and other aspects of our managed hosting services. Our managed hosting services are provided on a continuous basis over the term of the agreement.

Managed Cloud Services. The adoption of cloud computing continues to rise and has become a key element of IT strategy for enterprises globally. We believe that our data centers are well-suited for the hosting of cloud platforms. As a result, we have succeeded in attracting most of the largest cloud service providers in China to colocate their public cloud platforms in our data centers.

The presence of major public cloud platforms in our data centers enables us to offer our enterprise customers direct private connection to high capacity cloud resources of their choosing across our network infrastructure. We are able to provide such services at minimal incremental cost, while enabling our customers to enjoy a number of critical operational benefits as a result, such as high reliability, high flexibility, and high efficiency. We also assist our enterprise customers to access cloud resources by providing and reselling public cloud services offered by major cloud service providers, including certain of our major customers. This has the added benefit of assisting our cloud service provider customers with their route to market.

Large enterprises are increasingly deploying a combination of multiple private, hosted, or public cloud services, a configuration known as hybrid cloud. While this configuration can provide enterprises with greater flexibility, scalability, security and cost efficiency, it also presents new challenges in integrating and operating multiple systems. Leveraging our long track record as a provider of IT managed services, we are developing an innovative service platform to assist our enterprise customers to integrate and control every aspect of their hybrid cloud computing environment across their private servers and one or more public cloud service providers. In addition, we offer consulting services for customers who request additional know-how and assistance concerning the implementation of cloud-based solutions, such as migration from physical to cloud-based hosting. As part of the offering, we also provide our customers with cloud resources.

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Data Center Sourcing and Development

We believe that the size, location, and quality of our facilities are key to maintaining our competitiveness. We apply the same rigor to the process of sourcing, design and construction as we do to our operations. We have a substantial in-house team dedicated to sourcing, feasibility analysis, technical design, costing and project management. The process is comprised of the following steps:

- *Planning and Sourcing.* Our strong customer and industry relationships, combined with our data center presence in key markets in each region and direct sales force, afford us insight into the size, timing, and location of future demand. We incorporate this insight into a multi-year resource plan for our key markets. Our in-house team begins sourcing potential sites a few years in advance of planned delivery. We seek to secure sites both in close proximity to central business districts or to areas where there is a concentration of enterprise operations centers so as to satisfy the location preferences of our target customer segments. We consider both greenfield sites when available, and also existing industrial buildings suitable for conversion. We require security of tenure for a minimum of ten years. Our team works closely with local government authorities to obtain necessary permits and approvals, with electric utilities to obtain sufficient power infrastructure and supply, and with telecommunications carriers to ensure multi-carrier connectivity to our data centers. We generally seek to secure sites that can support a net floor area of at least 5,000 sqm per data center building and sufficient power capacity to fulfill the requirements of the customer segments which we expect to serve in the facility.
- *Design and Construction.* We undertake the technical design, specification and costing in-house as we believe that these are important to ensuring the data center meets our strategic requirements. This also enables us to achieve a high level of design standardization. We continuously study new engineering and technologies to maintain an advanced design. Our in-house team also takes responsibility for construction project management, which includes scheduling, vendor selection, procurement, budget control and cost analysis, and quality supervision and assurance. We believe that these elements are important to ensure the project is completed on time, within budget and to the required quality standard. We begin construction of a facility from six months to over two years in advance of planned delivery, depending on the complexity of the project.
- *Commissioning and Fit Out.* After the shell and core of a building are completed, we work with our contractors and suppliers to make the data center ready for service. This involves: (i) obtaining necessary operating permits and approvals; (ii) equipping and fitting out the critical facilities area for utilization by customers; and, (iii) pre-operational testing, also referred to as commissioning, to ensure that the facility is fully functioning and capable of providing the required service levels. We have a team dedicated to testing and commissioning before operations commence.

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Operations

We have separate teams for data center operations and service delivery. Our data center operations team is responsible for directing, coordinating and monitoring the daily operation of our data center facilities. Our service delivery team is responsible for delivery of the services which we provide to customers on a 24/7 basis. Our teams are deployed in regional operations centers, as well as on site, in order to provide two layers of management and support. We outsource part of the above operations and service delivery, primarily on-site security, cleaning and greening service, part of the 24/7 on duty operations and IT and customer service delivery to reputable third-party service providers.

We undertake in-house all technical functions which impact data center performance, including floor planning, equipment lifecycle management, optimizing data center efficiency, surveillance of the critical facilities environment and network performance, incident response management and rectification. We also undertake in-house substantially all activities which have a direct bearing on customers, including support for setting up customer IT equipment, remote hands services, outsourced IT operations, incident and compliance reporting, and response to customer requests.

We have developed a proprietary Data Center Operation Management Platform which provides real-time information on many aspects of data center operating performance and enables us to streamline our data center management processes. We have also developed robust operating procedures, protocols and standards which enable us to meet or exceed the performance and quality levels specified in our service level agreements, or SLAs, with the most sophisticated customers. We have been certified ISO9001, ISO20000 and ISO27001 for more than ten years, and received certification for ISO 22301 in September 2016. As of June 30, 2020, we had 12 data centers awarded with "Management and Operations ("M&O") Approved Site" awards by the Uptime Institute, an unbiased advisory organization focused on improving the performance, efficiency, and reliability of business-critical infrastructure. In 2018, we signed a three-year framework contract with the Uptime Institute to support continuous verification of operation and maintenance capabilities of our data centers. At the same time, in order to verify the unified regional operation and management capability based on our Data Center Operation Management Platform, the Uptime Institute also awarded the regional "M&O Approved Site" to GDS. We believe that our standard of data center operations, which reflects our history and culture as an IT service provider, set us apart from many data center service providers in China.

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Our 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 total 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 consider our customers to be the end users of our services because: (i) we are selected as vendor by our end users; (ii) we negotiate and agree all aspects of the sales agreements with our end users, including scope of work, pricing and other commercial terms, design, specification, and customization of the parts of the facility which they will use, delivery schedule, and extensive service level parameters; (iii) we work directly with our end users on the delivery, installation, cabling, testing, operation, and monitoring of their IT systems; and (iv) we generally reconcile with our end users the amount of services (including net floor area and power) which they have used and the financial amount billable for each billing period. We may enter into sales agreements directly with our customers or, at the customer's request, provide services to our customers through agreements with intermediate contracting parties, such as the major PRC telecommunications carriers. We understand our customers may request us to provide services to them through the major PRC telecommunications carriers for commercial reasons, and it is a common practice in the industry, according to iResearch. When a PRC telecommunications carrier acts as an intermediate contracting party, we bill them and collect cash payment from them. We have long-standing relationships with all the major PRC telecommunications carriers who are both intermediate contracting parties for the sale of our services to our customers, as well as partners providing network services to our customers and, to a significantly lesser extent, end users of our services.

As of June 30, 2020, we served 673 customers, including hyperscale cloud service providers and large internet companies, a diverse community of PRC and foreign financial institutions as well as telecommunications carriers and IT service providers and large domestic private sector and multinational corporations, many of which are leaders in their respective industry verticals. We host the largest PRC and global public cloud platforms operating in China, some of which are present in multiple GDS data centers.

Our cloud service provider, large internet, financial institution and enterprise customers accounted for 71.8%, 17.0%, 6.1% and 5.1% of our total area committed (excluding joint venture data centers) as of June 30, 2020, respectively. Our two largest customers accounted for 33.4% and 21.6%, respectively, of our total area committed (excluding joint venture data centers) as of June 30, 2020. No other customer accounted for 10% or more of our total area committed as of that date.

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The following table presents the total area committed (excluding joint venture data centers) of our top five customers, all of which are cloud service providers or large internet companies, as of June 30, 2020:

Customer	Total area committed (sqm)⁽¹⁾⁽²⁾	Total area committed (%)⁽²⁾
Customer 1	111,230	33.4%
Customer 2	71,988	21.6%
Customer 3	23,182	7.0%
Customer 4	19,370	5.8%
Customer 5	19,164	5.7%

Notes:

- (1) Represents the sum of area committed and area pre-committed by each of these customers.
- (2) Excludes joint venture data centers.

We endeavor to establish strategic relationships with key customers, particularly hyperscale cloud service providers and large internet companies who have large data center capacity requirements and who can help enhance the value of our data center ecosystem.

Sales Agreements

Contract Term

A substantial majority of our sales agreements are for multi-year service periods. Agreements with our cloud service provider and large internet customers typically have service periods of three to ten years, while agreements with our financial institution and enterprise customers typically have service periods of one to five years. The service period starts either on a date specified in the sales agreement, or within a specific time period when the data center is ready for the customer's use and the customer has accepted delivery in accordance with the provisions of the sales agreements.

Pricing Structure

We have two main pricing structures depending on the preferences of individual customers. Most of our sales agreements with our cloud service provider and large internet customers have unbundled pricing. Under such pricing structure, we charge our customers for the right to use a specific amount of net floor area, power capacity and other services. In addition to which, we also charge our customers based on the actual amount of power which they consume. Unbundled pricing is often expressed as a price per square meter or a price per kilowatt for the right of use and a price per kilowatt/hour for power consumed. Most of our sales agreements with our financial institution and large enterprise customers have bundled

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pricing. Under such pricing structure, we charge our customers for the right to use a specific amount of net floor area, power capacity and other services, without any additional charge for power consumed as long as their actual power usage does not exceed a stated limit. Bundled pricing is often expressed as a price per rack or cabinet. Under both unbundled and bundled structures, the unit price which we charge per square meter, per kilowatt, per rack or cabinet is generally fixed over the term of the sales agreement, except for permitted adjustments when input power tariffs change. We do not charge any fee for reserving or committing capacity prior to the commencement of the service period.

Move-in Period

Commencing at the start of the service period our sales agreements typically provide for a flexible move-in period. During such period, customers have the right to use part or 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, during the move-in period, most customers' actual usage and billing is higher than the minimum. Our sales agreements with anchor customers with largescale commitments typically allow for a move-in period of 12 to 24 months, whereas our sales agreements with financial institutions and large enterprise customers typically allow for a move-in period of three to six months. Such move-in periods are common in our industry, according to iResearch.

Contract Renewal and Termination

Most of our sales agreements provide for automatic renewal at the end of the service period, subject to mutual agreement of renewal terms.

Many of our sales agreements give customers the option of early termination after the end of the move-in period, subject to a notice period of one to six months and payment by the customer of specified costs and penalties. In certain cases, we are entitled to a substantial amount of early termination damages equivalent to up to 12 months' service fee, in addition to payment for our services already provided before such early termination. Customers may also terminate the sales agreements if we fail to perform the contracted services. In this circumstance, customers are generally required to notify us of their intention to terminate and to allow us a period of time to rectify any service failure.

We had a very low incidence of sales agreements that expired without renewal or terminated early, as evidenced by our average quarterly churn rate of 2.1%, 0.9%, 0.5% and 0.6% for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively.

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Billing

We generally bill customers on a monthly or quarterly basis in arrears. On a monthly basis, we recognize revenue as service is rendered in the period. As we are billing in arrears, this results in unbilled receivables between the time when we have the unconditional right to the consideration for the services we provided to our customers (i.e. billable revenue) and the time when we actually bill our customers. Once we issue the bill at the end of the monthly or quarterly billing period, it becomes a billed receivable and then we collect cash payment. This is a recurring cycle and it is common in businesses which provide services on a long-term contract basis, recognizing revenue as services are rendered and billing in arrears. We have a very low incidence of doubtful accounts and write-offs. See "Risk Factors – Risks Relating to Our Business and Industry – If we fail to manage effectively or collect our accounts receivable, our results of operations, financial condition and liquidity may be adversely affected." During the Track Record Period, we recorded nil, RMB241 thousand, RMB133 thousand, and RMB452 thousand of allowance for doubtful accounts in 2017, 2018, 2019 and the six months ended June 30, 2020, respectively and only recorded a write-off of RMB382 thousand in 2019.

Our Suppliers

Our five largest suppliers accounted for less than 60% of our purchases for each of the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020; and none of them individually accounted for more than 30% of our annual purchases over this same period.

Sales and Marketing

Sales. Our sales activities are mainly conducted through our direct sales force. We organize our direct sales force into four geographic regions, Northern China, Southern China, Eastern China and South-western China. We incentivize our sales force to meet their annual targets through performance-based bonuses. For new customers, our sales cycle typically begins with creating a sales plan for a particular region or industry and then identifying new customers in these regions or industries. We also receive referrals from our vendors and other relationships, and often our reputation attracts customers to our services without any directed sales efforts. For our existing customers, our sales team focuses on identifying upsell opportunities.

Many of our customer agreements are won through a competitive bidding process. For new customers, the bidding process begins with evaluation of the potential customer's requirements. We formulate a service proposal based on these requirements. Our team representing multiple departments prepares a proposal to meet the required service scope and level. We negotiate the agreement and service details.

Marketing. To support our sales effort and to actively promote our brand, we conduct wide-ranging marketing programs. Our marketing strategies include active public relations and ongoing customer communications programs. We participate in a variety of IT industry and

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financial services industry conferences and workshops to raise awareness about the value of data center services. We also build our brand recognition by participating in industry and government workshops and industry standard-setting bodies, such as the China National Institute of Standardization Committee on Disaster Recovery for Information Systems.


Innovation, Technology and Intellectual Property

We employ a modular approach to developing, commissioning, equipping and fitting out our data center facilities. This approach allows us to cater to a range of customer requirements with regard to redundancy, power density, cooling, rack configuration and other technical specifications. The modular approach is an innovative construction technique designed to shorten the development timeline and lower costs, as advocated by leading industry participants. Additionally, we are adopting innovative pre-fabrication technology to further shorten the development period in order to meet the requirements for increasingly larger scale data centers. We were able to develop these innovative approaches as a result of having established and grown our own in-house data center design and construction project management capability, the experience gained through executing a hyperscale development program over multiple years, and by leveraging the know-how of certain of our international strategic partners.

We operate our data center facilities using a proprietary Data Center Operation Management Platform that was almost entirely developed in-house. It provides real-time monitoring of key operational metrics, allowing for greater efficiency of data center management processes. In addition, we have self-developed additional operational enhancement tools and technologies including robots, AI and smart buildings. This system was developed based on our proprietary know-how in customer service and the operation of data centers.

We rely on a combination of copyright, trademark, trade secrets and other intellectual property laws, nondisclosure agreements and other measures to protect our intellectual property, such as our proprietary storage and management system, for which we have registered a copyright. We also promote protection through contractual prohibitions, such as requiring our employees to enter into confidentiality and non-compete agreements which are applicable to selected employees.

As of the Latest Practicable Date, we had 111 registered computer software copyrights and 91 trademark registrations in China, and one pending trademark application outside China, including registered trademarks for “GDS” and , our figure trademark. As of the Latest Practicable Date, we had 25 patents granted and 10 patent applications in China, and had registered 13 domain names, including “gds-services.com”.

We derive most our revenues in China and use , our figure trademark, in a majority of our services. We have registered the figure trademark in China in several categories that cover our service areas and we plan to register the figure trademark in China in certain additional categories. We have also registered the pure text of “GDS” as a trademark in several categories

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that cover our services areas; however, a third party has also registered the pure text of “GDS” as a trademark in certain IT-related services. It is our belief, based on our industrial experience, that our business is different from the services for which the third party registered its trademark. Nevertheless, since the services for which the third party’s trademark is registered are also IT-related and could be deemed as similar to ours to some extent, we cannot assure you that a government authority or court will hold the same view with us that such similarity will not cause confusion in the market. In such a case, if we are to use the pure text of GDS as our trademark, we may be required to explore the possibility of acquiring this trademark, or entering into an exclusive licensing agreement with the third party, which will cause us to incur additional cost. See “Risk Factors — Risks Relating to Our Business and Industry — We may be subject to third-party claims of intellectual property infringement.”

Seasonality

Our business is not materially affected by seasonality.

Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We have in place insurance coverage up to a level which we consider to be reasonable and which covers the type of risks usually insured by companies on the same or similar types of business as ours in China. Our insurance broadly falls under the following nine categories: construction and installation, work interruption expense due to public health event, business interruption for lost profits, property and casualty, public liability, cyber security liability, directors and officers liability, employer liability and commercial employee insurance.

Competition

We offer a broad range of data center services and, as a result, we may compete with a wide range of data center service providers for some or all of the services we offer.

We compete on the basis of our data center quality, operating track record and differentiated managed service capabilities.

We primarily compete with other carrier-neutral data center service providers, including:

- *Domestic carrier-neutral data center service providers.* We compete with domestic carrier-neutral data center service providers with a presence in some of our markets, such as 21Vianet, Sinnet, Baosight and AtHub. We believe that we are well-positioned in terms of our operational track record and our ability to: deliver high-performance data center services in all key markets; maintain consistently high facility and service quality; continue capacity expansion in all key markets to accommodate growing demand; and provide differentiated managed service offerings with a unique value proposition.

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- *International carrier-neutral data center service providers.* We compete to a lesser extent with foreign carrier-neutral data center service providers such as Equinix, KDDI and NTT Global Data Centers, each of which has a presence in Shanghai and/or Beijing and primarily serves international customers. We believe that we distinguish ourselves by our larger capacity and more extensive market presence across the key economics hubs in China, deep operating knowledge and long track record in the China market, and long-term relationships with the telecommunications carriers.

We also face competition from the state-owned telecommunications carriers, namely China Telecom, China Unicom and China Mobile. One of the main purposes for which these carriers develop data centers is in order to facilitate the sale of related telecommunications network services. In locations outside of the key economic hubs, these three carriers may sometimes be the only available provider of data center services. We distinguish ourselves from these carriers because we are carrier-neutral, enabling our customers to connect within our facilities with all three carriers based on their cost and/or network and application requirements. Although we compete with carriers for colocation customers, our customers also rely on the connectivity that carriers provide. We believe that we also have a mutually beneficial relationship with these carriers since our data center services often help carriers attract more customers for their telecommunications services.

Risk Management and Internal Control

We have established risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations.

Information Security Risk Management

We have established a system comprised of our policy, guidelines and management task force to ensure the security of our and our customers’ information. See “— Environmental and Operational Sustainability Initiatives — Information security” for further details.

We have adopted and published a privacy policy on our website that explains how we collect, use, share and protect personal information. We sign confidentiality agreements with all our employees, customers and suppliers to prevent unauthorized disclosure of information. We also regularly conduct trainings and inspections under the supervision of our management to strengthen information security.

Anti-corruption Risk Management

We have anti-corruption compliance policies in place that clearly define requirements for our employees, vendors and suppliers to comply with applicable laws and regulations and act with integrity. See “— Environmental and Operational Sustainability Initiatives — Anti-corruption” for further details.

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Business Continuity

We have established a plan and management system to ensure the continuity of our business. We conduct impact analyses of our business and our customer engagements to identify resources necessary for each line of our business and its potential risks.

As part of our business continuity plan, we have adopted an emergency operating procedure to and mitigate potential disruptions from power outages, fires or floods, typhoons, other natural disasters and public health events. We conduct an emergency drill on an annual basis and evaluate our performance during the drill to further improve our procedure. We also regularly conduct trainings with relevant personnel to ensure their preparedness to manage emergency situations and handle potential contingencies.

In order to ensure the availability of our power supplies, energy transmission as well as fire prevention and detection systems, we implement a monthly operating and inspection plan and annual maintenance plan for relevant equipment.

Environmental and Operational Sustainability Initiatives

As a leading developer and operator of high-performance data centers in China, we are dedicated to delivering cutting-edge, comprehensive data center solutions that offer high power efficiency, guaranteed uptime, a key market footprint, carrier neutrality, and rigorous operating standards. We are equally committed to delivering these solutions in a responsible, transparent manner that drives sustainability and enhances value creation for all our stakeholders.

Environmental sustainability. Managing our data centers’ energy consumption and corresponding environmental impact is of great importance to us. We use energy conservation technology in our data centers, including recycling excess heat from the heating and ventilation system, and supply to our office area in the data centers or nearby offices. We also use high-efficiency transformers, modular high-efficiency uninterruptible power supplies, and high voltage direct current to reduce energy transmission and distribution loss. Moreover, we developed a customized energy efficiency assessment tool to more precisely manage our data centers’ PUE. In 2019, our self-developed data centers achieved an average PUE of 1.25-1.4 times, compared to a global average for data centers of 1.67 times in 2019, according to iResearch.

We are also making progress in reducing our greenhouse gas emissions by utilizing renewable energy whenever it is available at the location of our data centers. We use hydroelectric energy for our two self-developed data centers in Chengdu and wind power for our four build-to-suit data centers at Zhangbei, Hebei Province. Several of the joint venture data centers in our development program will also use renewable energy. We are actively seeking ways to increase our use of renewable energy, including by potentially contracting directly with renewable energy suppliers.

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As of June 30, 2020, seven of our self-developed data centers have been recognized and awarded sustainability related certifications by leading domestic and global organizations. Among the seven data centers, three have earned LEED certifications with two having been conferred with a gold award, two have been recognized as National Green Data Center by the MIIT and six have been honored as Green Data Center by Open Data Center Committee (ODCC) including one 5A Level data center, which is regarded as the highest standard of green data center in China. In addition, twelve of our facilities have obtained the Uptime Institute's Management & Operation Stamp of Approval, which is widely recognized as the global standard of excellence for data center reliability, sustainability and efficiency.

Information security. We are dedicated to offering our customers first class disaster recovery solutions and efficient high-availability hosting, network, and cloud services. We have established an information security management task force to be responsible for identifying, evaluating, and mitigating potential information security risks related to our business operations. We have formulated GDS cyber security management policy and information security management guidelines, based on the ISO27001 information security management standard, to provide a framework for the protection of information security and all valuable information, data and intellectual property within GDS. Our information security management system assigns detailed areas of responsibility across our Company to ensure the security of information stored in and transmitted through our data centers. We conduct internal and external information security audits on an annual basis. We also invite independent third-party auditors to conduct information security risk assessments on an ad hoc basis.

Anti-corruption. We have a zero-tolerance policy for corruption. We operate our business in China and Hong Kong and are thus subject to PRC and Hong Kong laws and regulations related to anti-corruption, which prohibit bribery to government agencies, state or government owned or controlled enterprises or entities, to government officials or officials that work for state or government owned enterprises or entities, as well as bribery to non-government entities or individuals. We are also subject to the FCPA, which generally prohibits companies and any individuals or entities acting on their behalf from offering or making improper payments or providing benefits to foreign officials for the purpose of obtaining or keeping business, along with various other anti-corruption laws.

We have compliance policies in place that clearly define the company's compliance requirements, including business ethics, vendor access and the acceptance and provision of travel and entertainment and gifts. We have also established an ethics committee under the oversight of the audit committee to supervise matters related to FCPA compliance. Our whistle blowing policy and the related reporting mechanism provide a confidential and protected channel for reporting suspected compliance violations. Regardless of position or location, we require all GDS employees to comply with our anti-corruption compliance policies and attend related trainings to embrace the highest standard on integrity.

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We constantly make improvements to our procurement policies and processes from the compliance perspective, and have implemented measures including conducting supplier due diligence, requiring our suppliers to enter into non-disclosure agreements and make commitments to act with integrity.

Employment and talent development. We are committed to providing all of its employees with equal employment opportunities and a workplace culture of honesty, integrity, and mutual respect. We regularly update our employee handbook to address our talent recruitment principles and strongly oppose discrimination or harassment based on characteristics including race, religion, gender, age, and nationality. As of June 30, 2020, we had 1,220 full-time employees, of which, 18% were female. Female employees comprise 24% of our mid to senior level management staff and 18% of our board of directors are women.

We aim to provide our employees with a fair and transparent career development platform, with training opportunities available to all employees. We adopt "growth mindset" and use 3E (Experience, Exposure and Education) as our main development methodology to provide a wide range of orientation for new hires, on-job training, internal and external knowledge sharing, formal professional training, job related certification and others.

Employees

As of June 30, 2020, we had 1,220 full-time employees. We had 740, 893 and approximately 1,100 employees as of December 31, 2017, 2018 and 2019, respectively. The following table sets forth the number of our employees by function as of June 30, 2020:

	Number of employees	% of total
Colocation services	694	56.9%
Managed services	104	8.5%
Sales and marketing	86	7.1%
Management, finance and administration	336	27.5%
Total	1,220	100%

To maintain the highest level of service, employee training and certification is essential to ensure that our employees meet and exceed industry requirements. Many of our engineering employees have received training and certifications from globally recognized IT service organizations, such as IBM AS/400 certifications, CCIE Safety Certified qualifications, VMware VCP and CISP Certificates.

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We pay most of our employees a base salary and performance-based bonuses and provide welfare and other benefits required by law. In addition, we provide some of our employees with share-based compensation to align their interests more closely with our shareholders. We believe that our compensation and benefits packages are competitive within our industry. We have not had any labor disputes that materially interfered with our operations and we believe that our employee relations are good.

We also outsource certain operations, primarily on-site security, cleaning and greening service, part of the 24/7 on duty operations and IT and customer service delivery to reputable third-party service providers.

Facilities

Our headquarters are located at F4/F5, Building C, Sunland International, No. 999 Zhouhai Road, Pudong, Shanghai 200137, and People's Republic of China. We also have six regional offices in Suzhou, Beijing, Chengdu, Shenzhen, Guangzhou and Hong Kong.

As of June 30, 2020, our offices are located on leased premises totaling approximately 8,100 sqm across China. We lease our office premises from third parties.

There is no single property interest of our Group that formed part of non-property activities had a carrying amount of 15% or more of our Group's total assets as of June 30, 2020. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempted from compliance with the requirement of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

Legal Proceedings

We may become subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time.

On August 2, 2018, a securities class action lawsuit was filed against GDS Holdings Limited, our Chief Executive Officer Mr. Huang, and our Chief Financial Officer Mr. Daniel Newman (collectively, "Defendants") by Hamza Ramzan, a GDS shareholder in the United States District Court for the Eastern District of Texas. The complaint purports to assert claims on behalf of a class comprising purchasers of GDS's ADS shares during the proposed class period from March 29, 2018 to July 31, 2018. On October 26, 2018 the Court appointed GDS shareholder Yuanli He as the lead plaintiff in the lawsuit, and on December 24, 2018 plaintiffs filed a consolidated amended complaint. The amended complaint alleged, among other things, that GDS made material misstatements and omissions in its 2017 Form 20-F Annual Report with respect to the commitment rate and utilization rate at GDS's GZ1 data center, and inflated the purchase prices for its acquisitions of the GZ2, GZ3, and SZ5 data centers. The complaint

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alleged violations of Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC, against all Defendants and also alleged control person claims under Section 20(a) of the Exchange Act against our Chief Executive Officer Mr. Huang and our Chief Financial Officer Mr. Daniel Newman. The complaint sought, among other relief, class certification of the lawsuit, unspecified damages, prejudgment and postjudgment interest, costs and expenses. On February 22, 2019, Defendants filed a motion to dismiss the amended complaint in the United States District Court for the Eastern District of Texas and, alternatively, to transfer venue to the United States District Court for the Southern District of New York. On September 30, 2019, the court granted Defendants' motion to transfer the case to the United States District Court for the Southern District of New York. Defendants then moved to dismiss the action in the United States District Court for the Southern District of New York on December 6, 2019. On April 7, 2020, the court granted Defendants' motion and dismissed the action in its entirety against all Defendants. On May 6, 2020, plaintiffs filed a notice of appeal of that decision. On June 29, 2020, plaintiffs voluntarily withdrew their appeal, resulting in the dismissal of the case against all Defendants with prejudice. Other than as described above, we are not currently a party to, nor are we aware of, any legal proceeding, investigation or claim which, in the opinion of our management, could have a material adverse effect on our business, financial condition or results of operation.

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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 document 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 document. 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.

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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.

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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.

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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.

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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.

(Sqm, %)	As of December 31,			As of June 30,	
	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.

(Sqm)	Year ended December 31,			Six months ended June 30,
	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

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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.....	<u>408,472</u>	<u>25.3</u>	<u>622,441</u>	<u>22.3</u>	<u>1,042,726</u>	<u>147,589</u>	<u>25.3</u>	<u>473,778</u>	<u>25.2</u>	<u>711,440</u>	<u>100,697</u>	<u>27.5</u>

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.....	<u>372,774</u>	<u>655,231</u>	<u>832,826</u>	<u>343,848</u>	<u>497,677</u>
Service revenue	1,591,860	2,759,490	4,094,571	1,876,040	2,567,064
IT equipment sales	<u>24,306</u>	<u>32,587</u>	<u>27,834</u>	<u>990</u>	<u>15,559</u>
Total	<u>1,616,166</u>	<u>2,792,077</u>	<u>4,122,405</u>	<u>1,877,030</u>	<u>2,582,623</u>

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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.

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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

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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 ...	<u>326,243</u>	<u>20.2</u>	<u>454,086</u>	<u>16.3</u>	<u>562,946</u>	<u>79,679</u>	<u>13.7</u>	<u>251,479</u>	<u>13.4</u>	<u>352,769</u>	<u>49,931</u>	<u>13.6</u>

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

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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	<u>59,843</u>	<u>3.7</u>	<u>105,877</u>	<u>3.8</u>	<u>189,756</u>	<u>26,858</u>	<u>4.6</u>	<u>62,934</u>	<u>3.4</u>	<u>133,842</u>	<u>18,944</u>	<u>5.2</u>

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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.

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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.

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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 document.

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

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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

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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

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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

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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

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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.

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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.....	<u>(238,400)</u>
Unvested at December 31, 2017.....	<u>24,525,620</u>
Granted	13,202,512
Vested	(7,326,620)
Forfeited.....	<u>(891,008)</u>
Unvested at December 31, 2018.....	<u>29,510,504</u>
Granted	14,551,472
Vested	(9,122,432)
Forfeited.....	<u>(1,582,248)</u>
Unvested at December 31, 2019.....	<u>33,357,296</u>
Granted	100,136
Vested	(3,611,936)
Forfeited.....	<u>(656,248)</u>
Unvested at June 30, 2020	<u>29,189,248</u>

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.

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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

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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.

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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.

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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.

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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

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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.

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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)

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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

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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.

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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

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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.

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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.

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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.

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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).

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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

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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.

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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.

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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

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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.

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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.

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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.

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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.

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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 document, 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.

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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

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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;

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- 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.

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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		Interest Rate	Facility Agreement	Facility Agreement
		Facility Amount	Drawdown Amount ^(e)		Original	Maturity Date
		RMB (US\$)	RMB (US\$)		Begin Date	
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

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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\$)			
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

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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

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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

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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

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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\$)			
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

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USD Loan Facilities in Millions:

<u>Data Center and Corporate</u>	<u>Facility Type</u>	<u>As of June 30, 2020</u>		<u>Interest Rate</u>	<u>Facility Agreement Original Begin Date</u>	<u>Facility Agreement Maturity Date</u>
		<u>Facility Amount</u>	<u>Drawdown Amount^(f)</u>			
		<u>US\$</u>	<u>US\$</u>			
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 ^(e)	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 ^(e)	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:

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

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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

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	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 ..	<u>2,423,071</u>	<u>3,507,879</u>	<u>3,999,514</u>	<u>566,094</u>	<u>6,468,154</u>	<u>915,508</u>	<u>6,257,329</u>	<u>885,667</u>
Net current assets/(liabilities).....	<u>30,957</u>	<u>(470,483)⁽¹⁾</u>	<u>3,085,195⁽²⁾</u>	<u>436,681</u>	<u>3,149,933</u>	<u>445,844</u>	<u>2,669,590</u>	<u>377,855</u>

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 [REDACTED] available to us from the [REDACTED], 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 document. After due and careful inquiry, and independent due diligence, the Joint Sponsors are satisfied with the abovementioned confirmation given by the directors.

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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 [REDACTED] 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

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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 document, there has not been any material adverse change in our financial or [REDACTED] 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 document.

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[REDACTED]

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[REDACTED]

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

General

The following table sets out certain information in respect of our directors and senior management:

Name	Age	Position(s)/roles and responsibilities	Date of appointment	Year of joining our Group
Director				
Mr. William Wei Huang (黃偉)	52	Founder, Chairman and Chief Executive Officer	December 2002	2002
Mr. Sio Tat Hiang	73	Vice-chairman	August 2014	2014
Mr. Satoshi Okada	61	Director	June 2014	2014
Mr. Bruno Lopez	55	Director	August 2014	2014
Mr. Lee Choong Kwong	63	Director	August 2014	2014
Mr. Gary J. Wojtaszek	54	Director	June 2018	2018
Mr. Lim Ah Doo	70	Independent Director	August 2014	2014
Ms. Bin Yu (余濱)	50	Independent Director	November 2016	2016
Mr. Zulkifli Baharudin	60	Independent Director	November 2016	2016
Mr. Chang Sun (孫強)	64	Independent Director	April 2017	2017
Ms. Judy Qing Ye	50	Independent Director	October 2018	2018
Senior Management				
Mr. Daniel Newman	59	Chief Financial Officer	September 2011	2009
Ms. Jamie Gee Choo Khoo	56	Chief Operating Officer	January 2019	2014

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position(s)/roles and responsibilities	Date of appointment	Year of joining our Group
Mr. Xu Wei (魏旭)	48	Senior vice president, sales	June 2013	2013
Ms. Yilin Chen (陳怡琳)	49	Senior vice president, product and service	March 2017	2008
Ms. Liang Chen (陳亮)	45	Senior vice president, data center design	September 2017	2015
Ms. Yan Liang (梁艷)	45	Senior vice president, operation and delivery	March 2014	2010
Other Committee Member				
Mr. Jonathan King	44	Member of the executive committee	October 2016	2014

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors

The board currently consists of 11 directors, including five independent directors. See “— Board Practices” for the functions and duties of the Board. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association, and all applicable laws and regulations, including the Hong Kong Listing Rules.

Mr. William Wei Huang is our founder, chairman of our board of directors, and since 2002, has served as our chief executive officer. From 2004 to 2020, Mr. Huang has also served as a director of Haitong-Fortis Private Equity Fund Management Co., Ltd., a domestic private equity fund management company in China. Prior to founding our company, he served as a senior vice president of Shanghai Meining Computer Software Co., Ltd., which operates StockStar.com, a website primarily providing finance and securities related information and services in China.

Mr. Sio Tat Hiang is vice-chairman of our board of directors and has been a director of our company since August 2014. Since 2020, Mr. Sio has been a director of Singapore Technologies Telemedia Pte Ltd (“STT,” the sole indirect shareholder of STT GDC), and STTC. From 2012 to 2020, Mr. Sio was a director of STT GDC and from 2017 to 2020, Mr. Sio was the chairman of the board of STT GDC. In addition, Mr. Sio currently also sits on the Boards of U Mobile Sdn Bhd, Virtus HoldCo Limited and STT Global Data Centres India Private Limited. He graduated with a bachelor’s degree in business administration with honors from the National University of Singapore and attended the London Business School Senior Executive Programme.

Mr. Satoshi Okada has been a director of our company since June 2014. From 2000 to 2005, Mr. Okada had held various management positions within the Softbank Corp. group. Since 2008, he also serves as a director of Alibaba.com Japan, which is engaged in the Alibaba related business. Mr. Okada also represented the SOFTBANK Group as a director on the board of Baozun Inc., a Nasdaq-listed company since 2014 and Alibaba.com while it was a public company in Hong Kong from 2007 to 2012.

Mr. Bruno Lopez has been a director of our company since August 2014. Mr. Lopez is the group chief executive officer of ST Telemedia’s data center business – STT GDC. Since joining ST Telemedia in 2014, Mr. Lopez has led STT GDC in its strategy to build a large portfolio of integrated data centers across a global platform in Singapore, UK, Thailand, India and in China through GDS Holdings. He is a board member and the chairman of the executive committee in GDS Holdings as well as in all these other operational platforms owned by STT GDC. An industry veteran in the telecommunications and data center sectors with more than 25 years of experience, Mr. Lopez was the chief executive officer and executive director of Keppel Data Centres where he was instrumental in leading the company’s growth and business expansion in Asia and Europe. From 2009 to 2014, he was also responsible for setting up Securus Data Property Fund, an investment fund focused on developing data center assets in the Asia-Pacific region, Europe and the Middle East, which was eventually merged with

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Keppel Data Centres' assets as part of the company's SGX listing. He received a bachelor's degree with honors from the National University of Singapore and a master's degree in human resource management from Rutgers University.

Mr. Lee Choong Kwong has been a director of our company since August 2014. From 2013 to 2017, Mr. Lee was ST Telemedia's executive vice president for China. He was responsible for China investments and business development. Mr. Lee brings with him more than 20 years of China business experience. He played a key role in ST Telemedia's investments in China. Mr. Lee received a bachelor's degree in electrical and electronic engineering from the National University of Singapore, and a UCLA-NUS Executive MBA degree.

Mr. Gary J. Wojtaszek has served as our director since June 2018, and had been an observer of our board of directors since October 2017. He served as the president and chief executive officer and a member of the board of directors of CyrusOne from July 2012 to February 2020. Prior to becoming the president of CyrusOne in August 2011, Mr. Wojtaszek served as chief financial officer of Cincinnati Bell Inc., where he had responsibility for the data center business and oversaw CyrusOne's successful spin-off and IPO. Prior to joining Cincinnati Bell in July 2008, he was senior vice president, treasurer and chief accounting officer for the Laureate Education Corporation in Baltimore, Maryland from 2006 to 2008. Prior to that, Mr. Wojtaszek worked from 2001 to 2008 at Agere Systems, the semiconductor and optical electronics communications division of Lucent Technologies, which was subsequently spun off through an initial public offering. While at Agere Systems, Mr. Wojtaszek worked in a number of finance positions, ultimately serving as the vice president of corporate finance, overseeing all controllership, tax and treasury functions. Mr. Wojtaszek started his career in General Motors Company's New York treasury group and joined Delphi Automotive Systems as the regional European treasurer in connection with the initial public offering and spin-off of Delphi Automotive Systems from General Motors. Mr. Wojtaszek is currently serving on the board of directors of the Lyle School of Engineering at Southern Methodist University, and the advisory board of the Lyle School of Engineering's Datacenter Systems Engineering (DSE) Program at Southern Methodist University, Columbia University's Lang Entrepreneur Center and the Dallas Chamber of Commerce. Mr. Wojtaszek previously served as a director of Cincinnati Bell Inc., the Dallas Zoo, and Tech Wildcatters. Mr. Wojtaszek obtained a master's degree of Business Administration from Columbia University.

Mr. Lim Ah Doo has served as our director since August 2014. Mr. Lim is currently the chairman and independent non-executive director of Olam International Limited, as well as an independent non-executive director of GP Industries Limited, Singapore Technologies Engineering Ltd (STE), STT Global Data Centres India Private Limited, or GDC India, Virtus Holdco Ltd (VHL) and U Mobile Sdn Bhd. He also chairs the audit committees of GP Industries, GDC India, VHL and U Mobile, and is also a member of the audit committee of STE. Since 2020, Mr. Lim has been a non-executive director of STT and STTC. From 2016 to 2020, Mr. Lim served as an independent non-executive director of STT GDC and also chaired the audit committee of STT GDC. During his 18-year distinguished banking career in Morgan Grenfell, Mr. Lim held several key positions including chairing Morgan Grenfell (Asia). From

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

2003 to 2007, he was president and then vice chairman of the RGM group, a leading global resource-based group and in 2008, he served as a deputy chairman of a member of RGM Group. Mr. Lim obtained a bachelor's degree in engineering with honors from the Queen Mary College, University of London, and an MBA from the Cranfield School of Management.

Ms. Bin Yu has served as our independent director since November 2016. She served as the chief financial officer for LingoChamp Information Technology (Shanghai) Co., Ltd., a company engaged in AI driven education from September 2017 to January 2020. Ms. Yu has served as an independent director of Baozun Inc., a Nasdaq-listed brand e-commerce solutions provider based in China since May 2015, an independent director of Tian Ge Interactive Holdings Limited, a live social video platform in China listed on the Hong Kong Stock Exchange since June 2014, and an independent director of iDreamSky Technology Holdings Limited, a leading mobile game publisher in China listed on the Hong Kong Stock Exchange since May 2018. From 2015 to May 2017, she served as the chief financial officer of Innolight Technology Corp. From 2013 to 2015, she served as a director and the chief financial officer of Star China Media Limited, a company engaged in the entertainment TV programs business. From 2012 to 2013, she was a senior vice president of Youku Tudou Inc., and had responsibility for the company's investments in content production, mergers and acquisitions and strategic investments. She previously served as the chief financial officer from 2012 to 2013, and the vice president of finance from 2010 to 2011, of Youku Tudou's predecessor, Tudou Holdings Limited. Prior to that, she worked at KPMG from 1999 to 2010 and was a senior manager of KPMG's Greater China region. Ms. Yu received a master's degree in accounting from the University of Toledo, and an EMBA from Tsinghua University and INSEAD, respectively. Ms. Yu is a Certified Public Accountant in the United States admitted by the Accountancy Board of Ohio.

Mr. Zulkifli Baharudin has served as our independent director since November 2016. Since 2011, he has been serving as the executive chairman of Indo-Trans Corporation, a logistics and supply chain company across Indo-China. Since 2004, he has also been serving as a managing director of Global Business Integrators Pte Ltd. Mr. Zulkifli has been the non-executive director on the Board of Virtus Holdco Limited and Omni Holdco, LLC since 2017 and 2018, respectively. Since 2013, he has also been the non-executive director at Ascott Residence Trust Management Limited. Mr. Zulkifli has been serving as a director on the Board of Ang Mo Kio Thye Hua Kwan Hospital Ltd, Thye Hua Kwan Moral Charities Limited and Thye Hua Kwan Nursing Home Limited since 2012, 2011 and 2014, respectively. Mr. Zulkifli also serves as Singapore's Non-Resident Ambassador to the Republic of Kazakhstan and Uzbekistan. From 1997 to 2001, he also served as a nominated member of Parliament in Singapore. Mr. Zulkifli received his bachelor's degree in estate management from the National University of Singapore.

Mr. Chang Sun has served as our independent director since April 2017. Since 2017, Mr. Sun has been the managing partner for China at TPG, a global alternative investment firm. Prior to joining TPG, he founded and was the chairman of Black Soil Group Ltd., an agriculture impact investing company. Prior to founding Black Soil in 2015, Mr. Sun was the chairman of Asia Pacific at Warburg Pincus, a global private equity firm, where he had served for 20 years.

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Mr. Sun also was the founder and current honorary chairman of the China Venture Capital and Private Equity Association and the founder and current executive vice chairman of the China Real Estate Developers and Investor's Association. He is also a board member of the Lauder Institute of the Wharton School and a board member of The China Entrepreneur Club. Mr. Sun earned a joint degree of MA/MBA from the Joseph Lauder Institute of International Management and the Wharton School of the University of Pennsylvania.

Ms. Judy Qing Ye has served as our independent director since October 2018. Ms. Judy Qing Ye is the founding partner for Yimei Capital, a global alternative investment firm and has over 20 years of experience in investment. Prior to founding Yimei Capital in 2011, Ms. Ye was the chairman of EM Alternatives ("EMA"), a global private equity firm from 2008 to 2010. Prior to EMA, Ms. Ye served as director of strategic investments at Hewlett-Packard Company from 2001 to 2008. In her earlier career, Ms. Ye worked as M&A project manager at PepsiCo, New York from 1997 to 1999. Ms. Ye is also the co-founder and managing partner of NE Social Impact Fund (NESIF), a dedicated social impact investing fund in China. Ms. Ye is also the council member of United Way Worldwide, a global non-profit charitable organization. Ms. Ye received her bachelor of arts degree from Peking University and earned her MA from Tufts University, MBA from the Wharton School at University of Pennsylvania.

Senior Management

Mr. Daniel Newman has served as the chief financial officer of GDS since September 2011. Prior to joining us in this capacity, Mr. Newman acted as an advisor to GDS from 2009 to 2011. From 2008 to 2009, Mr. Newman served as a managing director at Bank of America Merrill Lynch with responsibility for investment banking clients in the telecom, media, and technology sectors in Asia. From 2005 to 2007, Mr. Newman acted as an advisor in the chairman's office of Reliance Communications in Mumbai, India. From 2001 to 2005, Mr. Newman served as a managing director at Deutsche Bank with responsibility for investment banking clients in the telecom and media sectors in Asia. Mr. Newman previously worked as an investment banker at Salomon Brothers (and its successors) from 1997 to 2001 and at S.G. Warburg (and its successors) from 1983 to 1997 in London and Hong Kong. Mr. Newman received his bachelor's degree in history from Bristol University in the UK in 1983.

Ms. Jamie Gee Choo Khoo has served as the chief operating officer of GDS since January 2019. Ms. Khoo joined the GDS senior management team in 2014, serving as deputy chief financial officer. From 1996 to 2007, Ms. Khoo worked at ST Telemedia, holding various management roles in finance, accounting and treasury as well as having responsibility for designated overseas investment entities. Prior to joining ST Telemedia, she worked for ABB (China) Holdings Limited from 1994 to 1996, Ernst & Young (Singapore) in 1994 and Baker Hughes (Singapore) from 1989 to 1993, mainly in finance and consulting roles. Ms. Khoo graduated from the National University of Singapore with a bachelor's degree in accountancy and an MBA from the University of Hull. Ms. Khoo is a fellow member of the Institute of Singapore Chartered Accountants and a member of the Singapore Institute of Directors.

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Mr. Xu Wei joined our company in 2013 as our senior vice president of sales, and is responsible for sales operations and management. Prior to joining us, Mr. Wei was a general manager of Beijing VPro Intellectual Technology Limited Company from 2011 to 2013, with responsibility for mobile value-added business promotion and software development. From 2005 to 2010, Mr. Wei served as a general manager of Shenzhen VPro Technology Limited Company, with responsibility for operations and software development and integration. From 1998 to 2005, Mr. Wei held various roles at Zhong Lian Group, including technical director, business development manager and division general manager, engaged in sales and management of core systems. From 1996 to 1998, Mr. Wei served as an engineer at Beijing Electronic Office, with responsibility for network-building and management. Mr. Wei received a bachelor's degree in physics from Shandong University.

Ms. Yilin Chen joined our company in 2008 and has served as our senior vice president for product and service business since March 2017. Prior to joining us, Ms. Chen held various roles in consulting, business planning and analysis, product and operations. Ms. Chen worked at HP China from 1995 to 2008, holding leadership roles related to IT solutions and service, outsourcing, business development and management. From 1992 to 1995, Ms. Chen worked at the East China Institute of Computer and Science. She graduated from Shanghai Science and Technology University with a bachelor's degree in computer science.

Ms. Liang Chen joined our company in 2015 with responsibility for product strategy management and the delivery of data center projects, design and construction. Due to the rapid growth of our business, since September 2017, Ms. Chen's responsibilities have focused on data center design and she is leading our company in designing and building multiple data centers. Prior to joining us, Ms. Chen worked with IBM Global Technology Service for 14 years. Ms. Chen held several leadership roles in IBM, including manager of IBM's China data center solution design team, general manager of IBM's data center consulting and design department and service product line manager of IBM's Greater China data center department. Prior to joining IBM in 2001, Ms. Chen spent seven years at the East China Architectural Design and Research Institute. Ms. Chen obtained a bachelor's degree in electrical and electronic engineering from Shanghai University and a master's degree in electrical and electronic engineering from Tongji University.

Ms. Yan Liang joined our company in 2010 and has served as our senior vice president of operation and delivery since March 2014 with responsibility for establishing the operation governance system and management platform for data centers. Ms. Liang currently also serves on the China Data Center Committee as vice chairman with responsibility for contributing to white papers for the operation and maintenance management technology of data centers and promoting maintenance and operation in data center industry. Prior to joining us in 2010, Ms. Liang served as a director of operations and business development with COSCO's global data center business where she had responsibility for information system centralization, construction of large data centers, establishment and promotion of ITIL operation management systems and global disaster recovery from 1997 to 2010. Ms. Liang received a bachelor's degree from Shanghai Tie Dao University and an MBA from Fudan University.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Other Committee Member

Mr. Jonathan King has been a member of our executive committee since October 2016 and has been involved with our company since 2014, in his role as chief operating officer and head of investments of ST Telemedia's data center business — STT GDC. In this role he is responsible for the performance of STT GDC's existing platforms as well as leading its investment activities into new markets. From 2009 to 2014, Mr. King was the co-fund manager of Securus Data Property Fund, an investment fund focused on the acquisition and management of high quality data center assets in Asia-Pacific region and Europe. During that time, Mr. King played a key role in developing the portfolio of data centers that was eventually listed as Keppel DC REIT on the Singapore Exchange. Mr. King was an associate director with Macquarie Bank's real estate group. He obtained a bachelor's degree in engineering from the University of Sydney and a graduate diploma in finance and investment from the Financial Services Institute of Australasia.

Board Observer

In accordance with the Investor Rights Agreement entered into among Ping An Overseas Holdings and our company, we have agreed that an observer designated by Ping An Overseas Holdings may join meetings of our board of directors as an observer, subject to maintaining its shareholding at or above a specified percentage threshold. Mr. Hoi Tung, chairman and chief executive officer of China Ping An Insurance Overseas (Holdings) Limited, as well as a member of Investment Committee of Ping An Insurance (Group) of China, was designated by Ping An Overseas Holdings after the completion of its investment to join meetings of our board of directors as an observer.

Mr. Hoi Tung is currently a member of the Investment Committee of Ping An Insurance (Group) of China and the CEO and Chairman of China Ping An Insurance Overseas (Holdings) Limited. From 2014 to 2016, Mr. Tung was the Chairman of Investment Committee of Ping An Insurance (Group) of China, Ltd. From 2004 to 2014, Mr. Tung was the Chairman and CEO of Ping An Trust Co. Ltd.. Before joining Ping An, Mr. Tung was an executive director with Goldman Sachs (Asia) L.L.C., advising major financial institutions in the Asia Pacific region on restructuring, M&As and capital markets activities. Mr. Tung started his career as a management consultant with McKinsey & Co. He obtained a Master's degree in Engineering Science from Oriel College, University of Oxford, and an MBA from INSEAD. Mr. Tung is a fellow of the Global Finance Leaders Fellowship at the Aspen Institute and also served as a selection committee member for Rhodes Scholarship in China.

Compensation

Compensation of Directors and Executive Officers

For 2017, 2018 and 2019 and the six months ended June 30, 2020, (i) we paid and accrued aggregate fees, salaries and benefits (excluding equity-based grants) of up to approximately US\$3.3 million, US\$3.3 million, US\$4.3 million and US\$2.5 million, respectively, to our

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

directors and executive officers as a group, and (ii) granted 4,963,320, 5,757,560, 6,100,608 and 100,136 restricted shares for fiscal years 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, to our directors and executive officers. We have neither set aside nor accrued any amount of cash to provide pension, retirement or other similar benefits to our officers and directors. Our PRC subsidiaries and variable interest entities are required by law to make contributions equal to certain percentages of each employee's salary for his or her retirement benefit, medical insurance benefits, housing funds, unemployment and other statutory benefits.

For information regarding equity-based grants to directors and executive officers, see "—Share Incentive Plans."

Employment Agreements

We have entered into employment agreements with each of our executive officers. We may terminate their employment for cause at any time without remuneration for certain acts, such as a material breach of our company's employment principles, policies or rules, a material failure to perform his or her duties or misappropriation or embezzlement or a criminal conviction. We may also terminate any executive officer's employment without cause or due to a change of control event involving our company by giving written notice. In such cases, an executive officer is entitled to severance payments and benefits. An executive officer may terminate his or her employment at any time by giving written notice, in which case the executive officer will not be entitled to any severance payments or benefits.

Our executive officers have also agreed not to engage in any activities that compete with us or to directly or indirectly solicit the services of any of our employees, for a certain period after the termination of employment. Each executive officer has agreed to hold in strict confidence any trade secrets of our company, including technical secrets, marketing information, management information, legal information, third-party business secrets and other kinds of confidential information. Each executive officer also agrees to perform his or her confidentiality obligation and protect our company's trade secrets in a way consistent with the policies, rules and practices of our company. Breach of the above confidentiality obligations would be deemed as material breach of our company's employment policies and we are entitled to seek legal remedies.

Indemnification

Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Our amended and restated memorandum and articles of association permit indemnification of directors, secretary and other officers for actions, costs, charges, losses, damages and expenses in the execution or discharge of his duties unless such losses or damages arise from dishonesty or fraud of such directors or officers. In addition, we have entered into, indemnification agreements with our directors and senior executive officers that will provide such persons with additional indemnification beyond that provided in our amended and restated memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Share Incentive Plans

We have adopted a number of share incentive plans since our inception:

- 2014 Share Incentive Plan, or the 2014 Plan; and
- 2016 Share Incentive Plan, or the 2016 Plan.

The following summarizes, as of June 30, 2020, the options and restricted share units that we granted to our directors and executive officers and to other individuals as a group under our Share Incentive Plans to recruit, retain and motivate key employees, directors and consultants of outstanding ability through the granting of equity awards. We and our directors, executive officers and other employees who are PRC residents and who have been granted options or restricted share units will be required to register with SAFE pursuant to applicable PRC laws. See "Risk Factors — Risks Related to Doing Business in the People's Republic of China — Any failure to comply with PRC regulations regarding our Share Incentive Plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions."

2014 Share Incentive Plan and 2016 Share Incentive Plan

In July 2014, we adopted our 2014 Share Incentive Plan, or the 2014 Plan, which provides for the grant of options, share appreciation rights or other share-based awards, which we refer to collectively as equity awards. The maximum number of Shares which may be issued pursuant to all awards under the 2014 Plan is 29,240,000. As of the Latest Practicable Date, the number of Shares which may be issued pursuant to all outstanding options under the 2014 Plan is 669,000.

In August 2016, we adopted our 2016 Plan. The maximum number of Shares which may be issued pursuant to all awards under the 2016 Plan was 56,707,560 initially, provided, however, that the maximum number of unallocated Shares which may be issuable pursuant to awards under the Plan shall be automatically increased on the first day of each fiscal year (i.e., January 1 of each calendar year) during which the Plan remains in effect to three percent (3%)

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of the then total issued and outstanding Shares of the Company, if and whenever the unallocated Shares which may be issuable pursuant to Awards under the Plan account for less than one and half percent (1.5%) of the then total issued and outstanding Shares of the Company, provided further that solely for the fiscal year 2020, the increase of the unallocated Shares which may be issuable pursuant to Awards under the Plan was given effect as of the date of the approval by the shareholders at the annual general meeting on August 6, 2020 (but calculated based on the total issued and outstanding shares of the Company as of January 1, 2020). In August 2020, the maximum number of unallocated shares which may be issuable pursuant to awards under the 2016 Plan was automatically increased by 32,592,288 to 3.0% of the then total issued and outstanding shares, which was 1,216,432,715. The shares which may be issued pursuant to the awards under the 2016 Plan shall be ordinary shares. As of the Latest Practicable Date, the number of shares that may be issued pursuant to all outstanding restricted share units under the 2016 Plan is 31,390,456.

Types of Awards. The 2014 Plan and the 2016 Plan permit the grant of several kinds of awards, including among others, share options, restricted shares, restricted share units and share appreciation rights.

Plan Administration. Our board of directors will administer the 2014 Plan and the 2016 Plan (only with respect to equity awards granted on the date of the completion of our initial public offering). The compensation committee, or any subcommittee thereof to whom the board or the compensation committee shall delegate the authority to has the power to grant or amend equity awards. The administrator of the 2014 Plan and the 2016 Plan is authorized to interpret, establish, amend and rescind any rules and regulations relating to the 2014 Plan and the 2016 Plan, respectively, and to make any other determinations that it deems necessary or desirable for the administration of the 2014 Plan and the 2016 Plan, respectively, as well as determine the provisions, terms and conditions of each award consistent with the provisions of the 2014 Plan and the 2016 Plan, respectively.

Award Agreements. Equity awards granted under the 2016 Plan will be evidenced by a written award agreement providing for the number of our Shares subject to the award, and the terms and conditions of the award, which must be consistent with the 2016 Share Incentive Plan.

Eligibility. We may grant awards to key employees, directors and consultants of outstanding ability.

Term of the Option and Stock Appreciation Rights. Each of the 2014 Plan and the 2016 Plan has a term of five years and ten years, respectively. The board of directors may at any time amend, alter or discontinue the 2014 Plan and the 2016 Plan, subject to certain exceptions.

Acceleration of Awards upon Corporate Transactions. The board of directors may, in its sole discretion, upon or in anticipation of a corporate transaction, accelerate awards, purchase the awards from the holder or replace the awards.

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Vesting Schedule. The plan administrator for the 2014 Plan and the 2016 Plan determines the vesting schedule of each equity award granted under the 2014 Plan and the 2016 Plan, respectively, which vesting schedule will be set forth in the award agreement for such equity award.

Amendment and Termination. The board of directors may at any time amend, alter or discontinue the 2014 Plan or the 2016 Plan subject to certain exceptions. Additionally, shareholder approval will be specifically required to increase the number of Shares available under the 2014 Plan, or to permit the board of directors to extend the term or the exercise period of an option or share appreciation right beyond ten years, or if amendments result in material increases in benefits or a change in eligibility requirements. Any amendment, modification or termination of the 2014 Plan or the 2016 Plan must not impair any rights or obligations under awards already granted without consent of the holder of such awards. The 2014 Plan was expired after the fifth anniversary of the shareholders' approval of the 2014 Plan and no further awards were granted thereafter. Unless terminated earlier, the 2016 Plan will expire and no further awards may be granted after the tenth anniversary of the shareholders' approval of the 2016 Plan.

Share-based Awards Held by Our Directors and Officers

The following table summarizes, as of June 30, 2020, the outstanding options we have granted to our directors and executive officers under our 2014 Plan:

<u>Name</u>	<u>Ordinary shares underlying outstanding options⁽¹⁾</u>	<u>Option Exercise Price</u>	<u>Grant Date</u>	<u>Option Expiration Date</u>
Yan Liang	*	US\$0.7792	May 1, 2016	May 1, 2021

Notes:

* Less than 1% of our outstanding Class A ordinary shares.

(1) Fully vested.

As of June 30, 2020, individuals other than our directors and executive officers as a group held options to purchase a total of 623,000 ordinary shares of our company, with an exercise price of US\$0.7792 per ordinary share.

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The following table summarizes, as of June 30, 2020, the restricted shares we have granted to our directors and executive officers under our 2016 Plan:

Name	Number of Restricted Shares	Date of Grant
William Wei Huang.....	*	various dates from December 5, 2016 to August 1, 2019
Daniel Newman.....	*	various dates from December 5, 2016 to August 1, 2019
Jamie Gee Choo Khoo .	*	various dates from December 5, 2016 to August 1, 2019
Sio Tat Hiang.....	*	various dates from August 29, 2016 to June 1, 2020
Satoshi Okada.....	*	various dates from August 29, 2016 to June 1, 2020
Bruno Lopez.....	*	various dates from August 29, 2016 to June 1, 2020
Lee Choong Kwong.....	*	various dates from August 29, 2016 to June 1, 2020
Lim Ah Doo.....	*	various dates from August 29, 2016 to June 1, 2020
Bin Yu.....	*	various dates from May 9, 2017 to June 1, 2020
Zulkifli Baharudin.....	*	various dates from May 9, 2017 to June 1, 2020
Chang Sun.....	*	various dates from August 8, 2017 to June 1, 2020
Gary J. Wojtaszek.....	*	June 1, 2020
Judy Qing Ye.....	*	various dates from March 13, 2019 to June 1, 2020
Jonathan King.....	*	various dates from May 9, 2017 to June 1, 2020
Xu Wei.....	*	various dates from December 5, 2016 to August 1, 2019
Yilin Chen.....	*	various dates from December 5, 2016 to August 1, 2019
Liang Chen.....	*	various dates from December 5, 2016 to August 1, 2019
Yan Liang.....	*	various dates from December 5, 2016 to August 1, 2019

* Less than 1% of our outstanding ordinary shares assuming conversion of all restricted shares into ordinary shares.

As of June 30, 2020, individuals other than our directors and executive officers as a group held a total of 16,863,096 restricted shares of our company, subject to various vesting schedules and conditions.

Board Practices

Board of Directors

Our board of directors consists of 11 directors. A director is not required to hold any shares in our company by way of qualification. A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with us is required to declare the nature of his interest at a meeting of our directors. A general notice given to the directors by any director to the effect that he is a member, shareholder, director, partner, officer or employee of any specified company or firm and is to be regarded as interested in any contract or transaction with that company or firm shall be deemed a sufficient declaration of interest for

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the purposes of voting on a resolution in respect to a contract or transaction in which he has an interest, and after such general notice it shall not be necessary to give special notice relating to any particular transaction. A director may vote in respect of any contract or proposed contract or arrangement notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of the directors at which any such contract or proposed contract or arrangement is considered. The directors may exercise all the powers of the company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. None of our directors has a service contract with us that provides for benefits upon termination of service.

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as may be amended and restated from time to time. Our company has a right to seek damages against any director who breaches a duty owed to us.

Our officers are appointed by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until their resignation, death or incapacity or until their respective successors have been elected and qualified in accordance with our articles of association. A director will be removed from office automatically if the director (i) dies, becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors, (ii) is found to be or becomes of unsound mind, (iii) resigns his office by notice in writing to the company, (iv) without special leave of absence from the board of directors, is absent from six consecutive months and the board of directors resolves that his office be vacated, (v) is prohibited by law from being a director, or (vi) if he shall be removed from office pursuant to our memorandum and articles of association or the Companies Law.

Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our Amended and Restated Memorandum and Articles of Association. A shareholder has the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

- conducting and managing the business of our company;

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- representing our company in contracts and deals;
- appointing attorneys for our company;
- select senior management such as managing directors and executive directors;
- providing employee benefits and pension;
- managing our company's finance and bank accounts;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- exercising any other powers conferred by the shareholders meetings or under our Amended and Restated Memorandum and Articles of Association.

Appointment, Nomination and Terms of Directors

Pursuant to our amended articles of association, our board of directors are classified into three classes of directors designated as Class I, Class II and Class III, each generally serving a three-year term unless earlier removed and except as described below. The Class I directors consist of Mr. Gary J. Wojtaszek, Mr. Satoshi Okada and Mr. Bruno Lopez; the Class II directors consist of Mr. Lee Choong Kwong, Mr. Lim Ah Doo, Mr. Chang Sun, and Ms. Judy Qing Ye; and the Class III directors consist of Mr. William Wei Huang, Mr. Sio Tat Hiang, Ms. Bin Yu and Mr. Zulkifli Baharudin. Class I directors initially retired from office by rotation and were up for re-election or re-appointment one year after the completion of our initial public offering. Class II directors will initially retire from office by rotation and be up for re-election or re-appointment two years after the completion of our initial public offering. Class III directors will initially retire from office by rotation and be up for re-election three years after our initial completion of this [REDACTED].

Our board currently consists of eleven (11) directors. Unless otherwise determined by us in a general meeting, our board will consist of not less than two (2) directors. There is no maximum number of directors unless otherwise determined by our shareholders in a general meeting, provided, however, that for so long as STT GDC has the right to appoint one or more directors to our board of directors, any change in the total number of directors on our board shall require the prior approval of the director or directors appointed by STT GDC.

Our amended articles of association provide that for so long as STT GDC beneficially owns: not less than 25% of our issued and outstanding share capital, they may appoint three directors to our board of directors, including our vice-chairman; less than 25%, but not less than 15%, of our issued and outstanding share capital, they may appoint two directors to our board of directors, including our vice-chairman; and less than 15%, but not less than 8%, of our issued and outstanding share capital, they may appoint one director to our board of directors, including our vice-chairman, none of which appointments will be subject to a vote

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by our shareholders. In addition, the above rights of STT GDC may not be amended without the approval of STT GDC. Where STT GDC beneficially owns: less than 25%, but 15% or more, of our issued and outstanding share capital, then of the directors appointed by STT GDC, only two may remain in office, and the other director, who shall be determined by STT GDC, or failing which shall be the director whose term is due to expire soonest, shall retire at the expiry of his/her term; less than 15%, but 8% or more, of our issued and outstanding share capital, then of the directors appointed by STT GDC, only one may remain in office, and the other director(s), who shall be determined by STT GDC, or failing which shall be the director(s) whose terms are due to expire soonest, shall retire at the expiry of their respective terms; less than 8% of our issued and outstanding share capital, then the directors appointed by STT GDC may not remain in office and all shall retire at the expiry of their respective terms. Any director appointed by STT GDC who retires pursuant to the foregoing sentence may, in the sole discretion of our nominating and corporate governance committee, be re-nominated and subject to re-election at the next general meeting of our shareholders.

Our amended articles of association further provide that for so long as there are Class B ordinary shares outstanding: (i) the Class B shareholders shall be entitled to nominate one less than a simple majority, or five, of our directors (and such Class B shareholders shall have 20 votes per shares with respect to the resolutions approving the appointment or removal of such directors); and (ii) the nominating and corporate governance committee shall nominate one director, which one shall satisfy the requirements for an "independent director" within the meaning of the Nasdaq Stock Market Rules including the requirements for audit committee independence. As of and after such time as there ceases to be any Class B ordinary shares outstanding, all of the directors nominated by Class B shareholders shall retire from office at the expiry of their respective terms, and, if re-nominated, be subject to re-election at a subsequent general meeting of shareholders. Prior to such time, if any of the directors nominated by or subject to election by Class B shareholders at 20 votes per share (i) is not elected or (ii) ceases to be a director, then the Class B shareholders may appoint an interim replacement for each such director. Any person so appointed shall hold office until the next general meeting of our shareholders and be subject to re-nomination and re-election at such meeting.

Subject to the abovementioned appointment rights, we may nominate, and shareholders may by ordinary resolution elect (with Class A ordinary shares and Class B ordinary shares each being entitled to one vote per share), any person to be a director to fill a casual vacancy on our board.

Board Committees

We established four committees under the board of directors: an audit committee, a compensation committee, a nominating and corporate governance committee and an executive committee. We have adopted a charter for each of the four committees.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Audit Committee

Our audit committee consists of Mr. Lim Ah Doo, Ms. Bin Yu and Mr. Zulkifli Baharudin. Mr. Lim Ah Doo is the chairman of our audit committee. All members satisfy the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC and satisfy the requirements for an "independent director" within the meaning of Nasdaq Stock Market Rules and meet the criteria for independence set forth in Rule 10A-3 of the Exchange Act. Our audit committee consists solely of independent directors.

The audit committee oversees our accounting and financial reporting processes and the audits of our financial statements. Our audit committee is responsible for, among other things:

- selecting the independent auditor;
- pre-approving auditing and non-auditing services permitted to be performed by the independent auditor;
- annually reviewing the independent auditor's report describing the auditing firm's internal quality control procedures, any material issues raised by the most recent internal quality control review, or peer review, of the independent auditors and all relationships between the independent auditor and our company;
- reviewing with the independent auditor any audit problems or difficulties and management's response;
- reviewing and, if material, approving all related person transactions on an ongoing basis;
- reviewing and discussing the annual audited financial statements with management and the independent auditor;
- reviewing and discussing with management and the independent auditors about major issues regarding accounting principles and financial statement presentations;
- reviewing reports prepared by management or the independent auditors relating to significant financial reporting issues and judgments;
- discussing earnings press releases with management, as well as financial information and earnings guidance provided to analysts and rating agencies;
- reviewing with management and the independent auditors the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on our financial statements;

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- discussing policies with respect to risk assessment and risk management with management, internal auditors and the independent auditor;
- timely reviewing reports from the independent auditor regarding all critical accounting policies and practices to be used by our company, all alternative treatments of financial information within U.S. GAAP that have been discussed with management and all other material written communications between the independent auditor and management;
- establishing procedures for the receipt, retention and treatment of complaints received from our employees regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- performing, at least annually, an evaluation of the performance of the audit committee; and
- reporting regularly to the full board of directors.

An ethics committee has been established in early 2017 under the audit committee to handle the FCPA compliance-related matters on a routine basis. The members of the ethics committee include our chief executive officer, chief financial officer, vice president of internal control, general counsel, compliance officer and other members appointed by the audit committee.

Compensation Committee

Our compensation committee consists of Mr. Sio Tat Hiang, Mr. William Wei Huang and Mr. Zulkifli Baharudin. Mr. Sio Tat Hiang is the chairman of our compensation committee. Mr. Zulkifli Baharudin satisfies the requirements for an "independent director" within the meaning of Nasdaq Stock Market Rules.

Our compensation committee is responsible for, among other things:

- reviewing, evaluating and, if necessary, revising corporate goals and objectives with respect to the compensation of the chief executive officer;
- reviewing and making recommendations to the board of directors regarding the compensation of our directors;

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- reviewing, approving or making recommendations to the board of directors with respect to our incentive – compensation plan and equity-based compensation plans;
- administering our equity-based compensation plans in accordance with the terms thereof; and
- such other matters that are specifically delegated to the compensation committee by our board of directors from time to time.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Mr. William Wei Huang, Mr. Sio Tat Hiang and Mr. Zulkifli Baharudin. Mr. William Wei Huang is the chairperson of our nominating and corporate governance committee. Mr. Zulkifli Baharudin satisfies the “independence” requirements within the meaning of the Nasdaq Stock Market Rules. The nominating and corporate governance committee is responsible for, among other things:

- reviewing, evaluating and, if necessary, revising our corporate governance guidelines;
- reviewing and evaluating any instance of deviation from our corporate governance guidelines; and
- issuing and reviewing nominations of persons to be appointed as certain of our directors as described herein and of our officers.

The nominating and corporate governance committee shall have the right to nominate three directors, all of whom shall satisfy the requirements for an “independent director” within the meaning of the Nasdaq Stock Market Rules including the requirements for audit committee independence. If any of the directors nominated by the nominating and corporate governance committee (i) is not elected or (ii) ceases to be a director, then the nominating and corporate governance committee or the Class B ordinary shareholders, as applicable, may appoint an interim replacement for such director. Any person so appointed shall hold office until the next general meeting of our shareholders. These three directors shall be subject to election at general meetings of shareholders as described under the paragraph headed “Appointment, Nomination and Terms of Directors” above.

In November 2019, the nominating and corporate governance committee approved the establishment of the long-term succession planning review committee as its subcommittee, initially consisting of Mr. Zulkifli Baharudin, Ms. Judy Qing Ye, Mr. Bruno Lopez and Mr. Sio Tat Hiang. The authority and responsibility of the long-term succession planning review committee are to conduct a periodic review and assessment of succession policies for the chief executive officer and other senior management members of our company and to make related recommendations to the nominating and corporate governance committee and the board of directors.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Executive Committee

Our executive committee consists of Mr. Bruno Lopez, Mr. William Wei Huang, Ms. Judy Qing Ye and Mr. Jonathan King. Mr. Bruno Lopez is the chairman of our executive committee. The executive committee functions primarily as an advisory body to our board of directors to oversee the business of our group companies. The executive committee shall also provide consultation and recommendations to our board of directors on operating and strategic matters for any of our group companies, acting within authorities delegated to it by our board of directors. In addition, the executive committee shall have such other authority as may be delegated to it by our board of directors from time to time. Our executive committee is responsible for, among other things, advising, providing consultation and recommendations to our board of directors on:

- operational performance of any of our group companies;
- appropriate strategies for any of our group companies;
- strategic business and financing plans and annual budget of any of the group companies;
- acquisitions, dispositions, investments and other potential growth and expansion opportunities for any of our group companies;
- capital structure and financing strategy of our group companies, including but not limited to any debt, equity or equity-linked financing transactions, as well as any issuance, repurchase, conversion or redemption of any equity interests or debt of any of our group companies;
- any material litigation or other legal or administrative proceedings to which any of our group companies is a party;
- entry into any material contracts exceeding the approval authority of our chief executive officer or its equivalent, the chief financial officer, and all the other executive officers of any of our group companies;
- the approval of the incurrence of debt above certain thresholds;
- reporting regularly to our board of directors; and
- any other responsibilities as are delegated to the executive committee by our board of directors from time to time.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following the [REDACTED], without taking into account any allotment and issuance of Shares upon exercise of the [REDACTED], the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make, Mr. Huang, our founder, Chairman and chief executive officer and STT GDC will be our Controlling Shareholders for the purposes of the Hong Kong Listing Rules.

Our Articles of Association entitle Mr. Huang, through his beneficial ownership of our Class B ordinary shares, (i) to nominate one less than a simple majority, or five, of our directors, provided that Mr. Huang continues to have beneficial ownership in not less than 5% of our issued share capital on an as converted basis and (ii) to have 20 votes per share with respect to (a) the appointment and removal of a simple majority, or six, of our directors and (b) any change to our Articles of Association that would adversely affect the rights of shareholders of Class B ordinary shares. As of the Latest Practicable Date, Mr. Huang held 52.9% of our aggregate voting power with Class A and Class B ordinary shares voting on a 1:20 basis.

STT GDC's principal business is focused on developing, operating and investing in an integrated global platform of high-performance, carrier-neutral data centers across developed and emerging business markets. It is a wholly owned subsidiary of STTC, which is in turn a wholly owned subsidiary of ST Telemedia, a company headquartered in Singapore focused on investing in, operating and managing a portfolio of companies and investments in the communications, media and technology industries globally. STT GDC first became our investor in August 2014, when it made its initial investment in our Company. As of the Latest Practicable Date, STT GDC held 33.8% of our aggregate voting power with Class A and Class B ordinary shares voting on a 1:1 basis. Our Articles of Association provide that STT GDC has the right to appoint up to three directors to our board of directors for so long as they beneficially own certain percentages of our issued share capital.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and their close associates after [REDACTED].

Management Independence

Our business is managed and conducted by our board and senior management. Our board consists of 11 Directors, including five independent Directors. For more information, please see the section headed "Directors, Senior Management and Employees."

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors consider that our board and senior management will function independently from our Controlling Shareholders because:

- (i) each Director is aware of his/her fiduciary duties as a director which require, among other things, that he or she acts for the benefit and in the interest of our Company and does not allow any conflict between his or her duties as a director and their personal interests;
- (ii) our daily management and operations are carried out by members of our senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in our best interests;
- (iii) we have five independent directors and certain matters of our Company must always be referred to the independent directors for review;
- (iv) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our directors or their respective associates, the interested director(s) is required to declare the nature of such interest before voting at the relevant board meetings of our Company in respect of such transactions; and
- (v) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. Please see "Corporate Governance Measures" in this section for further information.

Operational Independence

We are not operationally dependent on the Controlling Shareholders. We hold all material licenses and own all relevant intellectual properties and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and an independent management team to operate our business.

Financial Independence

We have independent internal control and accounting systems. We also have an independent finance department responsible for discharging the treasury function. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

DISCLOSURE UNDER RULE 8.10 OF THE HONG KONG LISTING RULES

ST Telemedia is an active investor in the communications, media and technology space, including data centers. It started operations in 1994 and has built a portfolio of complementary assets and businesses across Asia, Europe and the Americas.

Our Controlling Shareholders and/or our Directors may, from time to time, make minority investments or hold non-executive board positions in entities that operate in, or have subsidiaries that operate in, the broader industries in which all of our business segments also operate. As our Controlling Shareholders and/or Directors have no executive or shareholding control over any of these entities, and these entities have separate businesses with separate management and shareholder bases that control their entities, our Controlling Shareholders will not inject any of their interested entities into our Group; and to the extent our Directors hold non-executive board positions or make minority investments in these entities, we believe that this strengthens the experience and diversity of our directors, as a group, and signifies their passion for the industries in which we operate.

Our Controlling Shareholders and Directors confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business that would require disclosure under Rule 8.10 of the Hong Kong Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our directors recognize the importance of good corporate governance in protecting our Shareholders' interests. We have adopted the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between our Group and our Controlling Shareholders:

- (i) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company's expense;
- (ii) we have appointed Haitong International Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Hong Kong Listing Rules, including various requirements relating to corporate governance; and
- (iii) we have established our audit committee, compensation committee, nominating and corporate governance committee with written terms of reference in compliance with the rules of Nasdaq. All of the members of our audit committee, including the chairman, are independent directors.

Based on the above, our directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders' interests after [REDACTED].

MAJOR SHAREHOLDERS

The following table sets forth information with respect to the beneficial ownership of our Shares by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our Shares.

The total number of Shares outstanding as of the Latest Practicable Date is 1,311,179,155 (including 1,243,588,819 Class A ordinary shares, including the 50,184,168 Class A ordinary shares held by JPMorgan Chase Bank, N.A., as depository, which are reserved for future delivery upon exercise or vesting of share awards granted under our Share Incentive Plans, and 67,590,336 Class B ordinary shares, but excluding ordinary shares issuable upon the exercise of outstanding share options, vested but not yet issued restricted shares and ordinary shares reserved for future issuance under our Share Incentive Plans).

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of Shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days of this document, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person. The beneficial ownership percentages are calculated excluding the 50,184,168 Class A ordinary shares that are held by JPMorgan Chase Bank, N.A., as depository, and reserved for future delivery in respect of share awards granted under our Share Incentive Plans.

Except as otherwise noted, the address of each person listed in the following table is c/o F4/F5, Building C, Sunland International, No. 999 Zhouhai Road, Pudong, Shanghai 200137, China.

Name	Shares Beneficially Owned as of the Latest Practicable Date						Shares Beneficially Owned upon the completion of the [REDACTED]***					
	Class A ordinary shares		Class B ordinary shares		Percentage of aggregate voting power with Class A and Class B ordinary shares voting on		Class A ordinary shares		Class B ordinary shares		Percentage of aggregate voting power with Class A and Class B ordinary shares voting on	
	Number	Percent	Number	Percent	a 1:20 basis**	a 1:1 basis**	Number	Percent	Number	Percent	a 1:20 basis***	a 1:1 basis***
Directors and Executive Officers:												
William Wei Huang ⁽¹⁾	12,855,904	1.1%	80,446,240	100.0%	52.9%	6.2%	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Daniel Newman	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Jamie Gee Choo Khoo.....	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Sio Tat Hiang	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Bruno Lopez.....	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

MAJOR SHAREHOLDERS

Name	Shares Beneficially Owned as of the Latest Practicable Date				Shares Beneficially Owned upon the completion of the [REDACTED]***							
	Class A ordinary shares		Class B ordinary shares		Percentage of aggregate voting power with Class A and Class B ordinary shares voting on		Class A ordinary shares		Class B ordinary shares		Percentage of aggregate voting power with Class A and Class B ordinary shares voting on	
	Number	Percent	Number	Percent	a 1:20 basis**	a 1:1 basis**	Number	Percent	Number	Percent	a 1:20 basis***	a 1:1 basis***
Lim Ah Doo.....	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Bin Yu	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Zulkifli Baharudin	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Chang Sun	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Gary J. Wojtaszek.....	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Judy Qing Ye.....	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Jonathan King.....	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Xu Wei	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Yilin Chen	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Liang Chen	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Yan Liang	*	*	—	—	*	*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
All our Directors and Executive Officers as a group⁽²⁾.....	30,772,583	2.6%	80,446,240	100.0%	53.2%	6.8%	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Principal Shareholders:												
STT GDC.....	437,043,684 ⁽³⁾	36.6%	—	—	16.9%	33.8%	[REDACTED] ⁽⁴⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
12 West Capital Management ⁽⁵⁾ ...	87,535,032	7.3%	—	—	3.4%	6.8%	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
American Century Investment Management ⁽⁶⁾	63,252,680	5.3%	—	—	2.5%	4.9%	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

* Beneficially owns less than 1% of our outstanding shares.

** For each person or group included in this column, the percentage of total voting power represents voting power based on all ordinary shares beneficially owned by such person or group. With respect to (i) the election or removal of a simple majority of our directors and (ii) any change to our amended articles of association that would adversely affect the rights of the holders of Class B ordinary shares, at general meetings of our shareholders, each Class A ordinary share is entitled to one vote per share, and each Class B ordinary share is entitled to 20 votes per share. With respect to any other matters at general meetings of our shareholders, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to one vote, voting together as a combined class. Class B ordinary shares are convertible into Class A ordinary shares. The voting power percentages are calculated (i) excluding the 50,184,168 Class A ordinary shares that are held by JPMorgan Chase Bank, N.A., as depositary, and reserved for future delivery in respect of share awards granted under our Share Incentive Plans, but (ii) including approximately 33,707,864 Class A ordinary shares issuable upon conversion of the 150,000 Series A convertible preferred shares held by affiliates of Ping An Overseas Holdings. The holders of the Series A convertible preferred shares are entitled to a number of votes per convertible preferred share equal to the number of Class A ordinary shares into which each such convertible preferred share is then convertible. Since the 150,000 Series A convertible preferred shares are convertible into 33,707,864 Class A ordinary shares, the affiliates of Ping An Overseas are entitled to 33,707,864 votes on all matters at general meetings of our shareholders, voting together with the holders of Shares as a single class.

*** The calculations are based on the total number of [REDACTED] ordinary shares in issue, including (i) 67,590,336 Class B ordinary shares, (ii) 1,243,588,819 Class A ordinary shares and (iii) the 33,707,864 votes to which the holders of the 150,000 Series A convertible preferred shares are entitled, but excluding ordinary shares issuable upon (x) conversion of our convertible senior notes, (y) the exercise or vesting of share awards granted under our Share Incentive Plans, and the 50,184,168 Class A ordinary shares held by JPMorgan Chase Bank, N.A., as depositary, which are reserved for future delivery upon the exercise or vesting of share awards granted under our Share Incentive Plans; and assuming all major shareholders’ shareholding remain unchanged as of the Latest Practicable Date but assuming the [REDACTED] and without taking into account the Shares

MAJOR SHAREHOLDERS

to be issued on conversion of convertible bonds, the Shares to be issued pursuant to the Share Incentive Plan, 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 that we may make and assuming the [REDACTED] is not exercised, following the completion of the [REDACTED].

- (1) Represents (i) 3,286,144 Class B ordinary shares held by Solution Leisure Investment Limited, (ii) 42,975,884 Class B ordinary shares held by EDC Group Limited, and (iii) 21,328,308 Class B ordinary shares held by GDS Enterprises Limited. Solution Leisure Investment Limited is indirectly wholly owned by a trust of which Mr. Huang's family is the beneficiary. EDC Group Limited is wholly owned by Solution Leisure Investment Limited. GDS Enterprises Limited is indirectly wholly owned by a trust of which Mr. Huang's family is a beneficiary. The registered address of Solution Leisure Investment Limited is Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, BVI. EDC Group Limited is a limited liability company established in the BVI wholly owned by Solution Leisure Investment Limited, a limited liability company established in the BVI which is indirectly wholly owned by a trust of which the family of Mr. William Wei Huang, our chairman and chief executive officer, is the beneficiary. The registered address of EDC Group Limited is OMC Chambers, Wickhams Cay 1, Road Town, Tortola, BVI. Also includes 1,606,988 ADSs representing 12,855,904 Class A ordinary shares beneficially owned by Mr. Huang. Such Class A ordinary shares will convert into 12,855,904 Class B ordinary shares if directly held by Mr. Huang. These 12,855,904 Class A ordinary shares in the form of 1,606,988 ADSs are also reflected in Mr. Huang's beneficial ownership in the adjacent column, "Class A ordinary shares."
- (2) Represents ordinary shares beneficially held by all of our directors and executive officers as a group and ordinary shares issuable upon exercise of options and vesting of restricted share units within 60 days after the Latest Practicable Date held by all of our directors and executive officers as a group.
- (3) Represents 437,043,684 Class A ordinary shares (directly or in the form of ADSs) owned by STT GDC. STT GDC is wholly-owned by STTC. STTC is wholly-owned by Singapore Technologies Telemedia Pte Ltd ("ST Telemedia"). Each of STT GDC, STTC and ST Telemedia is a company organized under the laws of the Republic of Singapore. The address of the principal business office of STT GDC is 3 Temasek Avenue, #28-01, Centennial Tower, Singapore 039190. The address of the principal business office of each of ST Telemedia and STTC is 1 Temasek Avenue, #33-01, Millenia Tower, Singapore 039192.
- (4) Includes [REDACTED] Class A ordinary shares to be issued to STT GDC assuming the [REDACTED] and an [REDACTED] of HK\$[REDACTED], being the [REDACTED].
- (5) Represents (i) 43,413,336 Class A ordinary shares in the form of 5,426,667 ADSs held by 12 West Capital Fund LP, a Delaware limited partnership ("12 West Onshore Fund"), (ii) 33,345,176 Class A ordinary shares in the form of 4,168,147 ADSs held by 12 West Capital Offshore Fund LP, a Cayman Islands exempted limited partnership ("12 West Offshore Fund"), and (iii) 10,776,520 Class A ordinary shares in the form of 1,347,065 ADSs held by DC Opportunity Fund LLC, a Delaware limited liability company ("DCOF"). 12 West Management serves as the investment manager to 12 West Onshore Fund, 12 West Offshore Fund and DCOF, and possesses the sole power to vote and the sole power to direct the disposition of all securities held by them. 12 West Capital Management, LLC is the general partner of 12 West Management. The principal business office of 12 West Management is 90 Park Avenue, 40th Floor, New York, New York 10016, United States.
- (6) Represents 7,906,585 ADSs representing 63,252,680 Class A ordinary shares held by American Century Investment Management, Inc. ("ACIM"). ACIM is a wholly-owned subsidiary of American Century Companies, Inc. ("ACC"). ACC is controlled by the Stowers Institute for Medical Research. Each of ACIM, ACC and the Stowers Institute for Medical Research is incorporated or organized under the laws of the State of Delaware. The address of the principal business office of each of ACIM, ACC and the Stowers Institute for Medical Research is 4500 Main Street, 9th Floor, Kansas City, Missouri 64111, United States.

RELATED PARTY TRANSACTIONS

We are seeking [REDACTED] on the Hong Kong Stock Exchange pursuant to Chapter 19C of the Hong Kong Listing Rules. Pursuant to Rule 19C.11 of the Hong Kong Listing Rules, Chapter 14A of the Hong Kong Listing Rules governing connected transactions does not apply to us. The following discussion of related party transactions has been prepared pursuant to the requirements of Form 20-F of the SEC, and is included in this document for disclosure purposes only.

CONTRACTUAL ARRANGEMENTS WITH GDS SHANGHAI, GDS BEIJING AND MANAGEMENT HOLDCO AND ITS SHAREHOLDERS

We operate our relevant business through contractual arrangements between our indirect wholly-owned subsidiary, GDS Investment Company, and our VIEs, GDS Shanghai and GDS Beijing and its subsidiaries, and the shareholders of Management HoldCo. For a description of these contractual arrangements, see “Our History and Corporate Structure — Contractual Arrangements.”

TRANSACTIONS WITH CERTAIN DIRECTORS, SHAREHOLDERS, AFFILIATES AND KEY MANAGEMENT PERSONNEL

Our WFOEs provided outsourcing and other services to the VIEs within our Company with revenues being recognized by the WFOEs, and costs being recognized by the VIEs, RMB658.6 million, RMB1,260.5 million, RMB2,017.0 million (US\$285.5 million) and RMB1,319.7 million (US\$186.8 million) in 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. These inter-company transactions are eliminated on a consolidated basis.

TRANSACTIONS WITH OUR SHAREHOLDERS

During the year ended December 31, 2017, the related interest expenses arising from the convertible bonds due 2019 subscribed by STT GDC amounted to US\$4.4 million.

In November 2017, the convertible bonds due 2019 and the interest accrued thereon due to STT GDC were fully converted into 32,540,515 newly issued Class A ordinary shares at the conversion price of US\$1.675262. In addition, upon conversion, the accrued but unpaid cash interest due to STT GDC of US\$0.8 million was relinquished.

One of our subsidiaries, GDS IDC Services Pte. Ltd., or GDS Singapore, entered into a master service agreement with STT Singapore DC Pte. Ltd., STT DEFU 2 Pte. Ltd. and cloud service providers, pursuant to which GDS Singapore will provide billing and payment collection services as well as other coordination and administration services. During the years ended December 31, 2017, 2018 and 2019, and six months ended June 30, 2020, we recognized

RELATED PARTY TRANSACTIONS

agency commission from STT Singapore DC Pte. Ltd. of nil, nil, RMB0.6 million (US\$84.9 thousand) and RMB0.2 million (US\$34.8 thousand) and STT DEFU 2 Pte. Ltd. of nil, nil, RMB0.3 million (US\$42.5 thousand) and RMB0.2 million (US\$34.5 thousand), respectively.

EMPLOYMENT AGREEMENTS

See “Directors, Senior Management and Employees — Compensation — Employment Agreements.”

SHARE INCENTIVE PLAN

See “Directors, Senior Management and Employees — Compensation — Share Incentive Plans.”

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The following is a summary of the material laws and regulations or requirements that affect our business activities in China or the rights of our shareholders to receive dividends and other distributions from us.

Our internet data center businesses are classified as value-added telecommunication businesses by the PRC government. Current PRC laws, rules and regulations restrict foreign ownership in value-added telecommunication services. As a result, we operate our internet data center businesses through our consolidated VIEs, each of which is ultimately owned by PRC citizens and certain of which hold the licenses associated with these businesses. As the development of the internet and telecommunications industry in China is still evolving, new laws and regulations may be adopted from time to time that will require us to obtain additional licenses and permits in addition to those that we currently have, and to address new issues that arise from time to time. As a result, substantial uncertainties exist regarding the interpretation and implementation of current and future Chinese laws and regulations applicable to the data center services industry. See “Risk Factors — Risks Related to Doing Business in the People’s Republic of China.”

Regulations Relating to Foreign Investment and Wholly Foreign Owned Enterprise

The establishment, operation and management of corporate entities in the PRC are governed by the *PRC Company Law*, which was promulgated by the SCNPC on December 29, 1993, became effective on July 1, 1994 and was subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018. The PRC Company Law generally governs two types of companies, namely limited liability companies and joint stock limited companies, each a limited liability company or a joint stock limited company being an enterprise legal person and liable for its debts with all its assets. The PRC Company Law shall also apply to foreign-invested companies in the form of limited liability companies or joint stock limited companies, except otherwise set out in any other regulations.

On March 15, 2019, the National People’s Congress adopted the *2019 PRC Foreign Investment Law*, which became effective on January 1, 2020 and replaced three existing laws regulating foreign investment in China, namely, the *Wholly Foreign-Invested Enterprise Law of the PRC*, the *Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC* and the *Sino-Foreign Equity Joint Venture Enterprise Law of the PRC*, together with their implementation rules and ancillary regulations. On December 26, 2019, the State Council issued the *Regulations on Implementing the 2019 PRC Foreign Investment Law*, which became effective on January 1, 2020, and replaced the *Regulations on Implementing the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC*, *Provisional Regulations on the Duration of Sino-Foreign Equity Joint Venture Enterprise Law*, the *Regulations on Implementing the Wholly Foreign-Invested Enterprise Law of the PRC*, and the *Regulations on Implementing the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC*. The 2019 PRC Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments.

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Pursuant to the *2019 PRC Foreign Investment Law*, foreign investment means the investment activities within the PRC directly or indirectly conducted by foreign natural persons, enterprises, and other organizations (the "foreign investor"), including the following circumstances: a foreign investor acquires any shares, equities, portion of property, or other similar interest in an enterprise within the PRC. The PRC applies the administrative system of pre-establishment national treatment plus negative list to foreign investment. Where a foreign investor invests in a field prohibited from investment by the Negative List (2020) (as defined below), the competent department shall order cessation of investment activity, disposition of shares and assets or adoption of other necessary measures during a specified period, and restoration to the state before investment; and its illegal income, if any, shall be confiscated. Where the investment activity of a foreign investor violates any special administrative measure for restrictive access as set out in the Negative List (2020), the competent department shall order the investor to take corrective action during a specified period and adopt necessary measures to meet the requirements of the special administrative measure. Where the investment activity of a foreign investor violates the Negative List (2020), it shall be otherwise subject to corresponding legal liabilities under the applicable law.

According to *Measures for Reporting of Information on Foreign Investment*, promulgated by the MOFCOM and the SAMR on December 30, 2019 and became effective on January 1, 2020, foreign investors or foreign-invested enterprises shall submit their investment information to the competent commerce authorities through the enterprise registration system and the National Enterprise Credit Information Publicity System. Market regulators shall post the aforesaid investment information submitted by foreign investors and foreign-invested enterprises to competent commerce authorities in a timely manner. When submitting the initial report, a foreign investor shall submit the information including but not limited to basic enterprise information, the information on the investor and the actual controller thereof, and investment transaction information. Where any information in the initial report changes, a foreign-invested enterprise shall submit the report of changes through the enterprise registration system. Where a foreign investor or a foreign-invested enterprise fails to submit the investment information as required, and fails to resubmit or correct such information after being notified by the competent commerce authority, the competent commerce authority shall order it to make corrections within 20 business days; in case that it fails to make corrections within the specified period, the competent commerce authority shall impose a fine of not less than RMB100,000 but not more than RMB300,000, or a fine of RMB300,000 to RMB500,000 if other severe violations exist simultaneously.

Regulation on Foreign Investment Restrictions

Investment activities in the PRC by foreign investors are principally governed by the *Industry Catalog Relating to Foreign Investment*, or the Catalog, which was promulgated and is amended from time to time by the MOFCOM and the NDRC. The Catalog divides industries into three categories: encouraged, restricted and prohibited. Industries not listed in the Catalog

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are generally deemed as constituting a fourth "permitted" category and open to foreign investment unless specifically restricted by other PRC regulations. Industries such as value-added telecommunication services, including internet data center services, are restricted to foreign investment.

On June 23, 2020, the MOFCOM and the NDRC promulgated the *Special Management Measures (Negative List) for the Access of Foreign Investment*, or the Negative List (2020), which became effective on July 23, 2020. The Negative List (2020) expands the scope of industries in which foreign investment is permitted by reducing the number of industries that fall within the Negative List (2020). Foreign investment in VATS (other than e-commerce, domestic multi-party communications, store-and-forward and call center), including internet data center services, still falls within the Negative List (2020).

According to the *Administrative Regulations on Foreign-Invested Telecommunications Enterprises* issued by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016 respectively, foreign-invested value-added telecommunications enterprises must be in the form of a Sino-foreign equity joint venture. The regulations restrict the ultimate capital contribution percentage held by foreign investor(s) in a foreign-invested value-added telecommunications enterprise to 50% or less and require the primary foreign investor in a foreign invested value-added telecommunications enterprise to have a good track record and operational experience in the VATS industry.

According to the *Mainland and Hong Kong Closer Economic Partnership Arrangement* entered into by the MOFCOM and the Financial Department of Hong Kong Special Administrative Region on June 29, 2003 and the *Mainland and Macau Closer Economic Partnership Arrangement* entered into by the MOFCOM and the Department of Economy and Finance of Macau Special Administrative Region on October 17, 2003 together with their supplemental agreements, services providers from Hong Kong and Macau are permitted to set up foreign-invested enterprises in the form of a Sino-foreign equity joint venture in mainland to provide five types of specific VATS, including internet data center services, and the ultimate capital contribution percentage held by the services provider from Hong Kong and Macau is restricted to 50% or less.

On July 13, 2006, the MIIT issued the *Circular of the Ministry of Information Industry on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Business*, or the MIIT Circular, according to which, a foreign investor in the telecommunications service industry in China must establish a foreign invested enterprise and apply for a telecommunications businesses operation license. The MIIT Circular further requires that: (i) PRC domestic telecommunications business enterprises must not, through any form, lease, transfer or sell a telecommunications businesses operation license to a foreign investor, or provide resources, offices and working places, facilities or other assistance to support the illegal telecommunications services operations of a foreign investor; (ii) value-added telecommunications business enterprises or their shareholders must directly own the domain names and trademarks used by such enterprises in their daily operations; (iii) each value-added telecommunications business enterprise must have the necessary facilities for its

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approved business operations and to maintain such facilities in the regions covered by its license; and (iv) all VATS providers are required to maintain network and internet security in accordance with the standards set forth in relevant PRC regulations. If a license holder fails to comply with the requirements in the MIIT Circular and cure such non-compliance, the MIIT or its local counterparts have the discretion to take measures against such license holder, including revoking its value-added telecommunications business operation license.

Regulations Related to Value-Added Telecommunications Business

Among all of the applicable laws and regulations, the Telecom Regulations, promulgated by the State Council on September 25, 2000 and amended on July 29, 2014 and February 6, 2016 respectively, is the primary governing law, and sets out the general framework for the provision of telecommunications services by domestic PRC companies. Under the Telecom Regulations, telecommunications service providers are required to procure operating licenses prior to their commencement of operations. The Telecom Regulations distinguishes basic telecommunications services from VATS.

The *Telecom Catalogue*, was issued as an attachment to the Telecom Regulations to categorize telecommunications services as either basic or value-added. The *Telecom Catalogue* amended on December 28, 2015 (which became effective on March 1, 2016 and was further amended on June 6, 2019), or the 2015 Telecom Catalogue, categorizes internet data centers, online data and transaction processing, on-demand voice and image communications, domestic internet virtual private networks, message storage and forwarding (including voice mailbox, e-mail and online fax services), call centers, internet access and online information and data search, among others, as VATS. The "internet data center" business is defined under the 2015 Telecom Catalogue as a business that (i) uses relevant infrastructure facilities in order to render outsourcing services for housing, maintenance, system configuration and management services for clients' internet or other network related equipment such as servers, (ii) provides the leasing of equipment, such as database systems or servers, and the storage space housing the equipment and (iii) provides lease agency services of connectivity lines and bandwidth of infrastructure facilities and other application services. Also, internet resources collaboration services business is incorporated into the definition of internet data center business under the 2015 Telecom Catalogue, and defined as "the data storage, internet application development environment, internet application deployment and running management and other services provided for users through internet or other networks in the manners of access at any time and on demand, expansion at any time and coordination and sharing, by using the equipment and resources built on database centers." Under the 2015 Telecom Catalogue, "fixed network domestic data transmission services" is categorized as a basic telecommunications business and defined as "a domestic end-to-end data transfer business by wired mode under fixed-net, except for the internet data transfer business," and the "domestic internet virtual private networks service" is categorized as a value-added telecommunications business and defined as "a customization business of internet closed user group network for domestic users by self-owned or leased internet network resources of the operators and adopting TCP/IP agreement."

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On March 1, 2009, the MIIT promulgated the *Administrative Measures for Telecommunications Business Operating License*, or the original Telecom License Measures, which became effective on April 10, 2009. The original Telecom License Measures set forth the types of licenses required to provide telecommunications services in China and the procedures and requirements for obtaining such licenses. With respect to licenses for value-added telecommunications businesses, the original Telecom License Measures distinguish between licenses for business conducted in a single province, which are issued by the provincial-level counterparts of the MIIT and licenses for cross-regional businesses, which are issued by the MIIT. The licenses for foreign invested telecommunications business operators need to be applied with MIIT. An approved telecommunications services operator must conduct its business in accordance with the specifications stated on its telecommunications business operating license. Pursuant to the original Telecom License Measures, cross-regional VATS licenses shall be approved and issued by the MIIT with five-year terms. On July 3, 2017, the MIIT issued the *Telecom License Measures*, which became effective on September 1, 2017 and replaced the original Telecom License Measures. The changes mainly include among others, (i) the establishment of a telecommunications business integrated management online platform; (ii) provisions allowing the holder of a telecommunications business license (including the IDC license) to authorize a company, of which such license holder holds at least 51% of the equity interests indirectly, to engage in the relevant telecommunications business; and (iii) the cancellation of the requirement of an annual inspection of telecommunications business licenses, instead requiring license holders to complete an annual report.

On November 30, 2012, the MIIT issued the *Circular of the Ministry of Industry and Information Technology of the People's Republic of China on Further Standardizing the Market Access-related Work for Businesses Concerning Internet Data Centers and Internet Service Providers* which clarifies the application requirements and verification procedures for the licensing of IDC and internet service provider, or ISP, businesses and states that entities intending to engage in the IDC or ISP business could apply for a license since December 1, 2012.

On May 6, 2013, the Q&A was published on the website of China Academy of Information and Communications Technology. The Q&A, although not an official law or regulation, is deemed by the market as a guideline in practice which reflected the attitude of MIIT as to the application for VATS licenses, especially as to IDC services.

On January 17, 2017, the MIIT issued the *Circular of the Ministry of Industry and Information Technology on Clearing up and Regulating the Internet Access Service Market*, or the 2017 MIIT Circular, according to which the MIIT determined to clear up and regulate the internet access service market nationwide from the issuance date of the 2017 MIIT Circular until March 31, 2018. The 2017 MIIT Circular provides, among others, that (i) an enterprise that holds the corresponding telecom business license, including the relevant VATS license, shall not provide, in the name of technical cooperation or other similar ways, qualifications or resources to any unlicensed enterprises for their illegal operation of the telecom business, (ii) if an enterprise with its IDC license obtained prior to the implementation of 2015 Telecom Catalogue issued on March 1, 2016, has actually carried out internet resources collaboration

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services, it shall make a written commitment to its original license issuing authority before March 31, 2017 to meet the relevant requirements for business licensing and obtain the corresponding telecom business license by the end of 2017, failure of which will result in such enterprise not being able to continue operating the business of internet resources collaboration services as it currently does as of January 1, 2018, and (iii) without the approval of the MIIT, enterprises are not allowed to carry out cross-border business operations by setting up on its own or leasing private network circuits (including virtual private networks, or VPNs) or other information channels.

Regulations Related to Information Technology Outsourcing Services Provided to Banking Financial Institutions

On June 4, 2010, the CBIRC issued the *Guidelines on the Management of Outsourcing Risks of Banking Financial Institutions*, or the Guidelines, which requires that the banking financial institutions should manage risks in relation to outsourcing services, and thus, outsourcing services providers should meet the relevant standards and requirements with respect to their technical strength, service capacity, emergency response capacity, familiarity to the banking industry and etc., to pass the due diligence investigations conducted by the banking financial institutions pursuant to the Guidelines, and should also make commitments as to fulfilling reporting, cooperating, or other obligations as may be required by the banking financial institutions under the Guidelines.

On February 16, 2013, the CBIRC issued the *Circular of the China Banking Regulatory Commission on Printing and Distributing the Guidelines for the Regulation of Information Technology Outsourcing Risks of Banking Financial Institutions*, or Circular 5. According to Circular 5, the CBIRC is responsible for supervising banking financial institutions in their access management of information technology outsourcing service providers, organizing relevant banking financial institutions to establish service management records for such service providers, and conducting risk assessment and rating of them. For the outsourcing services providers, including those that are engaged in providing outsourcing services of system operation and maintenance, such as outsourcing of operation and maintenance of data centers, disaster recovery centers, machine room ancillary facilities, and etc., a banking financial institution shall submit a report to the CBIRC or the local CBIRC office 20 business days before entering into an outsourcing contract, and the CBIRC or the local CBIRC office may take measures, such as risk alert, interview or regulatory inquiry, for outsourcing risks of the banking financial institution. Outsourcing service providers may not subcontract material services to others. In certain circumstances, including, among others, where the outsourcing service provider (i) commits a serious violation of applicable PRC laws, regulations or regulatory policies, (ii) steals or divulges sensitive information of banking financial institutions, the circumstance of which is severe, (iii) engages in repeated occurrences of service interruption of important information systems or data destruction, loss or divulgence due to such service provider's negligence in management, (iv) provides low quality services which causes losses to multiple banking financial institutions, and fails to make rectification after being warned repeatedly, or (v) there is an occurrence of other severe information technology risk incident as determined by the CBIRC, the CBIRC may prohibit the banking

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financial institutions from engaging the services of such outsourcing service provider for a period of at least two years, and such prohibition period may be extended if such outsourcing service provider has not made rectification within two years.

In addition, the CBIRC promulgated the *Notice of the General Office of China Banking Regulatory Commission on Strengthening the Management of Risks Involved in the Offsite and Centralized Information Technology Outsourcing of Banking Financial Institutions* on July 1, 2014, and the *Circular of the General Office of the China Banking Regulatory Commission on Performing Supervision over and Evaluation on Offsite and Centralized Information Technology Outsourcing of Banking Financial Institutions* on December 2, 2014. Pursuant to these regulations, in order to further administrate and supervise the offsite and centralized information technology outsourcing provided by the outsourcing services providers to the banking financial institutions, the CBIRC requires the contracts between the outsourcing services providers and the banking financial institutions specify, among other things, that outsourcing services providers should comply with the laws and regulations and other regulatory requirements for banking and accept the supervision and review as conducted by the CBIRC. Outsourcing service providers which are non-banking institutions can voluntarily apply to CBIRC to incorporate their services into the supervision and evaluation scope of CBIRC and such service providers, if they pass the inspection of CBIRC, may have priority in being selected to provide outsourcing services to banking financial institutions. However, failure to comply with these regulatory requirements and other incidents, including, among others, (i) violation of applicable PRC laws, regulations or regulatory policies, (ii) stealing or divulgence of sensitive information of banking financial institutions, (iii) repeated occurrences of service interruption of important information systems or data destruction, loss or divulgence due to the service provider's negligence in management, (iv) low quality services which cause losses to multiple banking financial institutions, or breaches of undertakings or obligations pertinent to such application to CBIRC, and failure to make rectification after repeated warning, or (v) complaints from three or more banking financial institutions about negligence in management or low service quality, would cause such outsourcing services providers to be disqualified for incorporating their services into the supervision and evaluation scope of CBIRC, and CBIRC will not accept their applications for incorporating their outsourcing services into its supervision and evaluation scope within five years. Banking financial institutions are required to gradually terminate their cooperation with any such disqualified service providers.

Regulations Related to Land Use Rights and Construction

On June 11, 2003, the Ministry of Land and Resources, or the MLR, promulgated the *Regulation on Grant of State-owned Land Use Rights by Agreement*, which became effective on August 1, 2003. According to such regulation, the land use rights (excluding land use rights of properties to be used for business purposes, such as commercial, tourism, entertainment and commodity residential properties, which land use rights must be granted by way of tender, auction or listing-for-sale according to relevant laws and regulations) may be granted by way of agreement. The local land bureau and the intended user will negotiate the land fees which shall not be lower than the minimum price approved by the relevant government and enter into

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the grant contract. Upon signing of the contract for the grant of land use rights, the grantee is required to pay the land fees pursuant to the terms of the contract and the contract is then submitted to the relevant local land bureau for the issue of the land use right certificate.

If two or more entities are interested in the land use rights proposed to be granted, such land use rights shall be granted by way of tender, auction or listing-for-sale. Furthermore, according to the *Provisions on the Grant of State-owned Construction Land Use Right by Way of Tender, Auction and Listing-for-Sale*, which became effective on November 1, 2007, land use rights for properties for commercial use, tourism, entertainment and commodity residential purposes can only be granted through tender, auction and listing-for-sale.

According to the *Interim Regulations of the People's Republic of China Concerning the Assignment and Transfer of the Right to the Use of the State-Owned Land in the Urban Areas*, which became effective on May 19, 1990, after land use rights relating to a particular area of land have been granted by the State, unless any restriction is imposed, the party to whom such land use rights are granted may transfer (for a term not exceeding the term which has been granted by the State), lease or mortgage such land use rights on the conditions provided by laws and regulations. Upon a transfer of land use rights, all rights and obligations contained in the contract pursuant to which the land use rights were originally granted by the State are assigned from the transferor to the transferee. Upon expiration of the term of grant, the grantee may apply for renewal of the term. Upon approval by the relevant local land bureau, a new contract shall be entered into to renew the grant, and a grant fee shall be paid.

According to the *Land Registration Regulations* promulgated by the State Land Administration Bureau, the predecessor of the MLR, on December 28, 1995 and implemented on February 1, 1996, all land use rights which are duly registered are protected by the law, and the land registration is achieved by the issue of a land use right certificate by the relevant authority to the land user.

Under the *Administration Law of Urban Real Property of the People's Republic of China*, which was promulgated by the SCNPC on July 5, 1994, amended on August 30, 2007, August 27, 2009 and August 26, 2019, and the amendment became effective on January 1, 2020, the land must be developed in line with the purposes of the land and the deadline for commencement of construction as stipulated in the grant contract. Where construction does not commence within one year of commencement of construction as stipulated in the grant contract, an idle land fee may be charged at a rate of not more than 20% of the fee for the grant of land use rights. Where construction does not commence within two years, land use rights may be forfeited without compensation, except where the commencement of construction is delayed due to force majeure, an act of the government or relevant government departments, or preliminary work necessary for the commencement of construction.

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Regulations Related to Fire Control

Pursuant to the *Fire Safety Law*, which was promulgated by the SCNPC on April 29, 1998, amended on October 28, 2008 and April 23, 2019, and the *Interim Provisions on Administration of Fire Control Design Review and Acceptance of Construction Project* promulgated by the Ministry of Housing and Urban-Rural Development on April 1, 2020, which became effective on June 1, 2020, the construction entity of a largescale crowded venue (including the construction of a manufacturing plant whose size is over 2,500 square meters) and other special construction projects must apply for fire prevention design review with fire control authorities, and complete fire assessment inspection and acceptance procedures after the construction project is completed. The construction entity of other construction projects must complete the fire safety completion inspection and acceptance procedures within five business days after passing the construction completion inspection and acceptance. If the construction entity fails to pass the fire safety inspection before such venue is put into use or fails to conform to the fire safety requirements after such inspection but still put it into use, it will be subject to (i) orders to suspend the construction of projects, use of such projects, or operation of relevant business, and (ii) a fine between RMB30,000 and RMB300,000.

Regulations Related to Filing and Energy Conservation of Fixed-Asset Investment

On November 30, 2016, the State Council promulgated the Administrative Regulations on the Approval and Filing of Enterprises' Investment Projects, which became effective from February 1, 2017. On March 8, 2017, the NDRC promulgated the *Measures for the Administration of the Approval and Filing of Enterprises' Investment Projects*, which became effective on April 8, 2017. Under such regulations, except those concerning national security or involving the allocation of major productive forces nationwide, strategic resource development or vital public interests, among others, investment projects shall be subject to filing administration. The projects subject to filing administration shall undergo the filing formalities under the territorial principle, except as otherwise provided by the State Council. After a project has completed the filing formalities, if the legal person of the project changes, there is any material change in the construction site, scale or content of the project, or the construction of the project is given up, the construction entity shall inform the project filing authority in a timely manner through the online platform, and modify the relevant information. Provinces in China have formulated the administrative measures for the project filing administration measures within their respective administrative regions, and specified the filing authorities and their power.

Under the *Measures for the Energy Conservation Examination of Fixed-Asset Investment Projects*, which was promulgated by the NDRC on November 27, 2016, and became effective on January 1, 2017, for an enterprise investment project, the construction entity shall, before commencing construction, obtain the energy conservation examination opinion issued by the energy conservation examination authority. The construction entity shall not commence the construction of a project which fails to undergo energy conservation examination in accordance with the provisions of these Measures or fails to pass energy conservation examination, and if the project has been completed, it shall not be put into production and use. In the case of any

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major change in the construction content and energy efficiency level of a fixed-asset investment project passing energy conservation examination, the construction entity shall file an amendment application with the energy conservation examination authority. Shanghai, Beijing, Shenzhen, Guangdong, Chengdu, Hebei, Jiangsu, Inner Mongolia and other provinces and cities have formulated detailed regulations on the examination of energy conservation of fixed-asset investment within their jurisdictions, and reinforced interim and post-filing supervision.

New regulations, policies and rules have been issued with respect to the construction or development of new data centers, and rebuilding or expansion of existing data centers. For example, on January 21, 2019, the MIIT, the National Government Office Administration and National Energy Administration jointly published the *Guidance on Promotion of Green Data Center Construction*, pursuant to which authorities encourage data centers to adhere to certain average levels of energy conservation and aim to reach several goals including, among others, reaching the PUE of newly constructed large and extra-large data centers at or below 1.4 as of the year 2022. On September 6, 2018, General Office of People's Government of Beijing Municipality, or the GOPGB, issued the *Beijing Municipality's Catalogue for the Prohibition and Restriction of Newly Increased Industries (2018 Edition)*, or the 2018 Catalogue, which is a revised edition of the catalogue GOPGB issued in 2015. The 2018 Catalogue prohibits new construction or expansion within Beijing's municipal boundaries of data centers which are involved in providing internet data services or information processing and storage support services, except for cloud computing data centers with PUE lower than 1.4. In addition, new construction or expansion of data centers which are involved in providing internet data services or information processing and storage support services with PUE lower than 1.4 is also prohibited within the boundaries of Beijing's Dongcheng District, Xicheng District, Chaoyang District, Haidian District, Fengtai District, Shijingshan District and Tongzhou New Town. On January 2, 2019, the Shanghai Commission of Economy and Informatization, or the Shanghai CEI and the Shanghai Development and Reform Commission, or the Shanghai DRC jointly issued the *Guideline Opinion on Coordinated Construction of Internet Data Centers in Shanghai*, pursuant to which the aggregate number of newly increased IDC racks within the period from 2019 to 2020 in Shanghai should be controlled to no more than 60,000, and the PUE of newly constructed internet data centers should be at or below 1.3 and reconstructed internet data centers be at or below 1.4. On April 11, 2019, the Shenzhen DRC published a Notice on the Relevant Matters of Energy Conservation Examination for Data Centers, pursuant to which key energy consumption entities (defined as those that consume the equivalent of more than 5,000 tons of standard coal in energy) should establish an online supervision system for energy consumption and access to Guangdong's platform for supervising such key energy consumption entities. The Notice also specifies that the newly increased amount of annual comprehensive energy consumption of data centers should be strictly controlled and the practical replacement amount for newly increased amount of energy consumption will be supported based on the PUE of the data centers.

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Regulations Related to Information Security and Confidentiality of User Information

Internet activities in China are regulated and restricted by the PRC government and are subject to penalties under the *Decision Regarding the Protection of Internet Security*, promulgated by the SCNPC on December 28, 2000 and amended on August 27, 2009.

The Ministry of Public Security, or the MPS, has promulgated measures that prohibit use of the internet in ways that, among other things, divulge government secrets or disseminate socially destabilizing content. The MPS and its local counterparts have authority to supervise and inspect domestic websites to implement its measures. Internet information service providers that violate these measures may have their licenses revoked and their websites shut down.

On June 22, 2007, the MPS, the State Secrecy Administration and other relevant authorities jointly issued the *Administrative Measures for the Hierarchical Protection of Information Security*, which divides information systems into five categories and requires the operators of information systems ranking above Grade II to file an application with the local Bureau of Public Security within 30 days of the date of its security protection grade determination or since its operation.

The PRC government regulates the security and confidentiality of internet users' information. The *Administrative Measures on Internet Information Service* promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, the *Regulations on Technical Measures of Internet Security Protection* promulgated by the MPS on December 13, 2005 and the *Provisions on Protecting Personal Information of Telecommunication and Internet Users* promulgated by the MIIT on July 16, 2013 set forth strict requirements to protect personal information of internet users and require internet information service providers to maintain adequate systems to protect the security of such information. Personal information collected must be used only in connection with the services provided by the internet information service provider. Moreover, the *Rules for Regulating the Order in the Market for Internet Information Service* which was promulgated by the MIIT on December 29, 2011 and became effective on March 15, 2012 also protect internet users' personal information by (i) prohibiting internet information service providers from unauthorized collection, disclosure or use of their users' personal information and (ii) requiring internet information service providers to take measures to safeguard their users' personal information.

The *Cyber Security Law of the People's Republic of China*, or the Cyber Security Law, which was approved by the SCNPC on November 7, 2016 and became effective on June 1, 2017, which provides certain rules and requirements applicable to network service providers in China. The Cyber Security Law requires network operators to perform certain functions related to cyber security protection and strengthening network information management by taking technical and other necessary measures as required by laws and regulations to safeguard the operation of networks, effectively addressing network security, preventing illegal and criminal activities, and maintaining the integrity, confidentiality and usability of network data. In addition, the Cyber Security Law imposes certain requirements on network operators of

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critical information infrastructure, including that such network operators with operations in the PRC shall store personal information and important data collected and produced within the territory of PRC, and shall perform certain security obligations as required under the Cyber Security Law.

Regulations Related to Leases

According to the *Contract Law of the People's Republic of China* promulgated by the National People's Congress on March 15, 1999 and became effective on October 1, 1999, the lease agreement shall be in writing if its term is over six months, and the term of any lease agreement shall not exceed twenty years. During the lease term, any change of ownership to the leased property does not affect the validity of the lease contract. The tenant may sub-let the leased property if it is agreed by the landlord and the lease agreement between the landlord and the tenant is still valid and binding. When the landlord is to sell a leased housing under a lease agreement, it shall give the tenant a reasonable advance notice before the sale, and the tenant has the priority to buy such leased housing on equal conditions. The tenant must pay rent on time in accordance with the lease contract. In the event of default of rental payment without reasonable cause, the landlord may ask the tenant to pay within a reasonable period of time, failing which the landlord may terminate the lease. The landlord has the right to terminate the lease agreement if the tenant sub-lets the property without consent from the landlord, or causes loss to the leased properties resulting from its using the property not in compliance with the usage as stipulated in the lease agreement, or defaults in rental payment after the reasonable period as required by the landlord, or other circumstances occurs allowing the landlord terminate the lease agreement under relevant PRC laws and regulations, or otherwise, if the landlord wishes to terminate the lease before its expiry date, prior consent shall be obtained from the tenants.

On December 1, 2010, Ministry of Housing and Urban-Rural Development promulgated the *Administrative Measures for Leasing of Commodity Housing*, which became effective on February 1, 2011. According to such measures, the landlords and tenants are required to enter into lease contracts which should generally contain specified provisions, and the lease contract should be registered with the relevant construction or property authorities at municipal or county level within 30 days after its conclusion. If the lease contract is extended or terminated or if there is any change to the registered items, the landlord and the tenant are required to effect alteration registration, extension of registration or deregistration with the relevant construction or property authorities within 30 days after the occurrence of the extension, termination or alteration.

Regulations Related to Intellectual Property Rights

The State Council and the National Copyright Administration, or the NCAC, have promulgated various rules and regulations relating to the protection of software in China. Under these rules and regulations, software owners, licensees and transferees may register their rights in software with the NCAC or its local branches and obtain software copyright

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registration certificates. Although such registration is not mandatory under PRC law, software owners, licensees and transferees are encouraged to go through the registration process to enjoy the better protections afforded to registered software rights.

The *PRC Trademark Law*, issued in 1982 and amended in 1993, 2001, 2013 and 2019 respectively, with its implementation rules issued in 2002 and amended in 2014, protects registered trademarks. The PRC Trademark Office of the State Administration for Industry and Commerce handles trademark registrations and grants a protection term of ten years to registered trademarks.

On August 24, 2017, the MIIT replaced the *Administrative Measures on China Internet Domain Names* promulgated on November 5, 2004 with the *Administration Measures of Internet Domain Names*, which became effective on November 1, 2017. According to these measures, the MIIT is in charge of the overall administration of domain names in China. The registration of domain names in PRC is on a "first-apply-first-registration" basis. A domain name applicant will become the domain name holder upon the completion of the application procedure.

On March 12, 1984, the SCNPC promulgated the *Patent Law*, which was amended in 1992, 2000 and 2008 respectively. On June 15, 2001, the State Council promulgated the *Implementation Regulation for the Patent Law*, which was amended on December 28, 2002 and January 9, 2010 respectively. According to these laws and regulations, the State Intellectual Property Office is responsible for administering patents in the PRC. The Chinese patent system is premised upon the "first to file" principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who filed the application first. To be patentable, invention or utility models must meet three conditions: novelty, inventiveness and practical applicability. A patent is valid for 20 years in the case of an invention, and for ten years in the case of utility models and designs. A third-party user must obtain consent or a proper license from the patent owner in order to use the patent.

Regulations Related to Employment

On June 29, 2007, the SCNPC, adopted the *Labor Contract Law*, or the LCL, which became effective on January 1, 2008 and was amended on December 28, 2012 (which became effective on July 1, 2013). The LCL requires employers to enter into written contracts with their employees, restricts the use of temporary workers and aims to give employees long-term job security.

Pursuant to the LCL, employment contracts lawfully concluded prior to the implementation of the LCL and continuing as of the date of its implementation will continue to be performed. Where an employment relationship was established prior to the implementation of the LCL but no written employment contract was concluded, a contract must be concluded within one month after the LCL's implementation.

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According to the *Social Insurance Law* promulgated by SCNPC which became effective on July 1, 2011 and was amended on December 29, 2018, the *Regulation of Insurance for Work-Related Injury* promulgated by the State Council on April 27, 2003 and amended on December 20, 2010, the *Provisional Measures on Insurance for Maternity of Employees* promulgated by the Ministry of Labor on December 14, 1994, the *Regulation of Unemployment Insurance* promulgated by the State Council on January 22, 1999, the *Decision of the State Council on Setting Up Basic Medical Insurance System for Staff Members and Workers in Cities and Towns* promulgated by the State Council on December 14, 1998, and the *Interim Regulation on the Collection and Payment of Social Insurance Premiums* promulgated by the State Council on January 22, 1999 and amended on March 24, 2019, an employer is required to contribute the social insurance for its employees in the PRC, including the basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance and injury insurance.

Under the *Regulations on the Administration of Housing Funds*, promulgated by the State Council on April 3, 1999 and as amended on March 24, 2002 and March 24, 2019, respectively, an employer is required to make contributions to a housing fund for its employees. Where an enterprise fails to deposit the housing provident funds within the time limit or underpays the funds for its employees which is in violation of the aforesaid regulations, the competent administration authority shall order it to deposit the funds within a time limit, failing in which the competent administration authority may apply to the people's court for enforcement.

Regulations Related to Foreign Currency Exchange and Dividend Distribution

Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China are the *Foreign Exchange Administration Regulations*, promulgated by the State Council on January 29, 1996 (which became effective on April 1, 1996) as amended on January 14, 1997 and August 1, 2008 (which became effective on August 5, 2008), respectively. Under this regulation, the State does not restrict the international payment and transfer for current account items, including the goods and service-related foreign exchange transactions and other current exchange transactions, but not for capital account items, such as direct investments, loans, capital transfer and investments in securities, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made.

Pursuant to the *Administration Rules of the Settlement, Sale and Payment of Foreign Exchange* promulgated on June 20, 1996 by the PBOC, foreign-invested enterprises in China may purchase or remit foreign currency for settlement of current account transactions without the approval of the SAFE. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities.

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In addition, the *Notice of the General Affairs Department of SAFE on The Relevant Operation Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises*, or Circular 142, which was promulgated on August 29, 2008 by SAFE, regulates the conversion by foreign-invested enterprises of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Circular 142 requires that Renminbi converted from the foreign currency-denominated capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the relevant government authority and may not be used to make equity investments in PRC, unless specifically provided otherwise. The SAFE further strengthened its oversight over the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign-invested enterprise. The use of such Renminbi may not be changed without approval from the SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Any violation of Circular 142 may result in severe penalties, including substantial fines.

On November 19, 2012, SAFE promulgated the *Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment*, which substantially amends and simplifies the current foreign exchange procedure and became partially invalid according to the *Circular on Repealing and Invalidating Five Normative Documents Concerning Administration of Foreign Exchange and some Articles of Seven Normative Documents Concerning Administration of Foreign Exchange* promulgated by the SAFE on December 30, 2019, or Circular on Repealing and Invalidating. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of Renminbi proceeds by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In addition, SAFE promulgated the *Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents* in May 2013, or Circular 21, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches. Circular 21 was partially invalid according to Circular on Repealing and Invalidating.

In July 2014, SAFE decided to further reform the foreign exchange administration system in order to satisfy and facilitate the business and capital operations of foreign invested enterprises, and issued the *Circular on the Relevant Issues Concerning the Launch of Reforming Trial of the Administration Model of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises in Certain Areas*, or Circular 36, on July 4, 2014 (which became

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effective on August 4, 2014). This circular suspends the application of Circular 142 in certain areas and allows a foreign-invested enterprise registered in such areas to use the Renminbi capital converted from foreign currency registered capital for equity investments within the PRC.

On March 30, 2015, SAFE released the *Notice on the Reform of the Management Method for the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises*, or Circular 19, which made certain adjustments to some regulatory requirements on the settlement of foreign exchange capital of foreign-invested enterprises, lifted some foreign exchange restrictions under Circular 142, and annulled Circular 142 and Circular 36. However, Circular 19 continues to, prohibit foreign-invested enterprises from, among other things, using Renminbi fund converted from its foreign exchange capitals for expenditure beyond its business scope, providing entrusted loans or repaying loans between non-financial enterprises. Circular 19 was partially invalid according to Circular on Repealing and Invalidating.

On June 9, 2016, SAFE issued the *Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts*, or Circular 16, which took effect on the same day. Compared to Circular 19, Circular 16 not only provides that, in addition to foreign exchange capital, foreign debt funds and proceeds remitted from foreign listings should also be subject to the discretionary foreign exchange settlement, but also lifted the restriction, that foreign exchange capital under the capital accounts and the corresponding Renminbi capital obtained from foreign exchange settlement should not be used for repaying the inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in Renminbi that have been sub-lent to the third party.

On January 26, 2017, SAFE promulgated the *Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification*, or Circular 3, which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) under the principle of genuine transactions, banks shall check board resolutions regarding profit distribution, original copies of tax filing records and audited financial statements; and (ii) domestic entities shall hold income to account for previous years' losses before remitting any profits. Moreover, pursuant to Circular 3, domestic entities shall make detailed explanations of their sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with any outbound investments.

On October 23, 2019, the SAFE promulgated the *Notice for Further Advancing the Facilitation of Cross-border Trade and Investment*, or Circular 28, which in principle, among other things, allows all foreign-invested companies to use Renminbi converted from foreign currency-denominated capital for equity investments in China, as long as the equity investment is genuine, does not violate applicable laws, and complies with the Negative List (2020) on foreign investment.

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On April 10, 2020, SAFE promulgated the *Circular on Optimizing Administration of Foreign Exchange to Support the Development of Foreign-related Business*, or Circular 8. According to Circular 8, eligible enterprises are allowed to make domestic payments by using their registered capitals, foreign debts and financings from overseas listing, with no need to provide evidentiary materials concerning authenticity of each of such funds for banks in advance, provided that their funds usage shall be authentic and in line with the currently effective administrative regulations on the use of funds under capital accounts. The concerned banks may conduct random examination in accordance with the relevant requirements, in which case the certain evidentiary materials concerning authenticity of such funds may be required to be provided.

Circular 37

On July 4, 2014, SAFE promulgated *the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles*, or Circular 37, which replaced the former circular commonly known as Circular 75 promulgated by SAFE on October 21, 2005. Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a "special purpose vehicle." Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

On February 13, 2015, SAFE released the *Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment*, or Circular 13 (which became effective on June 1, 2015), which has amended Circular 37 by requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. Circular 13 was partially invalid according to Circular on Repealing and Invalidating.

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Share Option Rules

Under the *Administration Measures on Individual Foreign Exchange Control* issued by the PBOC on December 25, 2006 (which became effective on February 1, 2007), all foreign exchange matters involved in employee share ownership plans and share option plans in which PRC citizens participate require approval from SAFE or its authorized branch. Pursuant to Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. In addition, under the *Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas Publicly-Listed Companies* issued by SAFE on February 15, 2012, or the Share Option Rules, PRC residents who are granted shares or share options by companies listed on overseas stock exchanges under share incentive plans are required to (i) register with SAFE or its local branches, (ii) retain a qualified PRC agent, which may be a PRC subsidiary of the overseas listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the share incentive plans on behalf of the participants, and (iii) retain an overseas institution to handle matters in connection with their exercise of share options, purchase and sale of shares or interests and funds transfers.

Dividend Distribution

The principal regulations governing the distribution of dividends paid by wholly foreign-owned enterprises include the PRC Company Law, the 2019 PRC Foreign Investment Law and *Regulations on Implementing the 2019 PRC Foreign Investment Law*. Under these regulations, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until its cumulative total reserve funds reaches 50% of its registered capital. These reserve funds, however, may not be distributed as cash dividends.

Regulations Related to Taxation

Enterprise Income Tax

Prior to January 1, 2008, according to the *Provisional Regulations of the People's Republic of China on Enterprises Income Tax* promulgated by the State Council on December 13, 1993 and the *Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises* promulgated by the National People's Congress on April 9, 1991, entities established in the PRC were generally subject to a 30% national and 3% local enterprise income tax rate. Various preferential tax treatments promulgated by PRC tax authorities were available to foreign-invested enterprises.

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In March 2007, the National People's Congress enacted the *Enterprise Income Tax Law*, which was amended in February 2017 and December 2018 respectively, and in December 2007 the State Council promulgated the *Implementing Rules of the Enterprise Income Tax Law*, or the Implementing Rules, which was amended in April 2019, both of which became effective on January 1, 2008. The Enterprise Income Tax Law (i) reduces the top rate of enterprise income tax from 33% to a uniform 25% rate applicable to both foreign-invested enterprises and domestic enterprises and eliminates many of the preferential tax policies afforded to foreign investors, (ii) permits companies to continue to enjoy their existing tax incentives, subject to certain transitional phase-out rules and (iii) introduces new tax incentives, subject to various qualification criteria.

The *Enterprise Income Tax Law* also provides that enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and therefore be subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The Implementing Rules further define the term "de facto management body" as the management body that exercises substantial and overall management and control over the production and operations, personnel, accounts and properties of an enterprise. If an enterprise organized under the laws of jurisdiction outside China is considered a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, it would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income. Second, a 10% withholding tax would be imposed on dividends it pays to its non-PRC enterprise shareholders and with respect to gains derived by its non-PRC enterprise shareholders from transfer of its shares.

Prior to January 1, 2008, according to the *Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises* promulgated by the National People's Congress on April 9, 1991 dividends payable to foreign investors derived by foreign enterprises from business operations in China were exempted from PRC enterprise income tax. However, such exemption was revoked by the Enterprise Income Tax Law and dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign enterprise investors are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. Pursuant to the *Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates*, which was issued by the STA on January 29, 2008 and supplemented and revised on February 29, 2008, and 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*, which became effective on December 8, 2006 and applies to income derived in any year of assessment commencing on or after April 1, 2007 in Hong Kong and in any year commencing on or after January 1, 2007 in the PRC, such withholding tax rate may be lowered to 5% if a Hong Kong enterprise is deemed the beneficial owner of any dividend paid by a PRC subsidiary by PRC tax authorities and holds at least 25% of the equity interest in that particular PRC subsidiary at all times within the 12-month period immediately before distribution of the dividends. Furthermore, according to the *Circular on Several Questions regarding the*

REGULATIONS

"beneficial owner" in *Tax Treaties*, which was issued by the STA on February 3, 2018 and became effective on April 1, 2018, when determining an applicant's status as a "beneficial owner" regarding tax treatments in connection with dividends, interest or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of his or her income in twelve months to residents in other countries or regions, whether the business operated by the applicant constitutes actual business activities, and whether the country or region which is a counterparty to the tax treaty does not levy any tax, grants tax exemption on relevant income, or levies tax at an extremely low rate, will be taken into account. Such factors will be analyzed according to the actual circumstances of each specific case. This circular further provides that applicants who intend to prove his or her status as a "beneficial owner" shall submit relevant documents to the relevant tax bureau according to the *Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Agreements* issued by the STA on October 14, 2019.

Value-Added Tax and Business Tax

Pursuant to *Provisional Regulations of the People's Republic of China on Business Tax* promulgated by the State Council on December 13, 1993 and annulled on November 19, 2017, any entity or individual conducting business in the service industry is generally required to pay a business tax at the rate of 5% on the revenues generated from providing such services. However, if the services provided are related to technology development and transfer, such business tax may be exempted subject to approval by the relevant tax authorities.

Whereas, pursuant to the *Provisional Regulations on Value-Added Tax* of the PRC and its implementation regulations, unless otherwise specified by relevant laws and regulations, any entity or individual engaged in the sales of goods, provision of processing, repairs and replacement services, sales of services, intangible assets and real properties, and importation of goods are generally required to pay a value-added tax, or VAT.

In November 2011, the MOF and the STA promulgated the *Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax*. In March 2016, the MOF and the STA further promulgated the *Notice on Fully Promoting the Pilot Plan for Replacing Business Tax by Value-Added Tax*, which became effective on May 1, 2016. Pursuant to the pilot plan and relevant notices, VAT is generally imposed in the modern service industries, including the VATS, on a nationwide basis. VAT of a rate of 6% applies to revenue derived from the provision of some modern services. Unlike business tax, a taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the modern services provided.

In April 2018, the MOF and the STA jointly promulgated the *Circular of the Ministry of Finance and the State Administration of Taxation on Adjustment of Value-Added Tax Rates*, or Circular 32, according to which (i) for VAT taxable sales acts or importation of goods originally subject to value-added tax rates of 17% and 11%, respectively, such tax rates shall be adjusted to 16% and 10%, respectively; (ii) for purchase of agricultural products originally

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subject to deduction rate of 11%, such deduction rate shall be adjusted to 10%; (iii) for purchase of agricultural products for the purpose of production and sales or consigned processing of goods subject to tax rate of 16%, such tax shall be calculated at a deduction rate of 12%; (iv) for exported goods originally subject to tax rate of 17% and export tax refund rate of 17%, the export tax refund rate shall be adjusted to 16%; and (v) for exported goods and cross-border taxable acts originally subject to tax rate of 11% and export tax refund rate of 11%, the export tax refund rate shall be adjusted to 10%. Circular 32 became effective on May 1, 2018 and shall supersede existing provisions which are inconsistent with Circular 32.

In March 2019, the MOF, the STA and General Administration of Customs jointly promulgated the *Announcement on Policies for Deepening the VAT Reform*, or Circular 39, according to which (i) for VAT taxable sales acts or importation of goods originally subject to value-added tax rates of 16% and 10% respectively, such tax rates shall be adjusted to 13% and 9%, respectively; (ii) for purchase of agricultural products originally subject to deduction rate of 10%, such deduction rate shall be adjusted to 9%; (iii) for purchase of agricultural products for the purpose of production and sales or consigned processing of goods subject to tax rate of 13%, such tax shall be calculated at the deduction rate of 10%; (iv) for exported goods originally subject to tax rate of 16% and export tax refund rate of 16%, the export tax refund rate shall be adjusted to 13%; and (v) for exported goods and cross-border taxable acts originally subject to tax rate of 10% and export tax refund rate of 10%, the export tax refund rate shall be adjusted to 9%. Circular 39 became effective on April 1, 2019 and shall supersede existing provisions which are inconsistent with Circular 39.

Regulations Related to M&A and Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the SASAC, the STA, the SAIC, the CSRC, and the SAFE, jointly issued the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules, among other things, require that (i) PRC entities or individuals obtain MOFCOM approval before they establish or control a special purpose vehicle, or SPV, overseas, provided that they intend to use the SPV to acquire their equity interests in a PRC company at the consideration of newly issued share of the SPV, or Share Swap, and list their equity interests in the PRC company overseas by listing the SPV in an overseas market; (ii) the SPV obtains MOFCOM's approval before it acquires the equity interests held by the PRC entities or PRC individual in the PRC company by Share Swap; and (iii) the SPV obtains CSRC approval before it lists overseas.

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AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company immediately prior to and upon the completion of the [REDACTED], assuming that the [REDACTED] becomes unconditional and the [REDACTED] are issued pursuant to the [REDACTED] and without taking into account any allotment and issuance of Shares upon exercise of the [REDACTED], 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 that we may make.

1. Share capital as of the Latest Practicable Date

(i) Authorized share capital

Number	Description of Shares	Approximate aggregate nominal value of shares
1,800,000,000	Class A ordinary share	US\$90,000
200,000,000	Class B ordinary share	US\$10,000
2,000,000	Preferred shares	US\$100
Total		US\$100,100

(ii) Issued, fully paid and outstanding

Number	Description of Shares	Approximate aggregate nominal value of shares
1,243,588,819*	Class A ordinary share	US\$62,179.44
67,590,336	Class B ordinary share	US\$3,379.52
150,000	Series A convertible preferred shares	US\$7.5
Total		US\$65,566.46

Note:

* Including the 50,184,168 Class A ordinary shares held by JPMorgan Chase Bank, N.A., as depository, which are reserved for future delivery upon exercise or vesting of share awards granted under our Share Incentive Plans.

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2. Share capital immediately following the completion of the [REDACTED]

(i) Authorized share capital

Number	Description of Shares	Approximate aggregate nominal value of shares
1,800,000,000	Class A ordinary share	US\$90,000
200,000,000	Class B ordinary share	US\$10,000
2,000,000	Preferred shares	US\$100
Total		US\$100,100

(ii) Issued, fully paid and outstanding

Number	Description of Shares	Approximate aggregate nominal value of shares
[REDACTED]	Class A ordinary share	US\$[REDACTED]
67,590,336	Class B ordinary share	US\$3,379.52
150,000	Series A convertible preferred shares	US\$7.5
Total		US\$[REDACTED]

Note:

- * Including the 50,184,168 Class A ordinary shares held by JPMorgan Chase Bank, N.A., as depository, which are reserved for future delivery upon exercise or vesting of share awards granted under our Share Incentive Plans.

WEIGHTED VOTING RIGHTS STRUCTURE

Under our weighted voting rights structure, our share capital comprises Class A ordinary shares and Class B ordinary shares. Class A ordinary shares and Class B ordinary shares carry equal rights, generally rank *pari passu* with one another and are entitled to one vote per share at general meetings of shareholders, except for only the following matters at general meetings of shareholders, with respect to which Class B ordinary shares are entitled to 20 votes per share: (i) the election or removal of a simple majority, or six, of our directors; and (ii) any change to our Articles of Association that would adversely affect the rights of Class B shareholders. Class B ordinary shares are convertible into Class A ordinary shares, and will automatically convert into Class A ordinary shares under certain circumstances. Any Class A ordinary shares which Mr. Huang directly or indirectly acquire may be converted into Class B ordinary shares.

SHARE CAPITAL

Article 86(4) of our Articles of Association provides that for so long as Mr. Huang continues to have beneficial ownership in not less than five per cent. (5%) of the then issued share capital of our Company on an as converted basis, the holders of the Class B Ordinary Shares shall have the right to nominate five (5) directors (one of which is intended to be Mr. Huang) for appointment as directors. Such directors shall be elected by resolutions of the members (with the Class B ordinary shares having twenty (20) votes per Class B ordinary share in respect of such resolutions).

Upon either (i) the automatic conversion of the Class B ordinary share, or (ii) the conversion of such of the Class B ordinary shares that results in Mr. Huang having beneficial ownership in less than five per cent. (5%) but not less than two per cent. (2%) of the then issued share capital of our Company on an as converted basis, (a) any directors (other than William Wei Huang) appointed pursuant to the above provisions shall retire from office by rotation at the appropriate annual general meeting of members in accordance with the terms of their appointment, and (b) at the relevant annual general meeting, their replacement as a director shall be nominated by the Nominating and Corporate Governance Committee and shall be elected by resolutions of the members (with the Class B ordinary shares having one (1) vote per Class B ordinary share in respect of such resolutions); and (c) Mr. Huang shall continue to have the right to appoint and remove one (1) director (which is intended to be Mr. Huang).

Upon Mr. Huang having beneficial ownership in less than two per cent. (2%) of the then issued share capital of our Company on an as converted basis, (a) Mr. Huang's above appointment right shall cease and terminate, (b) any director appointed pursuant to such right shall retire from office by rotation at the appropriate annual general meeting of members in accordance with the terms of their appointment, and (c) at the relevant annual general meeting, their replacement as a director shall be nominated by the Nominating and Corporate Governance Committee and shall be elected by resolutions of the members (with the Class B ordinary shares having one (1) vote per Class B ordinary share in respect of such resolutions).

In addition, a quorum required for a meeting of shareholders consists of at least two shareholders present in person or by proxy or by duly authorized representative, representing not less than one-third in nominal value of the total issued voting shares in our Company. Our Company will put forth a resolution at or before its next annual general meeting after the [REDACTED] to revise the Articles of Association, so that (i) in addition to the existing provisions of Article 58(2), a provision will be added to provide that the minimum stake required for any shareholder(s) to requisition an extraordinary general meeting and the addition of resolution to the general meeting will be 10% of the voting rights, on a one vote per share basis, in the share capital of our Company; and (ii) the quorum for a requisitioned general meeting of our Company pursuant to the amended provision in (i) above will be 10% of the aggregate voting power of our Company on a one vote per share basis. See "Waivers from Compliance with the Hong Kong Listing Rules and Exemptions from Strict Compliance with the Companies (WUMP) Ordinance" for further details.

SHARE CAPITAL

For further details, see the summary of the Articles of Association in Appendix III. The table below sets out the ownership and voting rights to be held by the WVR beneficiary upon the completion of the [REDACTED]:

	Number of Shares	Approximate percentage of issued share capital ⁽¹⁾	Approximate percentage of voting rights ⁽²⁾
Class A ordinary shares held by the WVR beneficiary	[REDACTED]	[REDACTED]%	[REDACTED]%
Class B ordinary shares held by the WVR beneficiary	[REDACTED]	[REDACTED]%	[REDACTED]%
Total	[REDACTED] ⁽³⁾	[REDACTED]%	[REDACTED]%

Notes:

- (1) The calculations are based on (i) the total number of [REDACTED] ordinary shares in issue (without taking into account any allotment and issuance of Shares upon exercise of the [REDACTED], the Shares to be issued on conversion of convertible bonds, 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 that we may make) following the completion of the [REDACTED].
- (2) The calculations are based on (a) the total number of [REDACTED] ordinary shares in issue (including (i) 67,590,336 Class B ordinary shares, (ii) 1,243,588,819 Class A ordinary shares and (iii) the 33,707,864 votes to which the holders of the 150,000 Series A convertible preferred shares are entitled, but excluding ordinary shares issuable upon (x) conversion of our convertible senior notes, (y) the exercise or vesting of share awards granted under our Share Incentive Plans, and the 50,184,168 Class A ordinary shares held by JPMorgan Chase Bank, N.A., as depositary, which are reserved for future delivery upon the exercise or vesting of share awards granted under our Share Incentive Plans; and assuming the [REDACTED] is not exercised) and without taking into account the Shares to be issued on conversion of convertible bonds, 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 that we may make following the completion of the [REDACTED]; and (b) on the basis that Class A ordinary shares entitle the Shareholder to one vote per share and Class B ordinary shares entitle the Shareholder to 20 votes per share.
- (3) Represents (i) 3,286,144 Class B ordinary shares held through Solution Leisure Investment Limited which is indirectly wholly owned by a trust of which Mr. Huang's family is the beneficiary, (ii) 42,975,884 Class B ordinary shares held by EDC Group Limited, a company wholly owned by Solution Leisure Investment Limited, (iii) 21,328,308 Class B ordinary shares held through GDS Enterprises Limited which is indirectly wholly owned by a trust of which Mr. Huang's family is a beneficiary; and (iv) 12,855,904 Class A ordinary shares in the form of 1,606,988 ADSs held by himself.

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Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Upon the conversion of all the issued and outstanding Class B ordinary shares into Class A ordinary shares, the Company will issue 67,590,336 Class A ordinary shares, representing approximately 5.2% of the total number of issued and outstanding Class A ordinary shares or [REDACTED]% of the enlarged issued and outstanding shares of the Company (without taking into account any allotment and issuance of Shares upon exercise of the [REDACTED], 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 the vesting of other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make).

WVR Beneficiary

Immediately upon the completion of the [REDACTED], the WVR beneficiary will be Mr. Huang, our founder, chairman and chief executive officer. Mr. Huang is interested in and controls, (i) 3,286,144 Class B ordinary shares held through Solution Leisure Investment Limited which is indirectly wholly owned by a trust of which Mr. Huang’s family is the beneficiary, (ii) 42,975,884 Class B ordinary shares held by EDC Group Limited, a company wholly owned by Solution Leisure Investment Limited, (iii) 21,328,308 Class B ordinary shares held through GDS Enterprises Limited which is indirectly wholly owned by a trust of which Mr. Huang’s family is a beneficiary. Mr. Huang also beneficially owns 12,855,904 Class A ordinary shares in the form of 1,606,988 ADSs. As of the Latest Practicable Date, Mr. Huang controlled 52.9% of the aggregate voting power of our Company with Class A and Class B ordinary shares voting on a 1:20 basis. Immediately upon completion of the [REDACTED], Mr. Huang will control [REDACTED]% of the aggregate voting power of our Company with Class A and Class B ordinary shares voting on a 1:20 basis. See the section “Major Shareholders” for more details regarding Mr. Huang’s beneficial ownership in the Company.

The Company’s WVR structure enables the WVR beneficiary to exercise voting control over the Company notwithstanding that the WVR beneficiary does not hold a majority economic interest in the share capital of the Company. This will enable the Company to benefit from the continuing vision and leadership of the WVR beneficiary who will control the Company with a view to its long-term prospects and strategy.

[REDACTED] are advised to be aware of the potential risks of investing in companies with weighed voting rights structures, in particular that interests of the WVR beneficiary may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR beneficiary will be in a position to exert significant influence over the affairs of our Company and the outcome of shareholders’ resolutions, irrespective of how other shareholders vote. [REDACTED] should make the decision to [REDACTED] in the Company only after due and careful consideration. For further information about the risks associated with the WVR structure adopted by the Company, please refer to section headed “Risk Factors — Risks Related to Our Corporate Structure.”

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Upon any sale, transfer, assignment or disposition of beneficial ownership of any Class B ordinary shares by a holder thereof to any person or entity that is not an Affiliate (as defined in the Articles of Association) of such holder, such Class B ordinary shares will be automatically and immediately converted into an equal number of Class A ordinary shares.

Save for the weighted voting rights attached to Class B ordinary shares, the rights attached to all classes of Shares are identical. For further information about the rights, preferences, privileges and restrictions of the Class A ordinary shares and Class B ordinary shares, please see the section headed "Summary of the Constitution of our Company and Cayman Companies Law — Articles of Association" in Appendix III for further details.

Assumptions

The above table assumes that the [REDACTED] becomes unconditional and the [REDACTED] are issued pursuant to the [REDACTED]. The above does not take into account any Shares which may be issued or repurchased by us.

Ranking

The [REDACTED] are ordinary shares in the share capital of our Company and rank equally with all [REDACTED] currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the [REDACTED] in respect of a record date which falls after the date of this document.

Registration Rights

Pursuant to our amended members agreement, we have also granted certain registration rights to holders of our registrable securities, which include our preferred shares and ordinary shares converted from preferred shares, for a period of up to five years from the closing of the [REDACTED]. Set forth below is a description of the registration rights under the amended members agreement.

Demand Registration Rights

Under the terms of the amended members agreement dated May 19, 2016, among us and our existing shareholders, certain holders of our registrable securities, at any time from after the earlier of (i) six months after our initial public offering and (ii) three years after August 13, 2014, until the date that is five years after the closing of our initial public offering, have the right to demand that we file a registration statement under the Securities Act covering the registration of all or part of their registrable securities. We, however, are not obligated to effect a demand registration if, among other things, we have already effected two demand registrations. We have the right to defer filing of a registration statement for up to 90 days if our board of directors determine in good faith that filing of a registration will be materially detrimental to us, but we cannot exercise the deferral right more than once in any twelvemonth period.

SHARE CAPITAL

Form S-3 or Form F-3 Registration Rights

When eligible for use of form S-3/F-3, holders of our registrable securities then outstanding may request in writing that we effect a registration on Form S-3/F-3 so long, among other things, the gross proceeds of the securities to be sold under the registration statement exceeds US\$1 million. We, however, are not obligated to effect a registration on Form S-3/F-3 if, among other things, we have already effected a registration within any six-month period preceding the date of the registration request. We have the right to defer filing of a registration statement for up to 90 days if our board of directors determine in good faith that filing of a registration will be materially detrimental to us, but we cannot exercise the deferral right more than once in any twelve-month period.

Registration pursuant to Form S-3/F-3 registration rights is not deemed to be a demand registration, and there is no limit on the number of times the holders may exercise their Form S-3/F-3 registration rights.

Piggyback Registration Rights

If we propose to file a registration statement in connection with a public offering of securities of our company other than relating to an employee incentive plan, corporate reorganization, demand registration or Form S-3/F-3 registration then we must offer each holder of the registrable securities the opportunity to include their shares in the registration statement. Such requests for registrations are not counted as demand registrations.

Expenses of Registration

We will pay all expenses incurred by us relating to any demand, piggyback or Form S-3/F-3 registration, except that the requesting holders shall bear the expense of any underwriting discounts and selling commissions relating to the offering of their securities. We will not be required to pay for any expenses of any registration proceeding begun pursuant to demand registration rights, unless subject to certain exception, if the registration request is subsequently withdrawn at the request of a majority of the holders of the registrable securities to be registered.

[REDACTED]

We estimate that we will receive [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] million after deducting estimated [REDACTED] and the estimated [REDACTED] payable by us and based upon [REDACTED], HK\$[REDACTED] per [REDACTED] for both [REDACTED], and assuming the [REDACTED] is not exercised, or HK\$[REDACTED] million if the [REDACTED] is exercised in full.

The [REDACTED] in the [REDACTED] may be higher than, or the same as, the [REDACTED] in the [REDACTED]. See “[REDACTED].”

We plan to use the [REDACTED] we will receive from the [REDACTED] for the following purposes:

- **Expand our platform of high-performance data centers through strategic sourcing across markets.** We will expand our unique platform of interconnected, high-performance data centers in China’s Tier 1 markets. In Tier 1 markets, we will grow organically and acquisitively. In other locations outside of Tier 1 markets in China, we will undertake build-to-suit projects where there is a feasible opportunity to fulfill our customers’ broader requirements. In the next few years, we may expand into overseas markets including Southeast Asia where there is both a desire to work with us and a critical mass of demand from our home market customers. It is important for us to maintain continuous supply and fulfill the growing demands of our customers. Approximately HK\$[REDACTED] billion (representing [REDACTED]% of the [REDACTED], assuming the [REDACTED] is not exercised) is intended to be used to fund the equity portion of data center developments. Approximately HK\$[REDACTED] billion (representing [REDACTED]% of the [REDACTED], assuming the [REDACTED] is not exercised) is intended to be used to fund our strategic acquisitions.
- **Innovate and develop new technologies related to data center design, construction and operations.** We will continue to develop our proprietary data center design and operation capability. We will improve our construction methodologies and offsite prefabrication to lower development costs. We will further enhance our data center management processes and operating procedures to continue delivering highly reliable data center services in terms of uptime that meet or exceed the performance and quality levels specified in our service level agreements. We will further develop our innovative platform to assist our enterprise customers to integrate and control every aspect of their hybrid cloud computing environment. We will improve our PUE and utilize renewable energy whenever it is available to lower operating costs and reduce our carbon footprint. We will continue to attract and nurture highly skilled employees to strengthen our resource acquisition and operations management capabilities. We plan to continue to invest in pre-fabrication technologies, software defined network technologies related to our hybrid cloud service platform, as well as energy conservation technologies. Approximately HK\$[REDACTED] billion (representing [REDACTED]% of the [REDACTED], assuming the [REDACTED] is not exercised) is intended to be used for the above purposes and other general corporate purposes.

If the [REDACTED] from the [REDACTED] are not immediately used for the purposes described above, we intend to place them on short-term deposit with banks.

[REDACTED]

[REDACTED]

[REDACTED]

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APPENDIX I**ACCOUNTANTS’ REPORT**

The following is the text of a report set out on pages I-1 to I-[106], received from the Company’s reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF GDS HOLDINGS LIMITED, J.P. MORGAN SECURITIES (FAR EAST) LIMITED, MERRILL LYNCH FAR EAST LIMITED, CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND HAITONG INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of GDS Holdings Limited and its subsidiaries (together, the “Company”) set out on pages I-[4] to I-[106], which comprises the consolidated balance sheets of the Company as at December 31, 2017, 2018 and 2019 and June 30, 2020 and the consolidated statements of operations, the consolidated statements of comprehensive loss, the consolidated statements of changes in shareholders’ equity and the consolidated statements of cash flows, for each of the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-[4] to I-[106] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [REDACTED] (the “Document”) in connection with the [REDACTED] of shares of the Company [REDACTED].

Directors’ responsibility for Historical Financial Information

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

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified

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Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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

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

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants’ report, a true and fair view of the Company’s financial position as at December 31, 2017, 2018 and 2019 and June 30, 2020 and of the Company’s financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Company which comprises the consolidated statement of operations, the consolidated statement of comprehensive loss, the consolidated statement of changes in shareholders’ equity and the consolidated statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the “Stub Period Corresponding Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to

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obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

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

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Statements as defined on page I-[4] have been made.

Dividends

We refer to Note 21(b) to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

[REDACTED]

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HISTORICAL FINANCIAL INFORMATION

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

The Historical Financial Information in this report was prepared based on the consolidated financial statements of the Company for each of the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 (collectively referred as “Historical Financial Statements”). The Historical Financial Statements were audited by KPMG Huazhen LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”).

The Historical Financial Information is presented in Renminbi. All values are rounded to the nearest thousand except when otherwise indicated.

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF OPERATIONS

GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Years ended December 31,			Six-month periods ended	
		2017	2018	2019	2019	2020
					June 30,	
					(unaudited)	
Net revenue.....	3	1,616,166	2,792,077	4,122,405	1,877,030	2,582,623
Cost of revenue.....		(1,207,694)	(2,169,636)	(3,079,679)	(1,403,252)	(1,871,183)
Gross profit.....		408,472	622,441	1,042,726	473,778	711,440
Operating expenses						
Selling and marketing expenses.....		(90,118)	(110,570)	(129,901)	(57,637)	(60,060)
General and administrative expenses.....		(228,864)	(329,601)	(411,418)	(185,003)	(273,722)
Research and development expenses.....		(7,261)	(13,915)	(21,627)	(8,839)	(18,987)
Income from operations.....		82,229	168,355	479,780	222,299	358,671
Other income (expenses):						
Interest income.....		5,600	19,213	53,017	25,668	7,781
Interest expenses.....		(412,003)	(656,186)	(968,693)	(466,691)	(569,295)
Foreign currency exchange (loss) gain, net.....		(12,299)	20,306	(6,000)	(2,758)	(17,206)
Government grants.....		3,062	3,217	9,898	1,195	12,578
Gain from purchase price adjustment.....	12	-	-	-	-	55,154
Others, net.....		435	5,436	5,565	3,325	1,326
Loss before income taxes.....		(332,976)	(439,659)	(426,433)	(216,962)	(150,991)
Income tax benefits (expenses).....	4	6,076	9,391	(15,650)	(12,817)	(42,087)
Net loss.....		(326,900)	(430,268)	(442,083)	(229,779)	(193,078)
Change in redemption value of redeemable preferred shares.....	18	-	-	(17,760)	(17,760)	-
Cumulative dividend on redeemable preferred shares.....	18	-	-	(40,344)	(13,472)	(26,667)
Net loss attributable to ordinary shareholders.....		(326,900)	(430,268)	(500,187)	(261,011)	(219,745)
Loss per ordinary share						
Basic and diluted.....	6	(0.42)	(0.43)	(0.45)	(0.24)	(0.19)
Weighted average number of ordinary share outstanding						
Basic and diluted.....	6	784,566,371	990,255,959	1,102,953,366	1,070,590,091	1,186,168,652

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Net loss	(326,900)	(430,268)	(442,083)	(229,779)	(193,078)
Other comprehensive (loss) income					
Foreign currency translation adjustments, net of nil tax	(8,608)	61,434	86,570	66,872	5,609
Comprehensive loss	<u>(335,508)</u>	<u>(368,834)</u>	<u>(355,513)</u>	<u>(162,907)</u>	<u>(187,469)</u>

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ACCOUNTANTS’ REPORT

CONSOLIDATED BALANCE SHEETS
GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	As of December 31,			As of
		2017	2018	2019	June 30,
					2020
Assets					
Current assets					
Cash	7	1,873,446	2,161,622	5,810,938	7,742,082
Restricted cash	7	10,837	87	34,299	112,756
Accounts receivable, net of allowance for doubtful accounts	8	364,654	536,842	879,962	1,388,535
Value-added-tax (“VAT”) recoverable		112,067	163,476	129,994	114,575
Prepaid expenses		50,373	64,843	80,913	104,357
Other current assets		42,651	110,526	148,603	155,782
Total current assets		2,454,028	3,037,396	7,084,709	9,618,087
Property and equipment, net	9	8,165,601	13,994,945	19,184,639	24,542,951
Intangible assets, net	10	348,466	482,492	394,628	557,971
Prepaid land use rights, net	11	26,245	756,957	747,187	747,680
Operating lease right-of-use assets	16	–	–	796,679	1,909,239
Goodwill	12	1,570,755	1,751,970	1,905,840	2,409,325
Deferred tax assets	4	14,305	36,974	72,931	136,809
Restricted cash	7	63,317	123,039	128,025	171,705
VAT recoverable		290,065	488,526	888,483	1,129,440
Other non-current assets		211,785	212,944	289,410	385,643
Total assets		13,144,567	20,885,243	31,492,531	41,608,850

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ACCOUNTANTS’ REPORT

CONSOLIDATED BALANCE SHEETS (CONTINUED)

GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	As of December 31,			As of
		2017	2018	2019	June 30,
					2020
Liabilities, Redeemable Preferred Shares and Shareholders’ Equity					
Current liabilities					
Short-term borrowings and current portion of long-term borrowings (including RMB232,000, RMB235,250, RMB254,000 and RMB237,500 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively).	13	790,484	1,283,320	1,137,737	1,681,787
Accounts payable (including RMB339,175, RMB212,698, RMB181,448 and RMB243,637 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively).		1,110,411	1,508,020	1,675,966	2,880,745
Accrued expenses and other payables (including RMB91,542, RMB148,945, RMB160,401 and RMB199,029 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively).....	15	368,624	476,564	817,883	1,541,688
Deferred revenue (including RMB46,526, RMB54,101, RMB68,003 and RMB52,290 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively)	8	55,609	73,077	90,316	59,826
Operating lease liabilities, current (including RMB31,869 and RMB41,576 of VIEs without recourse to the primary beneficiary as of December 31, 2019 and June 30, 2020, respectively).....	16	-	-	55,139	73,362
Finance lease and other financing obligations, current (including RMB84,771, RMB96,787, RMB125,318 and RMB27,339 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively).....	16	97,943	166,898	222,473	230,746
Total current liabilities		<u>2,423,071</u>	<u>3,507,879</u>	<u>3,999,514</u>	<u>6,468,154</u>

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ACCOUNTANTS’ REPORT

CONSOLIDATED BALANCE SHEETS (CONTINUED)

GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	As of December 31,			As of
		2017	2018	2019	June 30,
					2020
Long-term borrowings, excluding current portion (including RMB85,250, RMB60,000, RMB12,500 and RMB60,000 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively)	13	3,459,765	5,203,708	8,028,473	9,337,882
Convertible bonds payable	14	–	2,004,714	2,049,654	2,086,179
Operating lease liabilities, non-current (including RMB66,387 and RMB133,719 of VIEs without recourse to the primary beneficiary as of December 31, 2019 and June 30, 2020, respectively)	16	–	–	709,998	1,141,835
Finance lease and other financing obligations, non-current (including RMB879,685, RMB1,068,862, RMB921,965 and RMB986,301 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively)	16	2,303,044	4,134,327	4,751,121	7,101,401
Deferred tax liabilities (including RMB70,030, RMB69,624, RMB76,297 and RMB81,302 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively).....	4	124,277	171,878	252,672	282,266
Other long-term liabilities (including RMB13,145, RMB10,740, RMB29,950 and RMB20,496 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively)	17	358,898	340,812	345,537	298,334
Total liabilities		<u>8,669,055</u>	<u>15,363,318</u>	<u>20,136,969</u>	<u>26,716,051</u>
Redeemable preferred shares (US\$0.00005 par value; 150,000 shares authorized, issued and outstanding as of December 31, 2019 and June 30, 2020; Redemption value of RMB1,061,981 and RMB1,064,137 as of December 31, 2019 and June 30, 2020, respectively; Liquidation value of RMB1,537,636 and RMB2,378,419 as of December 31, 2019 and June 30, 2020, respectively)	18	–	–	1,061,981	1,064,137

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CONSOLIDATED BALANCE SHEETS (CONTINUED)

GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	As of December 31,			As of
		2017	2018	2019	June 30,
					2020
Shareholders’ Equity					
Ordinary shares (US\$0.00005 par value; 2,002,000,000 shares authorized; 873,679,343, 939,479,307, 1,148,842,379 and 1,210,996,227 Class A ordinary shares issued and outstanding as December 31, 2017, 2018 and 2019, and June 30, 2020, respectively; 67,590,336 Class B ordinary shares issued and outstanding as of December 31, 2017, 2018 and 2019, and June 30, 2020)	21(a)	320	341	412	434
Additional paid-in capital		5,861,445	7,275,945	12,403,043	16,125,571
Accumulated other comprehensive loss		(200,688)	(139,254)	(52,684)	(47,075)
Accumulated deficit		(1,185,565)	(1,615,107)	(2,057,190)	(2,250,268)
Total shareholders’ equity		4,475,512	5,521,925	10,293,581	13,828,662
Commitments and contingencies	24				
Total liabilities, redeemable preferred shares and shareholders’ equity		13,144,567	20,885,243	31,492,531	41,608,850

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY
GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Ordinary Shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total equity
		Number	Amount				
Balance at January 1, 2017		760,009,043	260	4,036,959	(192,080)	(858,665)	2,986,474
Loss for the year		-	-	-	-	(326,900)	(326,900)
Other comprehensive loss		-	-	-	(8,608)	-	(8,608)
Total comprehensive loss		-	-	-	(8,608)	(326,900)	(335,508)
Issuance of ordinary shares	21(a)	64,257,028	21	649,813	-	-	649,834
Conversion of convertible bonds	21(a)	97,870,263	32	1,106,195	-	-	1,106,227
Shares surrendered		(866,655)	-	-	-	-	-
Shares issued to depository bank	6	20,000,000	7	(7)	-	-	-
Share-based compensation	5	-	-	59,843	-	-	59,843
Exercise of share options	5	816,880	-	4,180	-	-	4,180
Vesting of restricted shares	5	1,621,120	-	-	-	-	-
Settlement of liability-classified restricted shares award	5	502,000	-	4,462	-	-	4,462
Settlement of share options and restricted share awards with shares held by depository bank ..		(2,940,000)	-	-	-	-	-
Balance at December 31, 2017 and January 1, 2018		941,269,679	320	5,861,445	(200,688)	(1,185,565)	4,475,512
Impact of change in accounting policy	2 (ee)	-	-	-	-	726	726
Adjusted balance at January 1, 2018		941,269,679	320	5,861,445	(200,688)	(1,184,839)	4,476,238
Loss for the year		-	-	-	-	(430,268)	(430,268)
Other comprehensive income		-	-	-	61,434	-	61,434
Total comprehensive loss		-	-	-	61,434	(430,268)	(368,834)
Issuance of ordinary shares	21(a)	65,800,000	21	1,283,287	-	-	1,283,308
Shares surrendered		(36)	-	-	-	-	-
Share-based compensation	5	-	-	105,877	-	-	105,877
Exercise of share options	5	3,614,464	-	18,979	-	-	18,979
Vesting of restricted shares	5	7,066,060	-	-	-	-	-
Settlement of liability-classified restricted shares award	5	260,560	-	6,357	-	-	6,357
Settlement of share options and restricted share awards with shares held by depository bank ..		(10,941,084)	-	-	-	-	-
Balance at December 31, 2018 and January 1, 2019		<u>1,007,069,643</u>	<u>341</u>	<u>7,275,945</u>	<u>(139,254)</u>	<u>(1,615,107)</u>	<u>5,521,925</u>

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY (CONTINUED)
GDS HOLDINGS LIMITED AND SUBSIDIARIES
(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Ordinary Shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total equity
		Number	Amount				
Loss for the year.....		-	-	-	-	(442,083)	(442,083)
Other comprehensive income.....		-	-	-	86,570	-	86,570
Total comprehensive loss.....		-	-	-	86,570	(442,083)	(355,513)
Issuance of ordinary shares.....	21(a)	160,400,184	55	4,934,071	-	-	4,934,126
Shares surrendered.....		(8)	-	-	-	-	-
Shares issued to depository bank.....	6	48,962,896	16	(16)	-	-	-
Redeemable preferred shares dividends.....	18	-	-	(40,344)	-	-	(40,344)
Change in redemption value of redeemable preferred shares.....	18	-	-	(17,760)	-	-	(17,760)
Share-based compensation.....	5	-	-	189,756	-	-	189,756
Exercise of share options.....	5	10,150,336	-	53,407	-	-	53,407
Vesting of restricted shares.....	5	8,885,120	-	-	-	-	-
Settlement of liability-classified restricted shares award.....	5	237,312	-	7,984	-	-	7,984
Settlement of share options and restricted share awards with shares held by depository bank..		(19,272,768)	-	-	-	-	-
Balance at December 31, 2019.....		1,216,432,715	412	12,403,043	(52,684)	(2,057,190)	10,293,581

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
GDS HOLDINGS LIMITED AND SUBSIDIARIES
(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Ordinary Shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total equity
		Number	Amount				
(Unaudited)							
Balance at January 1, 2019		1,007,069,643	341	7,275,945	(139,254)	(1,615,107)	5,521,925
Loss for the period.....		-	-	-	-	(229,779)	(229,779)
Other comprehensive income		-	-	-	66,872	-	66,872
Total comprehensive loss.....		-	-	-	66,872	(229,779)	(162,907)
Issuance of ordinary shares	21(a)	109,850,744	37	2,982,205	-	-	2,982,242
Shares surrendered.....		(6)	-	-	-	-	-
Shares issued to depository bank.....	6	48,962,896	16	(16)	-	-	-
Change in redemption value of redeemable preferred shares.....		-	-	(17,760)	-	-	(17,760)
Redeemable preferred shares dividends.....		-	-	(13,472)	-	-	(13,472)
Share-based compensation	5	-	-	62,934	-	-	62,934
Exercise of share options.....		8,200,744	-	42,666	-	-	42,666
Settlement of liability-classified restricted shares award		121,568	-	3,627	-	-	3,627
Settlement of share options and restricted share awards with shares held by depository bank..		(8,322,312)	-	-	-	-	-
Balance at June 30, 2019		<u>1,165,883,277</u>	<u>394</u>	<u>10,336,129</u>	<u>(72,382)</u>	<u>(1,844,886)</u>	<u>8,419,255</u>

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY (CONTINUED)
GDS HOLDINGS LIMITED AND SUBSIDIARIES
(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Ordinary Shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total equity
		Number	Amount				
Balance at January 1, 2020		1,216,432,715	412	12,403,043	(52,684)	(2,057,190)	10,293,581
Loss for the period.....		-	-	-	-	(193,078)	(193,078)
Other comprehensive income		-	-	-	5,609	-	5,609
Total comprehensive loss.....		-	-	-	5,609	(193,078)	(187,469)
Issuance of ordinary shares	21(a)	62,153,848	22	3,533,263	-	-	3,533,285
Redeemable preferred shares dividends.....	18	-	-	(26,667)	-	-	(26,667)
Share-based compensation	5	-	-	133,842	-	-	133,842
Exercise of share options.....	5	13,960,096	-	77,415	-	-	77,415
Vesting of restricted shares.....	5	3,511,800	-	-	-	-	-
Settlement of liability-classified restricted shares award	5	100,136	-	4,675	-	-	4,675
Settlement of share options and restricted share awards with shares held by depository bank..		(17,572,032)	-	-	-	-	-
Balance at June 30, 2020		<u>1,278,586,563</u>	<u>434</u>	<u>16,125,571</u>	<u>(47,075)</u>	<u>(2,250,268)</u>	<u>13,828,662</u>

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Years ended December 31,			Six-month periods ended June 30,	
		2017	2018	2019	2019	2020
					(unaudited)	
Cash flows from operating activities:						
Net loss.....		(326,900)	(430,268)	(442,083)	(229,779)	(193,078)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:						
Amortization of debt issuance cost and debt discount		48,100	61,373	99,380	53,512	57,135
Depreciation and amortization.....		378,130	741,507	1,142,032	523,213	709,223
Operating lease cost relating to prepaid land use rights		-	-	-	-	5,217
Net loss (gain) on disposal of property and equipment		-	2,212	(703)	(302)	(587)
Share-based compensation expense	5	59,843	105,877	189,756	62,934	133,842
Gain from purchase price adjustment.....	12	-	-	-	-	(55,154)
Loss from equity method investment		-	-	1,213	-	2,886
Allowance for doubtful accounts.....		-	241	274	81	319
Deferred tax benefit	4	(11,622)	(36,597)	(50,172)	(20,852)	(60,264)
Changes in operating assets and liabilities, net of effect of acquisitions:						
Accounts receivable		(134,631)	(157,708)	(342,191)	(318,442)	(427,796)
VAT recoverable.....		(194,335)	(221,390)	(323,044)	(148,832)	(149,564)
Prepaid expenses		520	(14,153)	(13,320)	(19,626)	(23,318)
Other current assets.....		11,500	(11,477)	(8,095)	(27,688)	(5,953)
Other non-current assets.....		(23,111)	(37,035)	(8,678)	(7,574)	(50,678)
Accounts payable		33,903	25,292	22,540	37,142	94,492
Deferred revenue		14,952	17,468	31,417	27,823	(31,195)
Accrued expenses and other payables		(83,260)	(56,693)	(20,434)	114,743	22,993
Other long-term liabilities.....		59,095	(1,559)	1,299	5,231	23,094
Operating leases		-	-	14,245	4,520	(35,376)
Net cash (used in) provided by operating activities.....		(167,816)	(12,910)	293,436	56,104	16,238

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CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Years ended December 31,			Six-month periods ended	
		2017	2018	2019	2019	2020
						(unaudited)
Cash flows from investing activities						
Payments for purchase of property and equipment and land use rights		(1,760,165)	(4,271,873)	(4,557,686)	(1,351,549)	(3,564,025)
Payments for purchase of intangible assets		(6,000)	-	-	-	-
Loans advanced to subsidiaries prior to acquisitions	12	(6,025)	-	-	-	-
Cash acquired from the business combinations	12	24,916	466	12,091	-	2,349
Cash paid for the business combinations		(252,780)	(359,372)	(190,066)	-	(320,000)
Cash paid for the asset acquisitions		-	(115,167)	(363,939)	(22,113)	(4,582)
Cash paid for equity investments		-	-	(6,000)	(6,000)	-
(Deposits paid) refund of deposits for potential acquisitions		(5,000)	(1,000)	(30,700)	1,000	(15,000)
Proceeds from sale of property and equipment		-	13,896	5,069	5,069	16,422
Net cash used in investing activities		(2,005,054)	(4,733,050)	(5,131,231)	(1,373,593)	(3,884,836)
Cash flows from financing activities:						
Proceeds from short-term borrowings		553,490	943,088	467,744	201,969	496,653
Proceeds from long-term borrowings		3,086,390	2,814,197	5,000,510	2,741,183	2,702,543
Repayment of short-term borrowings		(381,071)	(776,224)	(758,941)	(613,368)	(158,375)
Repayment of long-term borrowings		(1,401,023)	(834,154)	(1,968,913)	(1,140,222)	(1,196,269)
Payment of issuance cost of borrowings		(62,460)	(91,124)	(156,742)	(119,832)	(55,677)
Proceeds from exercise of stock options		3,377	16,866	55,469	43,508	77,415
Net proceeds from issuance of convertible bonds	14	-	1,867,304	-	-	-
Net proceeds from issuance of ordinary shares	21(a)	649,834	1,283,308	4,934,126	2,982,242	3,560,004
Net proceeds from issuance of redeemable preferred shares	18	-	-	989,349	989,349	-
Payment of redeemable preferred shares dividends	18	-	-	(25,014)	(11,458)	(40,068)
Payment under finance lease and other financing obligations	16	(68,670)	(190,718)	(289,467)	(196,310)	(78,888)
Proceeds from other financing arrangements		-	-	302,761	-	621,162
Deferred payments for purchase of property and equipment		-	-	(68,864)	-	(34,432)

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ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Years ended December 31,			Six-month periods ended June 30,	
		2017	2018	2019	2019	2020
					(unaudited)	
Payment of contingent consideration for the acquisition of subsidiaries.....		(24,139)	(155,737)	(120,079)	(107,684)	(21,676)
Net cash provided by financing activities		2,355,728	4,876,806	8,361,939	4,769,377	5,872,392
Effect of exchange rate changes on cash and restricted cash.....		(74,250)	206,302	164,370	113,320	49,487
Net increase in cash and restricted cash		108,608	337,148	3,688,514	3,565,208	2,053,281
Cash and restricted cash at beginning of year/period.....		1,838,992	1,947,600	2,284,748	2,284,748	5,973,262
Cash and restricted cash at end of year/period.....		<u>1,947,600</u>	<u>2,284,748</u>	<u>5,973,262</u>	<u>5,849,956</u>	<u>8,026,543</u>
Supplemental disclosures of cash flow information						
Interest paid.....		358,748	633,063	841,388	383,423	488,256
Income tax paid		1,369	3,371	17,031	8,175	71,097
Supplemental disclosures of non-cash investing and financing activities						
Changes in consideration payable for the acquisition of subsidiaries.....		280,370	148,217	239,096	10,000	561,926
Settlement of liability-classified restricted share award.....	5	4,462	6,357	7,984	3,627	4,675
Conversion of convertible bonds.....	21(a)	1,106,227	-	-	-	-

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 DESCRIPTION OF BUSINESS

GDS Holdings Limited (“GDS Holdings”) was incorporated in the Cayman Islands on December 1, 2006. GDS Holdings and its consolidated subsidiaries and consolidated variable interest entities (collectively referred to as the “Company”) are principally engaged in providing colocation, managed hosting and managed cloud services in the People’s Republic of China (the “PRC” excluding Taiwan, the Hong Kong Special Administrative Region (the “Hong Kong SAR”) and the Macau Special Administrative Region for the purposes of this accountants’ report only) and Hong Kong SAR. The Company operates its data centers in Hong Kong SAR, Shanghai Municipality, Beijing Municipality, Jiangsu Province, Guangdong Province, Sichuan Province, Hebei Province and Inner Mongolia of the PRC and serves customers that primarily operate in the cloud, internet and banking industries.

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”).

The consolidated financial statements are presented in Renminbi (“RMB”), rounded to the nearest thousand.

(a) Principles of Consolidation

The accompanying financial statements include the financial statements of GDS Holdings, its subsidiaries and consolidated variable interest entities and variable interest entities’ subsidiaries for which the Company is the primary beneficiary.

In certain regions of the PRC, the Company’s operations are conducted through Shanghai Xinwan Enterprise Management Co., Ltd. (“Management HoldCo”), Beijing Wanguo Chang’an Science and Technology Co., Ltd. (“GDS Beijing”), GDS Beijing’s subsidiaries and Shanghai Shu’an Data Services Co., Ltd. (“GDS Shanghai”) (referred to as the “VIEs”) to comply with the PRC laws and regulations, which prohibit foreign investments in companies that are engaged in data center related business in those regions. Individuals acting as nominee equity holders ultimately hold the legal equity interests of the VIEs on behalf of the Company.

The equity holders of GDS Beijing and GDS Shanghai were William Wei Huang, CEO of the Company, and his relative. In order to enhance corporate governance and facilitate administration of the VIEs, in December 2019, GDS Holdings completed transfer of ownership of the 100% equity interest of GDS Beijing and GDS Shanghai from William Wei Huang and his relative to a newly established holding company, Management HoldCo. The entire equity interest in Management HoldCo is held by a number of management personnel designated by the Board of Directors of GDS Holdings. In conjunction with the transfer of legal ownership, GDS (Shanghai) Investment Co., Ltd. (“GDS Investment Company”), a subsidiary of GDS

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Holdings, entered into a series of contractual arrangements with Management HoldCo, its shareholders, GDS Beijing and GDS Shanghai to replace the previous contractual arrangements with GDS Beijing and GDS Shanghai on substantially the same terms under such previous contractual arrangements. The previous contractual arrangements were terminated simultaneously when the current contractual arrangements came into effect, and the subsidiary of GDS Holdings under the previous and current contractual arrangements is the same entity, namely GDS Investment Company. GDS Holdings also replaced the sole director of GDS Shanghai and certain subsidiaries of GDS Beijing with a board of three directors. William Wei Huang acts as the Chairman of the board of directors of Management HoldCo, GDS Investment Company, GDS Beijing and GDS Shanghai and their subsidiaries respectively. Other management members of GDS and board appointee serve as directors and officers of Management HoldCo., GDS Investment Company, GDS Beijing and GDS Shanghai and their subsidiaries.

This restructuring could reduce risk by allocating ownership of the VIEs among a larger number of individual management shareholders, and strengthen corporate governance with the establishment of the board of directors in the VIEs and its subsidiaries. This restructuring could also create a more stable ownership structure by avoiding reliance on a single or small number of natural persons, and by buffering the ownership of the VIEs with an additional layer of legal entities, creating an institutional structure that is tied to the Company's management philosophy and culture.

VIE Agreements were entered into among GDS Beijing, GDS Shanghai, Management HoldCo, its shareholders and GDS Investment Company. The following is a summary of the contractual VIE Agreements entered among GDS Investment Company, GDS Beijing, GDS Shanghai, Management HoldCo and its shareholders.

Equity Interest Pledge Agreements. Pursuant to the equity interest pledge agreements, each shareholder of Management HoldCo has pledged all of his or her equity interest in Management HoldCo as a continuing first priority security interest in favor of GDS Investment Company, as applicable, to respectively guarantee Management HoldCo's and its shareholders' performance of their obligations under the relevant contractual arrangement, and Management HoldCo has pledged all of its equity interest in GDS Beijing and GDS Shanghai as a continuing first priority security interest in favor of GDS Investment Company, as applicable, to respectively guarantee their performance of their obligations under the relevant contractual arrangement, which include the exclusive technology license and service agreement, loan agreement, exclusive call option agreement, and shareholder voting rights proxy agreement, and intellectual property rights license agreement. If GDS Beijing or GDS Shanghai or Management HoldCo or any of its shareholders breaches their contractual obligations under these agreements, GDS Investment Company, as pledgee, will be entitled to certain rights regarding the pledged equity interests, including receiving proceeds from the auction or sale of all or part of the pledged equity interests of Management HoldCo, GDS Beijing and GDS Shanghai in accordance with PRC law. Management HoldCo and each of its shareholders agrees that, during the term of the equity interest pledge agreements, it or he or she will not dispose of the pledged equity interests or create or allow creation of any encumbrance on the

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pledged equity interests without the prior written consent of GDS Investment Company. The equity interest pledge agreements remain effective until GDS Beijing and GDS Shanghai and Management HoldCo and its shareholders discharge all their obligations under the contractual arrangements. The equity pledge has been registered by Management HoldCo, GDS Beijing and GDS Shanghai in favor of GDS Investment Company with the relevant office of the Administration for Market Regulation in accordance with the PRC Property Rights Law.

Shareholder Voting Rights Proxy Agreements. Pursuant to the shareholder voting rights proxy agreements, each of GDS Beijing, GDS Shanghai, Management HoldCo and each of its shareholders has irrevocably appointed the PRC citizen(s) as designated by GDS Investment Company to act as GDS Beijing's, GDS Shanghai's, Management HoldCo's and its 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, GDS Shanghai and GDS Shanghai's subsidiaries requiring shareholder approval, and appointing directors and executive officers. GDS Investment Company is also entitled to change the appointment by designating another PRC citizen(s) to act as exclusive attorney-in-fact of GDS Beijing, GDS Shanghai, Management HoldCo and its shareholders with prior notice to Management HoldCo or its such shareholders. Each shareholder voting rights proxy agreement will remain in force for so long as Management HoldCo remains a shareholder of GDS Beijing or GDS Shanghai and the shareholder remains a shareholder of Management HoldCo, as applicable.

Exclusive Technology License and Service Agreements. Under the exclusive technology license and service agreements, GDS Investment Company licenses certain technology to each of Management HoldCo, GDS Beijing and GDS Shanghai and GDS Investment Company has the exclusive right to provide Management HoldCo, GDS Beijing and GDS Shanghai with technical support, consulting services and other services. Without GDS Investment Company's prior written consent, each of Management HoldCo, GDS Beijing and GDS Shanghai agrees not to accept the same or any similar services provided by any third party. Each of Management HoldCo, GDS Beijing and GDS Shanghai agrees to pay service fees on a yearly basis and at an amount equivalent to all of its net profits as confirmed by GDS Investment Company. GDS Investment Company owns the intellectual property rights arising out of its performance of these agreements. In addition, each of Management HoldCo, GDS Beijing and GDS Shanghai has granted GDS Investment Company an exclusive right to purchase or to be licensed with any or all of the intellectual property rights of Management HoldCo, GDS Beijing or GDS Shanghai at the lowest price permitted under PRC law. Unless otherwise agreed by the parties, these agreements will continue remaining effective.

Intellectual Property Rights License Agreements. Pursuant to an intellectual property rights license agreement between GDS Investment Company and each of Management HoldCo, GDS Beijing and GDS Shanghai, Management HoldCo, GDS Beijing and GDS Shanghai has granted GDS Investment Company an exclusive license to use for free any or all of the intellectual property rights owned by each of them from time to time, and without the parties' prior written consent, Management HoldCo, GDS Beijing and GDS Shanghai cannot take any actions, including without limitation to, transferring or licensing outside its ordinary course of

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business any intellectual property rights to any third parties, which may affect or undermine GDS Investment Company's use of the licensed intellectual property rights from Management HoldCo, GDS Beijing and GDS Shanghai. The parties have also agreed under the agreement that GDS Investment Company should own the new intellectual property rights developed by it regardless whether such development is dependent on any of the intellectual property rights owned by Management HoldCo, GDS Beijing and GDS Shanghai. This agreement can only be early terminated by prior mutual consent of the parties and need to be renewed upon GDS Investment Company's unilateral request.

Exclusive Call Option Agreements. Pursuant to the exclusive call option agreements, Management HoldCo and each of its shareholders has irrevocably granted GDS Investment Company an exclusive option to purchase, or have its designated person or persons to purchase, at its discretion, to the extent permitted under PRC law, all or part of Management HoldCo's equity interests in GDS Beijing and GDS Shanghai or its such shareholders' equity interests in Management HoldCo. The purchase price should equal to the minimum price required by PRC law or such other price as may be agreed by the parties in writing. Without GDS Investment Company's prior written consent, Management HoldCo and its shareholders have agreed that each of Management HoldCo, GDS Beijing and GDS Shanghai shall not amend its articles of association, increase or decrease the registered capital, sell or otherwise dispose of its assets or beneficial interest, create or allow any encumbrance on its assets or other beneficial interests, provide any loans, distribute dividends to the shareholders and etc. These agreements will remain effective until all equity interests of Management HoldCo, GDS Beijing and GDS Shanghai held by their shareholders have been transferred or assigned to GDS Investment Company or its designated person(s).

Loan Agreements. Pursuant to the loan agreements between GDS Investment Company and Management HoldCo or its shareholders, GDS Investment Company has agreed to extend loans in an aggregate amount of RMB310,100 to Management HoldCo solely for the capitalization of GDS Beijing and GDS Shanghai and RMB1,000 to the shareholders of Management HoldCo solely for the capitalization of Management HoldCo. Pursuant to the loan agreements, GDS Investment Company has the right to require repayment of the loans upon delivery of thirty-day's prior notice to Management HoldCo or its shareholders, as applicable, and Management HoldCo or its shareholders can repay the loans by either sale of their equity interests in GDS Beijing and GDS Shanghai or Management HoldCo, as applicable, to GDS Investment Company or its designated person(s) pursuant to their respective exclusive call option agreements, or other methods as determined by GDS Investment Company pursuant to its articles of association and the applicable PRC laws and regulations.

Under the terms of the VIE Agreements, the Company has (i) the right to receive service fees on a yearly basis at an amount equivalent to all of the net profits of the VIEs under the exclusive technology license and services agreements when such services are provided; (ii) the right to receive all dividends declared by the VIEs and the right to all undistributed earnings of the VIEs; (iii) the right to receive the residual benefits of the VIEs through its exclusive option to acquire 100% of the equity interests in the VIEs, to the extent permitted under PRC

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law; and (iv) the right to require each of the shareholder of the VIEs to appoint the PRC citizen(s) as designated by GDS Investment Company 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 the VIEs requiring shareholder approval, disposing of all or part of the shareholder's equity interest in the VIEs, and appointing directors and executive officers.

In accordance with Accounting Standards Codification ("ASC") 810-10-25-38A, the Company has a controlling financial interest in the VIEs because the Company has (i) the power to direct activities of the VIEs that most significantly impact the economic performance of the VIEs; and (ii) the obligation to absorb the expected losses and the right to receive expected residual return of the VIEs that could potentially be significant to the VIEs. The terms of the VIE Agreements and the Company's financial support to the VIEs were considered in determining that the Company is the primary beneficiary of the VIEs. Accordingly, the financial statements of the VIEs are consolidated in the Company's consolidated financial statements.

Under the terms of the VIE Agreements, the VIEs' equity holders have no rights to the net assets nor have the obligations to fund the deficit, and such rights and obligations have been vested to the Company. All of the equity (net assets) or deficits (net liabilities) and net income (loss) of the VIEs are attributed to the Company.

The Company has been advised by its PRC legal counsel that each of the VIE agreements is valid, binding and enforceable in accordance with its terms and applicable PRC laws and the ownership structure of the VIEs does not violate applicable PRC Laws. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and future PRC laws and regulations. There can be no assurance that the PRC authorities will take a view that is not contrary to or otherwise different. If the current ownership structure of the Company and the VIE Agreements are determined to be in violation of any existing or future PRC laws and regulations, the PRC government could:

- Levy fines on the Company or confiscate income of the Company;
- Revoke or suspend the VIEs' business or operating licenses;
- Discontinue or place restrictions or onerous conditions on VIE's operations;
- Require the Company to discontinue their operations in the PRC;
- Require the Company to undergo a costly and disruptive restructuring;
- Take other regulatory or enforcement actions that could be harmful to the Company's business.

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The imposition of any of these government actions could result in the termination of the VIE agreements, which would result in the Company losing the (i) ability to direct the activities of the VIEs and (ii) rights to receive substantially all the economic benefits and residual returns from the VIEs and thus result in the deconsolidation of the VIEs in the Company's consolidated financial statements.

The following tables set forth the financial statement balances and amounts of the VIEs and their subsidiaries included in the consolidated financial statements after the elimination of intercompany balances and transactions among VIEs and their subsidiaries, including the liabilities with recourse to the primary beneficiary, which represented the borrowings guaranteed by GDS Holdings.

	<u>As of December 31,</u>			<u>As of</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>June 30,</u>
				<u>2020</u>
Assets				
Current assets				
Cash	266,560	552,153	730,960	888,353
Restricted cash	10,837	87	–	–
Accounts receivable, net of allowance for doubtful accounts	348,536	517,346	858,764	1,278,630
VAT recoverable	27,596	39,671	46,817	45,870
Prepaid expenses	32,919	32,962	39,124	55,175
Other current assets	7,283	59,499	32,929	45,152
Total current assets	<u>693,731</u>	<u>1,201,718</u>	<u>1,708,594</u>	<u>2,313,180</u>
Property and equipment, net	2,164,121	3,058,294	2,911,727	2,834,443
Intangible assets, net.....	143,151	181,025	159,860	149,278
Operating lease right-of-use assets....	–	–	91,329	169,556
Deferred tax assets.....	11,846	16,676	34,157	39,486
Restricted cash.....	23,592	39,346	29,508	49,987
VAT recoverable.....	26,235	115,054	136,011	123,264
Other non-current assets	80,763	81,290	75,873	98,761
Total assets.....	<u>3,143,439</u>	<u>4,693,403</u>	<u>5,147,059</u>	<u>5,777,955</u>

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	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
Liabilities				
Current liabilities				
Short-term borrowings and current portion of long-term borrowings	352,039	904,002	493,614	536,023
Accounts payable	339,175	212,698	181,448	243,637
Accrued expenses and other payables	91,542	148,945	160,401	199,029
Deferred revenue	46,526	54,101	68,003	52,290
Operating lease liabilities, current.	–	–	31,869	41,576
Finance lease and other financing obligations, current	84,771	96,787	125,318	27,339
Total current third-party liabilities	914,053	1,416,533	1,060,653	1,099,894
Long-term borrowings, excluding current portion	710,594	835,424	1,335,084	1,289,454
Operating lease liabilities, non-current	–	–	66,387	133,719
Finance lease and other financing obligations, non-current	879,685	1,068,862	921,965	986,301
Deferred tax liabilities	70,030	69,624	76,297	81,302
Other long-term liabilities	13,145	10,740	29,950	20,496
Total third-party liabilities	2,587,507	3,401,183	3,490,336	3,611,166
Amounts due to GDS Holdings and its non-VIE subsidiaries, net	508,455	1,270,121	1,534,768	1,957,479
Total liabilities	3,095,962	4,671,304	5,025,104	5,568,645

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As of December 31, 2017, 2018, 2019 and June 30, 2020, accounts receivable of RMB63,986, RMB78,556, RMB83,468 and RMB85,870, respectively, and property and equipment of RMB264,054, RMB335,708, RMB114,344 and RMB150,800, respectively, of VIEs were pledged solely to secure banking borrowings of VIEs.

Net revenue, net income (loss), operating, investing and financing cash flows of the VIEs that were included in the Company's consolidated financial statements for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020 are as follows:

	<u>Years ended December 31,</u>			<u>Six-month periods ended June 30,</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
				(unaudited)	
Net revenue	1,469,929	2,712,875	4,013,561	1,837,452	2,489,175
Net income (loss)	44,541	(59,757)	99,857	7,036	87,354
Net cash provided by					
operating activities	186,843	739,848	414,424	24,371	261,379
Net cash used in investing					
activities	(286,476)	(1,063,826)	(201,995)	(91,297)	(68,734)
Net cash (used in) provided					
by financing activities	(7,417)	614,575	(43,547)	(4,790)	(14,773)

The unrecognized revenue producing assets that are held by the VIEs comprise of internally developed software, intellectual property and trademarks which were not recorded on the Company's consolidated balance sheets as they do not meet all the capitalization criteria.

Costs recognized by the VIEs for outsourcing and other services provided by other entities within the Company were RMB658,617, RMB1,260,481, RMB2,017,032, RMB921,386 (unaudited) and RMB1,319,663, respectively for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, net of the services provided to other entities within the Company. These inter-company transactions are eliminated in the consolidated financial statements.

(b) Use of estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include, but are not

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limited to, the useful lives of long-lived assets, the fair values of assets acquired and liabilities assumed and the consideration transferred in a business combination, the fair value of the reporting unit for the goodwill impairment test, the allowance for doubtful accounts receivable, the valuation of derivatives, the realization of deferred income tax assets, the fair value of share-based compensation awards, the recoverability of long-lived assets, valuation of right-of-use assets and the fair value of the asset retirement obligation. Changes in facts and circumstances may result in revised estimates. Actual results could differ from those estimates, and as such, differences may be material to the consolidated financial statements.

(c) Revenue recognition

The Company adopted ASC 606 *Revenue from Contracts with Customers* on January 1, 2018. The Company 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. The Company elects to apply this guidance retrospectively only to contracts that are not completed contracts as of January 1, 2018.

The Company recognizes revenue as the Company satisfies a performance obligation by transferring control over a good or service to a customer. For each performance obligation satisfied over time, the Company recognizes revenue over time by measuring the progress toward complete satisfaction of that performance obligation. If the Company does 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 the Company expects 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, the Company accounts 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.

The Company derives revenue primarily from the delivery of (i) colocation services; (ii) managed services, including managed hosting services and managed cloud services. The remainder of the Company's revenue is from IT equipment sales that are either sold on a stand-alone basis or bundled in a managed service contract arrangement and consulting services.

Colocation services are services where the Company provides space, power and cooling to customers for housing and operating their IT system equipment in the Company's data centers.

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Managed hosting services are services where the Company provides outsourced services to manage the customers' data center operations, including data migration, IT operations, security and data storage.

Managed cloud services are services where the Company offers direct private connection to major cloud platforms, an innovative service platform for managing hybrid clouds and, where required, the resale of public cloud 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 actual services are rendered throughout the contract term. Certain contracts with remaining customers 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, the Company agrees 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, the Company specifies 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. If the actual power consumption is above the limit, the Company charges the customer 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, without providing the customer with any rights to acquire additional goods or services. Accordingly, relevant revenue is recognized each month based on actual additional power consumption fees.

The Company's colocation service and managed service contracts with customers contain both lease and non-lease components. The Company 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. The Company elected to apply the practical expedient on the contracts that meet the conditions. In addition, the Company has 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 ("Topic 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 ("Topic 842"), which is immaterial for the year ended December 31, 2019 and for the six-month period ended June 30, 2020. The Company has elected to apply the practical expedient on a prospective basis.

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Revenue recognized for colocation or managed hosting and cloud services delivered prior to billing is recorded within accounts receivable. The Company generally bills 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.

The sale of IT equipment is recognized when the customer obtains control of the equipment, which is typically when delivery has occurred, the customer accepts the equipment and the Company has no performance obligation after the delivery.

In certain managed service contracts, the Company sells and delivers IT equipment such as servers and computer terminals prior to the delivery of the services. Since sale of equipment can be distinguished and is separately identifiable from other promises in the contract and it is distinct within the context of the contract, the sale of equipment is considered a separate performance obligation. Accordingly, the contract consideration is allocated to the equipment and the managed services based on their relative standalone selling prices.

Consulting services are provided to customers for a fixed amount over the service period, usually less than one year. The Company recognizes revenues from consulting services over the period when the services were provided, since customers simultaneously receive and consume the benefit of the services. The Company uses the input method based on the pattern of service provided to the customers.

Revenue is generally recognized on a gross basis as the Company is primarily responsible for fulfilling the contract, assumes inventory risk and has discretion in establishing the price when selling to the customer. To the extent the Company does not meet the criteria for recognizing revenue on a gross basis, the Company records the revenue on a net basis.

(d) Cost of revenue

Cost of revenue consists primarily of utility costs, depreciation of property and equipment, rental costs, labor costs and other costs directly attributable to the provision of the service revenue.

(e) Research and development and advertising costs

Research and development and advertising costs are expensed as incurred. Research and development costs amounted to RMB7,261, RMB13,915, RMB21,627, RMB8,839 (unaudited) and RMB18,987, respectively for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020. Research and development costs consist primarily of payroll and related personnel costs for developing or significantly improving the Company's services and products.

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Advertising costs amounted to RMB10,189, RMB6,332, RMB7,454, RMB2,308 (unaudited) and RMB1,669, respectively for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020.

(f) Government grants

Government grants are recognized when received and when all the conditions for their receipt have been met. Subsidies that compensate the Company for expenses incurred are recognized as a reduction of expenses in the consolidated statements of operations. Subsidies that are not associated with expenses are recognized as other income.

Subsidies for the acquisition of property and equipment are recorded as a liability until earned and then depreciated over the useful life of the related assets as a reduction of the depreciation charges. Subsidies for obtaining the rights to use land are recorded as a liability until earned and then amortized over the land use right period as a reduction of the amortization charges of the related land use rights. In 2010 and 2011, the Company received government subsidies that required the Company to operate in a particular area for a certain period. The Company recorded the subsidies in other long-term liabilities when the subsidies were received and subsequently recognized as government subsidy income ratably over the period the Company is required to operate in the area. In 2017, the Company received government subsidies that required the Company to pass certain inspection on the related project. The Company recorded such subsidies in other long-term liabilities when received, which are reclassified to accrued expenses and other payables when the inspection is expected to be completed within one year, and will be recorded as government subsidy income when the conditions are met.

As of December 31, 2017, 2018 and 2019, and June 30, 2020, deferred government grants of RMB16,789, RMB9,771, RMB6,507 and RMB6,196 are recorded in other long-term liabilities, respectively. Deferred government grants of nil, RMB4,800, RMB6,003 and RMB172 are recorded in accrued expenses and other payables, respectively, in the consolidated balance sheets as of December 31, 2017, 2018 and 2019, and June 30, 2020.

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(g) Capitalized interest

A reconciliation of total interest costs to “Interest expenses” as reported in the consolidated statements of operations for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020 is as follows:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Total interest cost	466,460	749,730	1,040,898	510,568	598,296
Less: interest costs					
capitalized	<u>(54,457)</u>	<u>(93,544)</u>	<u>(72,205)</u>	<u>(43,877)</u>	<u>(29,001)</u>
Interest expenses.....	<u>412,003</u>	<u>656,186</u>	<u>968,693</u>	<u>466,691</u>	<u>569,295</u>

Interest costs that are directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. The capitalization of interest costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, interest costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of interest costs is ceased when the asset is substantially complete and ready for its intended use.

(h) Debt issuance costs

Debt issuance costs are capitalized and are amortized over the life of the related debts based on the effective interest method. Such amortization is included as a component of interest expense.

Unamortised debt issuance costs of RMB134,395, RMB203,779, RMB273,822 and RMB277,563 are presented as a reduction of debt as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively.

(i) Income tax

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

APPENDIX I**ACCOUNTANTS' REPORT**

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. The Company recognizes 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. The Company records interest related to unrecognized tax benefits in interest expense and penalties in general and administrative expenses.

(j) Share-based compensation

The Company accounts for the compensation cost from share-based payment transactions with employees based on the grant-date fair value of the equity instrument issued. The grant-date fair value of the 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. When no future services are required to be performed by the employee in exchange for an award of equity instruments, and if such award does not contain a performance or market condition, the cost of the award is expensed on the grant date. The Company recognizes compensation cost for an award with only service conditions that has a graded vesting schedule on a straight-line basis over the requisite service period for the entire award, provided that the cumulative amount of compensation cost recognized at any date at least equals the portion of the grant-date value of such award that is vested at that date.

Awards granted to employees with performance conditions attached are measured at fair value on the grant date and are recognized as the compensation expenses in the period and thereafter when the performance goal becomes probable to achieve. Awards granted to employees with market conditions attached are measured at fair value on the grant date and are recognized as the compensation expenses over the estimated requisite service period, regardless of whether the market condition has been satisfied if the requisite service period is fulfilled.

The Company recognizes the estimated compensation cost of service-based restricted share based on the fair value of its ordinary shares on the date of the grant. The Company recognizes the compensation cost, net of forfeitures, over its respective vesting term. The Company recognizes the estimated compensation cost of performance-based restricted share based on the fair value of its ordinary shares on the date of the grant. The rewards are earned upon attainment of identified performance goals. The Company recognizes the compensation cost, net of forfeitures, over the performance period. The Company also adjusts the compensation cost based on the probability of performance goal achievement at the end of each reporting period.

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The Company accounts for forfeitures when they occur. Compensation cost previously recognized are reversed in the period the award is forfeited, for an award that is forfeited before completion of the requisite service period.

Share-based payment transactions with nonemployees in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the earlier of either the date on which the counterparty's performance is complete or the date at which a commitment for performance by the counterparty to earn the equity instrument is reached.

For further information on share-based compensation, see Note 5 below.

(k) Employee benefits

Pursuant to relevant PRC regulations, the Company is required to make contributions to various defined contribution plans organized by municipal and provincial PRC governments. The contributions are made for each PRC employee at rates ranging from 28% to 49% on a standard salary base as determined by local social security bureau. Contributions to the defined contribution plans are charged to the consolidated statements of operations when the related service is provided.

(l) Foreign currency translation and foreign currency risks

The functional currency of GDS Holdings is the USD ("US\$"), whereas the functional currency of its subsidiaries and consolidated VIEs in PRC, subsidiaries in Hong Kong SAR and subsidiaries in Singapore is the RMB, Hong Kong dollar ("HKD") and Singapore dollar ("SGD"), respectively. The reporting currency of the Company is RMB as the major operations of the Company are within the PRC.

Transactions denominated in currencies other than the functional currency are re-measured into the functional currency at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are remeasured at the exchange rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical costs in foreign currency are re-measured using the exchange rates at the dates of the initial transactions. Exchange gains and losses are recognized in profit or loss and are reported in foreign currency exchange gain (loss) on a net basis.

The results of foreign operations are translated into RMB at the exchange rate as of the balance sheet date for assets and liabilities, the average daily exchange rate for each month for income and expense items and the historical exchange rates for equity accounts. Translation gains and losses are recorded in other comprehensive income and accumulated in the translation adjustment component of equity until the sale or liquidation of the foreign entity.

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The RMB is not a freely convertible currency. The PRC State Administration for Foreign Exchange, under the authority of the PRC government, controls the conversion of RMB to foreign currencies. The value of the RMB is subject to changes of central government policies and international economic and political developments affecting supply and demand in the China foreign exchange trading system market. The Company's cash and restricted cash denominated in RMB amounted to RMB458,971, RMB1,134,694, RMB2,119,758 and RMB2,693,980 as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively.

As of December 31, 2019, the Company's cash and restricted cash were deposited in major financial institutions located in PRC, Hong Kong SAR, US and Singapore, and were denominated in the following currencies:

	<u>RMB</u>	<u>USD</u>	<u>HKD</u>	<u>JPY</u>	<u>EUR</u>	<u>SGD</u>
In PRC.....	2,096,453	205,827	–	–	–	–
In Hong Kong						
SAR	23,305	46,973	240,357	27,547	153	–
In US	–	257,227	–	–	–	–
In Singapore	–	10,932	–	–	–	176
Total in original currency	<u>2,119,758</u>	<u>520,959</u>	<u>240,357</u>	<u>27,547</u>	<u>153</u>	<u>176</u>
RMB equivalent...	<u>2,119,758</u>	<u>3,634,318</u>	<u>215,312</u>	<u>1,765</u>	<u>1,200</u>	<u>909</u>

As of June 30, 2020, the Company's cash and restricted cash were deposited in major financial institutions located in PRC, Hong Kong SAR, US and Singapore, and were denominated in the following currencies:

	<u>RMB</u>	<u>USD</u>	<u>HKD</u>	<u>JPY</u>	<u>EUR</u>	<u>SGD</u>
In PRC.....	2,657,679	71,653	–	–	–	–
In Hong Kong						
SAR	36,301	17,641	210,906	30,909	146	–
In US	–	630,873	–	–	–	–
In Singapore	–	4,258	–	–	–	1,605
Total in original currency	<u>2,693,980</u>	<u>724,425</u>	<u>210,906</u>	<u>30,909</u>	<u>146</u>	<u>1,605</u>
RMB equivalent...	<u>2,693,980</u>	<u>5,128,567</u>	<u>192,641</u>	<u>2,034</u>	<u>1,166</u>	<u>8,155</u>

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(m) Concentration of credit risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash and cash equivalent, restricted cash, and accounts receivable. The Company's investment policy requires cash and cash equivalents and restricted cash to be placed with high-quality financial institutions and to limit the amount of credit risk from any one issuer. The Company regularly evaluates the credit standing of the counterparties or financial institutions.

The Company conducts credit evaluations on its customers prior to delivery of goods or services. The assessment of customer creditworthiness is primarily based on historical collection records, research of publicly available information and customer on-site visits by senior management. Based on this analysis, the Company determines what credit terms, if any, to offer to each customer individually. If the assessment indicates a likelihood of collection risk, the Company will not deliver the services or sell the products to the customer or require the customer to pay cash, post letters of credit to secure payment or to make significant down payments. Historically, credit losses on accounts receivable have been insignificant.

(n) Earnings (loss) per share

Basic earnings (loss) per ordinary share is computed by dividing net income (loss) attributable to the Company's ordinary shareholders by the weighted average number of ordinary shares outstanding during the year using the two-class method. Under the two-class method, net income (loss) attributable to the Company's ordinary shareholders is allocated between ordinary shares and other participating securities based on participating rights in undistributed earnings. The Company's redeemable preferred shares (Note 18) are participating securities since the holders of these securities participate in dividends on the same basis as ordinary shareholders. These participating securities are not included in the computation of basic loss per ordinary share in periods when the Company reports net loss, because these participating security holders have no obligation to share in the losses of the Company.

Diluted earnings (loss) per share is calculated by dividing net income (loss) attributable to the Company's ordinary shareholders as adjusted for the effect of dilutive ordinary share equivalents, if any, by the weighted average number of ordinary and dilutive ordinary share equivalents outstanding during the year. Ordinary share equivalents include the ordinary shares issuable upon the exercise of the outstanding share options (using the treasury stock method) and conversion of redeemable preferred shares and convertible bonds (using the as-if-converted method). Potential dilutive securities are not included in the calculation of diluted earnings (loss) per share if the impact is anti-dilutive.

(o) Cash and cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company does not have any cash equivalents as of December 31, 2017, 2018 and 2019, and June 30, 2020.

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(p) Restricted cash

Restricted cash represents amounts held by banks, which are not available for the Company's use, as security for bank borrowings, related interests and certain special capital expenditures. Upon repayment of bank borrowings and the related interests, the deposits are released by the bank and available for general use by the Company.

(q) Fair value of financial instruments

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels (Note 20 to the consolidated financial statements):

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

(r) Contract balances

The timing of revenue recognition, billings and cash collections result in accounts receivable, contract assets and contract liabilities (i.e. deferred revenue). Accounts receivable are recorded at the invoice amount, net of an allowance for doubtful account and is recognized in the period when the Company has transferred products or provided services to its customers and when its right to consideration is unconditional. Amounts collected on accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. Prior to the adoption of ASC 326, *Financial Instruments – Credit Loss*, the Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and customers' financial condition, the amount of receivables in dispute, the accounts receivable aging, and the customers' repayment patterns. The Company reviews its allowance for doubtful accounts on a customer-by-customer basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

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Upon adoption of ASC 326 starting from January 1, 2020, the provision of credit losses for accounts receivable is based upon the current expected credit losses ("CECL") model. The CECL model requires an estimate of the credit losses expected over the life of accounts receivable since initial recognition, and accounts receivable with similar risk characteristics are grouped together when estimating CECL. In assessing the CECL, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical credit loss experience, adjusted for relevant factors impacting collectability and forward-looking information indicative of external market conditions. While the Company uses the best information available in making determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond the Company's control. Accounts receivable that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts. The Company does not have any off-balance-sheet credit exposure related to its customers.

A contract asset exists when the Company has transferred products or provided services to its customers but customer payment is contingent upon satisfaction of additional performance obligations. Contract assets are recorded in other current assets and other assets in the consolidated balance sheet.

Deferred revenue (a contract liability) is recognized when the Company has an unconditional right to a payment before it transfers goods or services to customers.

(s) Equity Method Investments

The Company's investments in entities in which the Company can exercise significant influence but does not own a majority equity interest or control are generally accounted for under the equity method of accounting, as the Company concluded it does not have control, but has the ability to exercise significant influence over the investees. Equity method investments are initially measured at cost, and are subsequently adjusted for cash contributions, distributions and the Company's share of the income and losses of the investees. The Company records its equity method investment in other non-current assets in the consolidated balance sheet. The Company's proportionate share of the income or loss from its equity method investment are recorded in others, net in the consolidated statement of operations. The Company reviews its investment periodically to determine if any investment may be impaired considering both qualitative and quantitative factors that may have a significant impact on the investees' fair value. The Company did not record any impairment charges related to its equity method investment for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020. Equity method investment is recorded in other non-current assets on the consolidated balance sheets.

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(t) Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any recorded impairment. Property and equipment acquired under finance leases are initially recorded at the present value of minimum lease payments.

Gains or losses arising from the disposal of an item of property and equipment are determined based on the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of disposal.

The estimated useful lives are presented below.

Land	Remaining lease terms
Buildings	Shorter of the lease term and 30 years
Data center equipment	
– Machinery	10 – 20 years
– Other equipment	3 – 5 years
Leasehold improvement	Shorter of the lease term and the estimated useful lives of the assets
Furniture and office equipment	3 – 5 years
Vehicles	5 years

Construction in progress primarily consists of the cost of data center buildings and the related construction expenditures that are required to prepare the data center buildings for their intended use.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use. Once a data center building is ready for its intended use and becomes operational, construction in progress is transferred to the respective category of property and equipment and is depreciated over the estimated useful life of the underlying assets.

Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. For assets acquired under a finance lease, the assets are amortized in a manner consistent with the Company's normal depreciation policy for owned assets if the lease transfers ownership to the Company by the end of the lease term or contains a bargain-purchase-option. Otherwise, assets acquired under a finance lease are amortized over the lease term.

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(u) Long-lived assets held for sale

Long-lived assets are classified as held-for-sale if: (1) the Company has committed to a plan to sell the assets that are available for sale in its present condition, including initiating actions to complete the sale that is probable to qualify for as a completed sale within one year; (2) it is unlikely that significant changes to the plan will be made or the plan will be withdrawn; (3) the assets are being marketed for sale at a price that is reasonable in related to its current value. Long-lived assets held for sale are recorded at the lower of carrying value and fair value less cost to sell. A loss shall be recognized for any initial or subsequent write-down to fair-value less cost to sell. Long-lived assets held for sale are not depreciated while classified as held for sale.

(v) Leases

The Company is a lessee in several non-cancellable operating leases and finance leases, primarily for data centers, lands, offices and other equipment. The Company adopted ASC 842 on January 1, 2019, using a modified retrospective method.

Accounting for leases before adoption of ASC 842, Leases

Before adoption of ASC 842, the Company accounted for leases in accordance with ASC 840, *Leases*, according to which, leases were classified at the lease inception date as either a capital lease or an operating lease. A lease was a capital lease if any of the following conditions existed: a) ownership is transferred to the lessee by the end of the lease term, b) there is a bargain purchase option, c) the lease term is at least 75% of the property's estimated remaining economic life, or d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date. The Company recorded a capital lease as an asset and an obligation at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term.

If at any time the lessee and lessor agree to change the provisions of the lease, other than by renewing the lease or extending its term, in a manner that would have resulted in a different classification of the lease under the lease classification criteria had the changed terms been in effect at lease inception, the revised agreement was considered as a new agreement over its term, and the lease classification criteria was applied for purposes of classifying the new lease.

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The Company recorded an asset and related financing obligation for the estimated construction costs under build-to-suit lease arrangements where it was considered the owner for accounting purposes, to the extent the Company was involved in the construction of the building or structural improvements or had construction risk prior to commencement of a lease. Upon completion of the construction and commencement of the lease terms, the Company assessed whether these arrangements qualify for sales recognition under the deemed sale-leaseback transaction. If the arrangements did not qualify for sales recognition under the sale-leaseback accounting guidance, the Company continued to be the deemed owner of the build-to-suit assets for financial reporting purposes. The Company kept the construction costs of the assets on its balance sheet. In addition, lease payments less the portion considered to be interest expense decreased the financing liability.

Rental costs on operating leases were charged to expense on a straight-line basis over the lease term. Certain operating leases contain rent holidays and escalating rent. Rent holidays and escalating rent were considered in determining the straight-line rent expense to be recorded over the lease term. Rental costs associated with building operating leases that were incurred during the construction of leasehold improvements and to otherwise ready the property for the Company's intended use were recognized as rental expenses and were not capitalized.

Accounting for leases after adoption of ASC 842, Leases

The Company determines if an arrangement is or contains a lease at its inception.

The Company recognizes lease liabilities and right-of-use ("ROU") assets at lease commencement date. Lease liabilities are initially and subsequently measured at the present value of unpaid lease payments at the lease commencement date and is subsequently measured at amortized cost using the effective-interest method. Since most of the Company's leases do not provide an implicit rate, the Company uses its own incremental borrowing rate on a collateralized basis in determining the present value of unpaid lease payments.

ROU assets are initially measured at cost, which consist of (i) initial measurement of the lease liability; (ii) lease payments made to the lessor at or before the commencement date less any lease incentives received; and (iii) initial direct costs incurred by the Company. Variable lease payments are excluded from the measurement of ROU assets and lease liabilities and are recognized in the period in which the obligation for those payments is incurred. For operating leases, the Company recognizes a single lease cost on a straight-line basis over the remaining lease term. For finance leases, the ROU assets are subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term. Amortization of the ROU assets are recognized and presented separately from interest expense on the lease liability.

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ROU assets for operating and finance leases are periodically reduced by impairment losses. The Company uses the long-lived assets impairment guidance in ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*, to determine whether a ROU asset is impaired, and if so, the amount of the impairment loss to recognize.

Prior to the adoption of ASC 842, prepayment for land use rights are presented as prepaid land use rights on the consolidated balance sheet and are measured at cost and subsequently amortized using the straight-line method. Upon the adoption of ASC 842 on January 1, 2019, land use rights acquired are assessed in accordance with ASC 842 and recognized in operating lease right-of-use assets if they meet the definition of operating lease, or property and equipment if they meet the definition of finance lease.

The Company has elected not to recognize ROU assets and lease liabilities for short-term leases (i.e. leases that, at the commencement date, have a lease term of 12 months or less and do not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise).

The Company records an asset and related financing obligation for the estimated construction costs under build-to-suit lease arrangements where it controls the asset during construction. Upon completion of the construction and commencement of the lease terms, the Company assesses whether these arrangements qualify for sales recognition under the deemed sale-leaseback transaction. If the arrangements do not qualify for sales recognition under the sale-leaseback accounting guidance, the Company continues to be the deemed owner of the build-to-suit assets for financial reporting purposes. The Company keeps the construction costs of the assets on its balance sheet. In addition, lease payments less the portion considered to be interest expense decrease the financing liability.

If a lease is modified and that modification is not accounted for as a separate contract, the classification of the lease is reassessed as of the effective date of the modification based on its modified terms and conditions and the facts and circumstances as of that date.

(w) Asset retirement costs

The Company's asset retirement obligations are primarily related to its data center buildings, of which the majority are leased under long-term arrangements, and, in certain cases, are required to be returned to the landlords in their original condition.

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.

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Asset retirement obligations are recorded in other long-term liabilities. The following table summarizes the activity of the asset retirement obligation liability:

Asset retirement obligations as of January 1, 2017	9,305
Additions	7,394
Accretion expense	949
	<hr/>
Asset retirement obligations as of December 31, 2017	17,648
Additions	16,391
Accretion expense	1,840
	<hr/>
Asset retirement obligations as of December 31, 2018	35,879
Additions	13,572
Accretion expense	2,990
	<hr/>
Asset retirement obligations as of December 31, 2019	52,441
Additions	8,438
Accretion expense	1,840
	<hr/>
Asset retirement obligations as of June 30, 2020	62,719
	<hr/> <hr/>

(x) Intangible assets

Intangible assets acquired in the acquisitions comprised of customer relationships and licenses.

The weighted-average amortization period by major intangible asset class is as follows:

Customer relationships	5-15 years
Licenses	20 years

Customer relationships represent the orders, backlog and customer lists, which arise from contractual rights or through means other than contracts. Customer relationships are amortized using a straight-line method, as the pattern in which the economic benefits of the intangible assets are consumed or used up cannot be reliably determined. The amortization period of customer relationships is determined based on the remaining contractual period of the contracts with the customers at the time of acquisition and an estimate of the contract renewal period.

Licenses are amortized using a straight-line method over the estimated beneficial period. The amortization period of licenses is determined based on the terms of those licenses.

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The intangible assets before January 1, 2019 also include favorable leases acquired in the acquisitions with weighted-average amortization period of 13 to 20 years. Favorable lease was recognized as an intangible asset if the terms of the acquiree's operating lease were favorable relative to market terms. Favorable lease was amortized on a straight-line method over the lease term. Upon adoption of ASC 842, *Leases* on January 1, 2019, favorable leases were reclassified to operating lease ROU assets.

(y) **Prepaid land use rights**

The land use rights represent the amounts paid and relevant costs incurred for the rights to use land in the PRC and Hong Kong SAR acquired before the adoption of ASC 842, and are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the remaining terms of the land use right ranging from 27 to 42 years.

(z) **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.

The Company has 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. In assessing the qualitative factors, the Group considered the impact of key factors such as changes in the general economic conditions

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including the impact of COVID-19, changes in industry and competitive environment, stock price, actual revenue performance compared to previous years, and cash flow generation. Based on the results of the qualitative assessment completed as of December 31, 2017, 2018 and 2019, and June 30, 2020, there were no indicators of impairment. 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.

(aa) Impairment of long-lived assets

Long-lived assets (primarily 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, the Company first compares undiscounted cash flows generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived assets 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 the 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.

(bb) Value-added-tax ("VAT")

Entities that are VAT general taxpayers are permitted to offset qualified input VAT paid to suppliers against their output VAT upon receipt of appropriate supplier VAT invoices on an entity by entity basis. When the output VAT exceeds the input VAT, the difference is remitted to tax authorities, usually on a monthly basis; whereas when the input VAT exceeds the output VAT, the difference is treated as VAT recoverable which can be carried forward indefinitely to offset future net VAT payables. VAT related to purchases and sales which have not been settled at the balance sheet date is disclosed separately as an asset and liability, respectively, in the consolidated balance sheets.

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As of December 31, 2017, 2018 and 2019, and June 30, 2020, the Company recorded a VAT recoverable of RMB112,067, RMB163,476, RMB129,994 and RMB114,575 in current assets, and RMB290,065, RMB488,526, RMB888,483 and RMB1,129,440 in non-current assets, respectively. The Company also recorded VAT payables of RMB11,213, RMB11,350 RMB7,886 and RMB16,663 in accrued expenses and other payables, respectively, in the consolidated balance sheets as of December 31, 2017, 2018 and 2019, and June 30, 2020.

(cc) Derivative financial instruments

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

The Company entered into interest rate swap and foreign currency forward contracts primarily for the purpose to manage the interest rate risk for the long-term borrowings. The Company has elected not to apply hedge accounting to these derivative instruments and recognized all derivatives on the Company's consolidated balance sheets at fair value. The Company estimates the fair value of its interest rate swap and foreign currency forward contracts using a pricing model based on market observable inputs. Fair value gains or losses associated with interest rate swap and foreign currency forward contracts are recorded within interest expenses and foreign exchange gain/(loss) in the Company's consolidated statements of operations. Cash received or paid for realized gains or losses associated with interest rate swap and foreign currency forward contracts are included in operating cash flows in the consolidated statements of cash flows.

For further information on derivative financial instruments, see Note 19 below.

(dd) Commitment and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(ee) Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

- 1) The Company adopted ASC 606 *Revenue from Contracts with Customers* on January 1, 2018. The Company 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. The Company elects to apply this guidance retrospectively only to contracts that are not completed contracts as of January 1, 2018. Therefore, the comparative information has not been adjusted and continues to be reported under ASC 605 *Revenue Recognition*.

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Certain sales agreement of the Company contains contingent consideration terms regarding the IT equipment sales. Before the adoption of ASC 606, the allocation of arrangement consideration to the delivered items is limited to amounts of revenue that are not contingent. Upon the adoption of ASC 606, sales are recognized as the Company transfers control of the promised products or services to the customers. The revenue recognition of such IT equipment sales was accelerated as the control transfers. The Company estimates variable consideration to which it expects to be entitled, given consideration to the risk of revenue reversal in making the estimate. As a result, the Company made an adjustment to decrease the opening balance of accumulated deficit by RMB726 at January 1, 2018.

The impact for adoption of ASC 606 to the Company's consolidated statement of operations for the year ended December 31, 2018 is as follows:

Consolidated Statement of Operations:

	Year ended December 31, 2018	Adjustments	Amounts without adoption of ASC 606
Net revenue.....	2,792,077	1,569	2,793,646
Cost of revenue.....	(2,169,636)	(843)	(2,170,479)
Income from operations	168,355	726	169,081
Net loss.....	(430,268)	726	(429,542)
Loss per ordinary share			
Basic and diluted.....	(0.43)	0.00	(0.43)

- 2) The Company adopted ASC 842, *Leases* on January 1, 2019. The Company applied ASC 842 using a modified retrospective transition method on all leases existing at January 1, 2019, the date of initial application. As a result, the Company was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods before January 1, 2019.

The Company has elected the package of the transition practical expedients, including (1) not to reassess whether any expired or existing contracts, including land easements that were not previously accounted for as leases, are or contain leases, (2) not to reassess the lease classification for any expired or existing leases, and (3) not to reassess initial direct costs for any existing leases.

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As a practical expedient, the Company has elected that for all leases, where it is the lessee, not to separate non-lease components from lease components and instead to account for all lease and non-lease components associated with each lease as a single lease component. The Company did not elect the practical expedient to use hindsight for leases existing at the adoption date.

Adoption of the standard had a significant impact on the Company's financial results, including the (1) recognition of new ROU assets and liabilities for operating leases; (2) reclassification of intangible assets for favorable leases for operating leases to ROU assets; and (3) de-recognition of other financing obligations and construction in progress for assets under construction in build-to-suit lease arrangements. The adoption of ASC 842 does not have impact to the accumulated deficit of the Company as of January 1, 2019.

The impact for adoption of ASC 842 to the related items of the Company's consolidated balance sheet as of January 1, 2019 is as follows:

	Balances at December 31, 2018	Adjustments due to adoption of ASC 842	Balances at January 1, 2019
Assets			
Prepaid expenses.....	64,843	2,051	66,894
Property and equipment, net.....	13,994,945	(336,719)	13,658,226
Intangible assets, net.....	482,492	(44,552)	437,940
Operating lease ROU assets.....	–	513,961	513,961
Liabilities			
Accounts payable.....	1,508,020	(3,864)	1,504,156
Accrued expenses and other payables.....	476,564	(13,085)	463,479
Operating lease liabilities, current.....	–	67,006	67,006
Operating lease liabilities, non-current.....	–	416,601	416,601
Finance lease and other financing obligations, non-current.....	4,134,327	(331,917)	3,802,410

In addition, the account caption of "Capital lease and other financing obligations" was changed to "Finance lease and other financing obligations" upon adoption of ASC 842.

- 3) The Company adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* on January 1, 2018. According to this ASU, the amounts generally described as restricted cash are included within cash when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated

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statements of cash flows using a retrospective transition method to each period. As a result of the adoption of ASU 2016-18, the consolidated statement of cash flows was retrospectively adjusted by excluding the increase of restricted cash of RMB9,762 from cash flows from operating activities, RMB3,619 from cash flows from investing activities and RMB33,100 from cash flows from financing activities for the year ended December 31, 2017. A reconciliation of cash and restricted cash in the consolidated balance sheets to the amounts in the consolidated statements of cash flows is in Note 7.

- 4) The Company adopted ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* on January 1, 2018. According to this ASU, cash payments not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be separated and classified as cash outflows for financing activities and operating activities. Cash payments up to the amount of the contingent consideration liability recognized at the acquisition date (including measurement-period adjustments) should be classified as financing activities; any excess should be classified as operating activities. Cash payments made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be classified as cash outflows for investing activities. The amendments in this ASU should be applied using a retrospective transition method to each period presented. As a result of the adoption of ASU 2016-15, the consolidated statement of cash flows for the year ended December 31, 2017 was retrospectively adjusted by reclassifying the payment of contingent consideration for acquisition of subsidiaries of RMB27,105 from investing activities to cash flows from operating activities and financing activities of RMB2,966 and RMB24,139, respectively.
- 5) The Company adopted ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* on January 1, 2018. This ASU requires the recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, which consequently eliminates the exception for an intra-entity transfer of an asset other than inventory to the recognition of current and deferred income taxes. Deferred tax assets recognized as a result of this ASU shall be assessed for realizability. ASU 2016-16 was applied on a modified retrospective basis, with a cumulative-effect adjustment directly to accumulated deficit of the Company as of January 1, 2018, and the comparative information is not adjusted. The adoption of this ASU does not have impact to the accumulated deficit of the Company as of January 1, 2018.
- 6) The Company adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* on January 1, 2020. This ASU changes the fair value measurement disclosure requirements of ASC 820. Under this ASU, key provisions include new, eliminated and modified disclosure. The adoption of this ASU does not have a material impact on the consolidated financial statements.

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- 7) The Company adopted ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* on January 1, 2020. This ASU is to simplify the subsequent measurement of goodwill. The ASU eliminates step 2 from the goodwill impairment test and the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This ASU is applied on a prospective basis. The adoption of this standard does not have impact on the Company's consolidated financial statements.

- 8) The Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, and subsequent amendments to the initial guidance within ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-11 and ASU 2020-02, collectively referred to as "ASC 326" on January 1, 2020 using the modified retrospective approach. ASC 326 requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASC 326 eliminates the probable initial recognition threshold in current GAAP and, instead, reflects an entity's current estimate of all expected credit losses. This adoption did not have material impact on the Company's consolidated financial statements.

New Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued 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. The Company is currently evaluating the impact the adoption of this standard will have on its 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

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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. The Company is currently evaluating the impact on the adoption of this standard will have on its 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. The Company is currently evaluating the impact on the adoption of this standard will have on its consolidated financial statements.

3 REVENUE

Net revenue consisted of the following:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
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	<u>1,616,166</u>	<u>2,792,077</u>	<u>4,122,405</u>	<u>1,877,030</u>	<u>2,582,623</u>

4 INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands, GDS Holdings is not subject to any income tax in the Cayman Islands.

The Company’s PRC entities are subject to the PRC Corporate Income Tax (“CIT”) rate of 25%.

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The Company's Hong Kong SAR entities are subject to the Hong Kong SAR Profits Tax rate of 16.5%. A two-tiered Profits Tax rates regime was introduced since year 2018 where the first HK\$2 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.

The Company's Singapore entities are subject to the Singapore CIT rate of 17%.

The operating results before income tax and the provision for income taxes by tax jurisdictions for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020 is as follows:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Loss (income) before income taxes:					
PRC	130,961	237,232	68,080	59,174	(46,466)
Other jurisdictions.....	202,015	202,427	358,353	157,788	197,457
Total loss before income taxes.....	332,976	439,659	426,433	216,962	150,991
Current tax expenses:					
PRC	5,546	27,206	65,819	33,669	102,351
Other jurisdictions.....	-	-	3	-	-
Total current tax expenses ...	5,546	27,206	65,822	33,669	102,351
Deferred tax benefits:					
PRC	(11,683)	(36,597)	(50,172)	(20,852)	(60,264)
Other jurisdictions.....	61	-	-	-	-
Total deferred tax benefits...	(11,622)	(36,597)	(50,172)	(20,852)	(60,264)
Total income taxes (benefits) expenses.....	(6,076)	(9,391)	15,650	12,817	42,087

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The actual income tax expense reported in the consolidated statements of operations differs from the amount computed by applying the PRC statutory income tax rate to loss before income taxes due to the following:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
PRC enterprise income tax rate	25.0%	25.0%	25.0%	25.0%	25.0%
Non-PRC Resident Enterprises not subject to income tax	(14.8)%	(9.2)%	(21.4)%	(16.8)%	(43.4)%
Tax differential for entities in non-PRC jurisdiction...	(0.8)%	(1.2)%	(1.4)%	(1.3)%	(2.5)%
Preferential tax rate	0.0%	0.0%	0.0%	0.0%	(0.8)%
Tax effect of current year/period permanent differences	0.0%	(1.3)%	1.5%	0.0%	3.3%
Non-taxable income	0.0%	0.0%	0.0%	0.0%	9.1%
Expiration of unused net operating losses	(2.6)%	(10.1)%	(1.4)%	0.0%	0.0%
Change in valuation allowance	(5.2)%	(1.0)%	(8.7)%	(17.0)%	(23.4)%
Return to provision adjustment	0.2%	(0.1)%	2.7%	4.2%	4.8%
	<u>1.8%</u>	<u>2.1%</u>	<u>(3.7)%</u>	<u>(5.9)%</u>	<u>(27.9)%</u>

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The components of deferred tax assets and liabilities are as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Deferred tax assets:				
Allowance for accounts receivable	–	48	12	104
Government subsidy	4,197	3,643	3,127	1,592
Accrued expenses	14,024	26,867	27,601	35,741
Asset retirement obligation	4,412	8,970	13,110	15,680
Leases	–	–	–	13,457
Net operating loss carry forwards	<u>170,267</u>	<u>192,505</u>	<u>267,159</u>	<u>322,473</u>
Total gross deferred tax assets..	192,900	232,033	311,009	389,047
Valuation allowance on deferred tax assets.....	<u>(152,241)</u>	<u>(155,852)</u>	<u>(205,976)</u>	<u>(246,750)</u>
Deferred tax assets, net of valuation allowance.....	<u>40,659</u>	<u>76,181</u>	<u>105,033</u>	<u>142,297</u>
Deferred tax liabilities:				
Property and equipment	(52,417)	(80,544)	(171,656)	(148,284)
Intangible assets	(82,305)	(116,156)	(97,102)	(137,878)
Prepaid land use rights	(1,693)	(1,653)	(1,612)	(1,592)
Leases	(14,216)	(12,732)	(9,568)	–
Accounts receivable	–	–	(4,836)	–
Total deferred tax liabilities.....	<u>(150,631)</u>	<u>(211,085)</u>	<u>(284,774)</u>	<u>(287,754)</u>
Net deferred tax liabilities	<u>(109,972)</u>	<u>(134,904)</u>	<u>(179,741)</u>	<u>(145,457)</u>
Analysis as:				
Deferred tax assets	14,305	36,974	72,931	136,809
Deferred tax liabilities	<u>(124,277)</u>	<u>(171,878)</u>	<u>(252,672)</u>	<u>(282,266)</u>
Net deferred tax liabilities	<u>(109,972)</u>	<u>(134,904)</u>	<u>(179,741)</u>	<u>(145,457)</u>

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The following table presents the movement of the valuation allowance for the deferred tax assets:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Balance at the beginning of the year/period.....	134,935	152,241	155,852	155,852	205,976
Increase during the year/period.....	17,306	3,611	50,124	37,142	40,774
Balance at the end of the year/period.....	<u>152,241</u>	<u>155,852</u>	<u>205,976</u>	<u>192,994</u>	<u>246,750</u>

As of December 31, 2019, the Company’s net deferred tax assets were RMB72,931, which is net of a valuation allowance of RMB205,976. The deferred tax assets for net operating loss carry forwards and related valuation allowance were RMB235,057 and RMB181,985, respectively as of December 31, 2019. As of June 30, 2020, the Company’s net deferred tax assets were RMB136,809, which is net of a valuation allowance of RMB246,750. The deferred tax assets for net operating loss carry forwards and related valuation allowance were RMB316,985 and RMB207,304, respectively as of June 30, 2020. This valuation allowance was related to the deferred tax assets of certain subsidiaries of the Company. These entities were in a cumulative loss position with net operating loss carry forwards which are subject to expiration. Management evaluated the realizability of the deferred tax assets associated with the Company’s net operating loss carry forwards to determine whether there was more than a 50% likelihood that these deferred tax assets would be realized, based on the Company’s expectations of future taxable income and timing of net operating losses carry forwards expirations. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or utilized. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

The net operating losses carry forwards of the Company’s PRC subsidiaries amounted to RMB978,738 as of December 31, 2019, of which RMB52,656, RMB70,408, RMB146,464, RMB292,983 and RMB416,227 will expire if unused by December 31, 2020, 2021, 2022, 2023 and 2024, respectively.

The net operating losses carry forwards of the Company’s PRC subsidiaries amounted to RMB1,175,104 as of June 30, 2020, of which RMB28,534, RMB42,796, RMB95,686, RMB290,251, RMB350,896 and RMB366,941 will expire if unused by December 31, 2020, 2021, 2022, 2023, 2024 and 2025, respectively.

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Uncertainties exist with respect to how the current income tax law in the PRC applies to the Company's overall operations, and more specifically, with regard to tax residency status. The 2008 Enterprise Income Tax Law (the "EIT 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 EIT 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, the Company does not believe that the legal entities organized outside the PRC should be treated as residents for EIT Law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC are deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%.

If the Company were to be non-resident for PRC tax purposes, dividends paid to it from profits earned by the PRC subsidiaries after January 1, 2008 would be subject to a withholding tax. The EIT 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. The Company has 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 the Company plans to permanently reinvest these earnings in the PRC. Each of the PRC subsidiaries does not have a plan to pay dividends in the foreseeable future and intends to retain any future earnings for use in the operation and expansion of its business in the PRC.

5 SHARE-BASED COMPENSATION

Equity Incentive Plans

The Company adopted the 2014 Equity Incentive Plan (the 2014 Plan) in July 2014 for the granting of share options to key employees, directors and external consultants in exchange for their services. The total number of shares, which may be issued under the 2014 Plan, is 29,240,000 shares.

The Company adopted the 2016 Equity Incentive Plan (the 2016 Plan) in August 2016 for the granting of share options, stock appreciation rights and other stock-based award (collectively referred to as the Awards) to key employees and directors. The maximum aggregate number of shares, which may be subject to Awards under the Plan, is 56,707,560 shares, provided, however, that the maximum aggregate number of shares are subject to certain automatic approval mechanism up to 3% of total issued and outstanding shares of the Company, if and whenever the shares which may be subject to equity awards under the 2016 Plan accounts for less than 1.5% of the Company's total issued and outstanding shares.

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In June 2018, the Company granted 500,000 share options under the 2014 Plan to an external consultant at an exercise price of US\$0.7792 (RMB5.0) per option, which were immediately vested. The options have a contractual term of five years. The Company recognized the fair value of such options granted and vested amounted to US\$2,429 (RMB16,073) immediately to profit and loss. The fair value of such options was determined to be approximately the difference between the grant date share price and the exercise price.

A summary of the option activity is as follows:

	<u>Number of options</u>	<u>Weighted average exercise price</u> (RMB)	<u>Weighted average grant-date fair value per option</u> (RMB)
Options outstanding at January 1, 2017	28,589,782	5.2	3.2
Granted	333,334	5.2	10.6
Exercised.....	(816,880)	5.3	1.9
Forfeited.....	<u>(19,000)</u>	5.3	1.9
Options outstanding at December 31, 2017.....	28,087,236	5.1	3.2
Granted	500,000	5.0	31.2
Exercised.....	(3,614,464)	5.2	4.5
Forfeited.....	<u>(193,340)</u>	5.0	6.2
Options outstanding at December 31, 2018.....	24,779,432	5.3	2.2
Granted	-		
Exercised.....	(10,150,336)	5.6	3.5
Forfeited.....	<u>-</u>		
Options outstanding at December 31, 2019.....	14,629,096	5.4	1.7
Exercised.....	<u>(13,960,096)</u>	5.5	1.6
Options outstanding at June 30, 2020	<u>669,000</u>	5.5	2.9
Options vested and expect to vest at December 31, 2019	<u>14,629,096</u>	5.4	1.7
Options vested and expect to vest at June 30, 2020.....	<u>669,000</u>	5.5	2.9

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Total intrinsic value of options exercised was RMB5,535, RMB77,917, RMB266,863, RMB204,449 (unaudited) and RMB615,542, respectively, for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020.

The following table summarizes information with respect to stock options outstanding and stock options exercisable as of December 31, 2019:

	<u>Number of shares</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price (RMB)</u>
Options outstanding and exercisable.....	<u>14,629,096</u>	1.0	5.4

The following table summarizes information with respect to stock options outstanding and stock options exercisable as of June 30, 2020:

	<u>Number of shares</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price (RMB)</u>
Options outstanding and exercisable.....	<u>669,000</u>	0.8	5.5

As of December 31, 2017, 2018 and 2019, and June 30, 2020, there were no unvested employee or non-employee stock options. Aggregate intrinsic value of options outstanding and exercisable as of December 31, 2019 and June 30, 2020 was RMB578,481 and RMB43,470, respectively.

Settlement of liability-classified restricted shares award

In May, August and November 2017, the Company issued a total of 502,000 fully vested restricted shares to its directors to settle a portion of their remuneration for services provided by the directors, which had been recorded in general and administrative expenses. The number of restricted shares issued was determined by the fair value of the restricted shares on the date of settlement and the share-settled portion of the liability of RMB4,462.

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In March, May, August and November 2018, the Company issued a total of 260,560 fully vested restricted shares to its directors to settle a portion of their remuneration for services provided by the directors, which had been recorded in general and administrative expenses. The number of restricted shares issued was determined by the fair value of the restricted shares on the date of settlement and the share-settled portion of the liability of RMB6,357.

In March, May, August and November 2019, the Company issued a total of 237,312 fully vested restricted shares to its directors to settle a portion of their remuneration for services provided by the directors, which had been recorded in general and administrative expenses. The number of restricted shares issued was determined by the fair value of the restricted shares on the date of settlement and the share-settled portion of the liability of RMB7,984.

In March and June 2020, the Company issued a total of 100,136 fully vested restricted shares to its directors to settle a portion of their remuneration for services provided by the directors, which had been recorded in general and administrative expenses. The number of restricted shares issued was determined by the fair value of the restricted shares on the date of settlement and the share-settled portion of the liability of RMB4,675.

Pursuant to ASC 480-10-25-14, such award that is share-settleable for a fixed monetary amount is a liability-classified award and therefore is re-measured each reporting period until settlement.

Upon issuance of the shares to settle the obligation, equity is increased by the amount of the liability settled in shares and no additional share-based compensation expense was recorded.

Restricted shares to directors, officers and employees

In December 2017, July 2018 and August 2019, the Company granted non-vested restricted shares of 13,475,060, 12,941,952 and 14,314,160, respectively, to employees, officers and directors. The restricted share awards contained service and market conditions, or service and performance conditions, which are tied to the financial performance of the Company. 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 the compensation expense using the graded-vesting method. The value of restricted shares with performance conditions attached is recognized as compensation expense using the graded-vesting method only when the achievement of performance conditions becomes probable. For restricted shares with market conditions, the probability to achieve market conditions is reflected in the grant date fair value.

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A summary of the restricted share activity is as follows:

	Number of Shares	Weighted average grant-date fair value per share (RMB)
Unvested at January 1, 2017	12,910,080	6.0
Granted	13,977,060	5.2
Vested	(2,123,120)	8.5
Forfeited.....	(238,400)	6.8
Unvested at December 31, 2017	24,525,620	5.3
Granted	13,202,512	14.5
Vested	(7,326,620)	6.0
Forfeited.....	(891,008)	5.9
Unvested at December 31, 2018	29,510,504	9.3
Granted	14,551,472	34.2
Vested	(9,122,432)	9.3
Forfeited.....	(1,582,248)	10.7
Unvested at December 31, 2019	33,357,296	22.4
Granted	100,136	46.8
Vested	(3,611,936)	8.0
Forfeited.....	(656,248)	8.2
Unvested at June 30, 2020.....	<u>29,189,248</u>	24.6

The Company recognized share-based compensation expenses of RMB56,237, RMB89,804, RMB189,447, RMB62,795 (unaudited) and RMB133,842 for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, respectively, for the restricted share awards. As of December 31, 2019, total unrecognized compensation expense relating to the unvested shares was RMB360,461, which 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 RMB229,750, which is expected to be recognized over a weighted average period of 1.52 years using the graded-vesting attribution method. The Company 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-month periods ended June 30, 2019 and 2020.

Total intrinsic value of restricted shares vested was RMB16,596, RMB160,264, RMB311,923, RMB74,940 (unaudited) and RMB182,254, respectively, for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020. Aggregate intrinsic value of unvested restricted shares as of December 31, 2019 and June 30, 2020 was RMB1,500,376 and RMB2,057,665, respectively.

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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	1.29 – 1.63%	2.047% – 2.418%	1.67% – 1.88%
Volatility	20.43 – 21.48%	71.85%	63.22%
Expected dividend yield...	0.00%	0.00%	0.00%
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

(1) Volatility

Expected volatility is assumed based on the historical volatility of the Company’s comparable companies or the Company in the period equal to the expected term of each grant.

(2) Risk-free interest rate

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

(3) Dividend yield

The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the restricted shares.

A summary of share-based compensation expenses for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020 is as follows:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Costs of revenue.....	9,941	18,008	46,007	14,858	34,439
Selling and marketing expenses	18,390	25,213	39,436	14,697	26,124
General and administrative expenses	30,866	61,707	101,949	32,509	71,527
Research and development expenses	646	949	2,364	870	1,752
Total share-based compensation expenses....	<u>59,843</u>	<u>105,877</u>	<u>189,756</u>	<u>62,934</u>	<u>133,842</u>

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6 LOSS PER ORDINARY SHARE

The computation of basic and diluted loss per share is as follows:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Net loss	(326,900)	(430,268)	(442,083)	(229,779)	(193,078)
Change in redemption value of redeemable preferred shares .	-	-	(17,760)	(17,760)	-
Cumulative dividend on redeemable preferred shares .	-	-	(40,344)	(13,472)	(26,667)
Net loss attributable to ordinary shareholders.....	(326,900)	(430,268)	(500,187)	(261,011)	(219,745)
Weighted average number of ordinary shares outstanding - basic and diluted	784,566,371	990,255,959	1,102,953,366	1,070,590,091	1,186,168,652
Loss per ordinary share - basic and diluted	(0.42)	(0.43)	(0.45)	(0.24)	(0.19)

Note: During the years ended December 31, 2017 and 2019, the Company issued 20,000,000 and 48,962,896 ordinary shares, respectively, to its share depository bank, which have been and will continue to be used to settle stock option and restricted share awards upon their exercise. No consideration was received by the Company for this issuance of ordinary shares. These ordinary shares are legally issued and outstanding but are treated as escrowed shares for accounting purposes and, therefore, have been excluded from the computation of loss per ordinary share. Any ordinary shares not used in the settlement of stock option and restricted share awards will be returned to the Company.

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The following securities were excluded from the computation of diluted loss per share as inclusion would have been anti-dilutive. The share options and restricted shares below represented the maximum number of shares to be issued.

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Share options/Restricted shares	52,612,856	54,289,936	47,986,392	43,134,256	29,858,248
Convertible bonds payable	–	46,527,600	46,527,600	46,527,600	46,527,600
Total	<u>52,612,856</u>	<u>100,817,536</u>	<u>94,513,992</u>	<u>89,661,856</u>	<u>76,385,848</u>

7 CASH AND RESTRICTED CASH

A reconciliation of cash and restricted cash in the consolidated balance sheets to the amounts in the consolidated statements of cash flows is as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Cash	1,873,446	2,161,622	5,810,938	7,742,082
Restricted cash – current assets	10,837	87	34,299	112,756
Restricted cash – non-current assets	<u>63,317</u>	<u>123,039</u>	<u>128,025</u>	<u>171,705</u>
Total cash and restricted cash shown in the consolidated statements of cash flows	<u>1,947,600</u>	<u>2,284,748</u>	<u>5,973,262</u>	<u>8,026,543</u>

Restricted cash was mainly for the purpose of securing the repayment of long-term bank borrowings and related interests and certain specific capital expenditure.

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8 CONTRACT BALANCES

Accounts Receivable, Net

Accounts receivable, net consisted of the following:

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
				(unaudited)
Accounts receivable	364,654	541,355	881,177	1,388,987
Less: allowance for doubtful accounts	–	(241)	(133)	(452)
Accounts receivable, net	<u>364,654</u>	<u>541,114</u>	<u>881,044</u>	<u>1,388,535</u>
Including:				
– Current portion	364,654	536,842	879,962	1,388,535
– Non-current portion	–	4,272	1,082	–

As of December 31, 2017, 2018 and 2019, and June 30, 2020, the accounts receivable expected to be received after one year amounted to nil, RMB4,272, RMB1,082 and nil were recorded in other non-current assets in the consolidated balance sheet, respectively.

Accounts receivable of RMB136,043, RMB365,938, RMB520,382 and RMB949,474 was pledged as security for bank loans (Note 13) as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively. Accounts receivable of RMB115,349 was pledged as security for finance lease and other financing obligations (Note 16) as of June 30, 2020.

The following table presents the movement of the allowance for doubtful accounts:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Balance at the beginning of the year/period.....	–	–	241	241	133
Allowance made during the year/period.....	–	241	274	81	319
Write-off during the year/period.....	–	–	(382)	–	–
Balance at the end of the year/period.....	<u>–</u>	<u>241</u>	<u>133</u>	<u>322</u>	<u>452</u>

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During the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, the Company made an allowance on accounts receivable of nil, RMB241, RMB274, RMB81 (unaudited) and RMB319, respectively.

Deferred Revenue

The opening and closing balances of the Company’s deferred revenue are as following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Beginning balance.....	40,657	55,609	73,077	105,735
Increase/(Decrease)	14,952	17,468	32,658	(31,044)
Closing balance.....	55,609	73,077	105,735	74,691

The difference between the opening and closing balances of the Company’s deferred revenue primarily results from the timing difference between the satisfaction of the Company’s performance obligation and the customer’s payment. As of December 31, 2018 and 2019, and June 30, 2020, the deferred revenue expected to be recognized as revenue after one year amounted to nil, RMB15,419 and RMB14,865, respectively, were recorded in other long-term liabilities in the consolidated balance sheet. The amounts of revenue recognized during the years ended December 31, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020 from the respective opening deferred revenue balance of the year/period was RMB43,192, RMB66,500, RMB61,696 (unaudited) and RMB77,366, respectively.

Remaining performance obligations

The Company elected to apply the practical expedient that allows the Company not to disclose the remaining performance obligations for variable considerations. This includes usage-based contracts for certain colocation and managed hosting services.

As of December 31, 2019, approximately RMB1,693,411 of total revenues and deferred revenues are expected to be recognized in future periods, the majority of which will be recognized over the next three years.

As of June 30, 2020, approximately RMB1,296,829 of total revenues and deferred revenues are expected to be recognized in future periods, the majority of which will be recognized over the next three years.

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9 PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
At cost:				
Land.....	–	–	855,310	877,640
Buildings.....	2,693,843	4,382,469	5,964,048	8,198,521
Data center equipment	2,202,247	4,225,963	5,567,606	8,322,958
Leasehold improvement	2,243,691	4,239,601	6,111,733	6,955,273
Furniture and office equipment	36,762	45,057	61,974	74,858
Vehicles.....	2,972	4,086	4,115	4,141
	7,179,515	12,897,176	18,564,786	24,433,391
Less: Accumulated depreciation	(965,758)	(1,534,368)	(2,580,320)	(3,267,380)
	6,213,757	11,362,808	15,984,466	21,166,011
Construction in progress	1,951,844	2,632,137	3,200,173	3,376,940
Property and equipment, net	<u>8,165,601</u>	<u>13,994,945</u>	<u>19,184,639</u>	<u>24,542,951</u>

(1) The carrying amounts of the Company's property and equipment acquired under finance leases and other financing arrangement were RMB2,539,520, RMB4,570,666, RMB6,070,349 and RMB7,764,891 as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively.

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- (2) Depreciation of property and equipment (including assets acquired under finance leases and other financing arrangement) was RMB352,480, RMB682,451, RMB1,057,171, RMB481,288 (unaudited) and RMB668,067 for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, respectively, and included in the following captions:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Cost of revenue.....	345,025	674,560	1,045,446	476,361	631,329
General and administrative expenses.....	6,902	7,319	10,448	4,405	35,207
Research and development expenses.....	553	572	1,277	522	1,531
	<u>352,480</u>	<u>682,451</u>	<u>1,057,171</u>	<u>481,288</u>	<u>668,067</u>

- (3) Property and equipment with net a book value of RMB698,922, RMB1,716,736, RMB2,493,872 and RMB3,987,569 was pledged as security for bank loans (Note 13) and other financing obligations (Note 16) as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively.
- (4) As of December 31, 2017, 2018 and 2019, and June 30, 2020, payables for purchase of property and equipment that are contractually due beyond one year of RMB195,749, RMB206,591, RMB231,458 and RMB185,310, respectively, are recorded in other long-term liabilities in the consolidated balance sheets.

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10 INTANGIBLE ASSETS, NET

Intangible assets consisted of the following:

	Note	As of December 31,			As of
		2017	2018	2019	June 30,
					2020
Customer relationships	12	379,322	532,322	547,322	693,500
Favorable leases	12	15,500	49,500	-	-
Licenses.....		6,000	6,000	6,000	6,000
		400,822	587,822	553,322	699,500
Less: accumulated amortization		(52,356)	(105,330)	(158,694)	(141,529)
Intangible assets, net		<u>348,466</u>	<u>482,492</u>	<u>394,628</u>	<u>557,971</u>

The Company's customer relationships and favorable leases were acquired in business combinations (Note 12). Amortization of intangible assets was RMB25,103, RMB52,974, RMB58,312, RMB28,963 (unaudited) and RMB27,657 respectively for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020.

Estimated future amortization expense related to these intangible assets as of December 31, 2019 and June 30, 2020 is as follows:

Fiscal year ending December 31,	
2020	51,691
2021	51,691
2022	51,691
2023	50,149
2024	43,677
Thereafter.....	<u>145,729</u>
Total.....	<u>394,628</u>

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Twelve-month periods ending June 30,	
2021	76,864
2022	76,924
2023	76,782
2024	71,516
2025	65,814
Thereafter.....	<u>190,071</u>
 Total.....	 <u><u>557,971</u></u>

11 PREPAID LAND USE RIGHTS

Prepaid land use rights, representing the amounts paid and relevant costs incurred for the rights to use land in the PRC and Hong Kong SAR acquired before the adoption of ASC 842, consisted of the following:

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
Prepaid land use rights.....	28,370	765,114	782,319	797,134
Less: Accumulated amortization.....	<u>(2,125)</u>	<u>(8,157)</u>	<u>(35,132)</u>	<u>(49,454)</u>
 Prepaid land use rights, net.....	 <u>26,245</u>	 <u>756,957</u>	 <u>747,187</u>	 <u>747,680</u>

Amortization of prepaid land use rights was RMB547, RMB6,082, RMB26,393, RMB12,962 (unaudited) and RMB13,499 for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, respectively.

Prepaid land use rights with a net book value of RMB6,091, RMB13,241, RMB741,032 and RMB734,566 were pledged as security for bank loans (Note 13) as of December 31, 2017, 2018 and 2019, and June 30, 2020 respectively.

Upon the adoption of ASC 842 on January 1, 2019, land use rights acquired are assessed in accordance with ASC 842 and recognized in operating lease right-of-use assets if they meet the definition of operating lease, or property and equipment if they meet the definition of finance lease (Note 2(v)).

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12 BUSINESS COMBINATIONS

The movement of goodwill is set out as below:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Balance at the beginning of the year/period	1,341,087	1,570,755	1,751,970	1,905,840
Addition during the year/period	229,668	181,215	153,870	503,485
Balance at end of the year/period	<u>1,570,755</u>	<u>1,751,970</u>	<u>1,905,840</u>	<u>2,409,325</u>

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. The goodwill is not deductible for tax purposes. Goodwill is assigned to the design, build-out and operation of data centers reporting unit.

Shenzhen 5 Acquisition

On June 29, 2017, the Company consummated an acquisition of all equity interests in a target group comprising onshore and offshore entities from third parties for an aggregate contingent consideration of RMB312,000. As of December 31, 2019 and June 30, 2020, the fair value of remaining consideration payable of RMB16,762 was recorded in other payables with payment schedule based on the milestone related to the achievement of all specified conditions.

The target group owns a data center project (“Shenzhen 5”) in Shenzhen, China. At the date of acquisition, the data center had just commenced its operations.

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The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair value on the acquisition date and consisted of the following major items.

	Note	
Fair value of consideration	<i>(i)</i>	294,491
Effective settlement of pre-existing relationships upon consolidation	<i>(ii)</i>	6,025
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash		(11,153)
Property and equipment	<i>(iii)</i>	(821,405)
Identifiable intangible assets	<i>(iv)</i>	(176,500)
Other assets		(59,520)
Accounts payable		219,207
Finance lease and other financing obligations, current		23,156
Finance lease and other financing obligations, non-current		363,380
Long-term borrowings		217,790
Deferred tax liabilities		45,931
Other liabilities		55,299
		<u> </u>
Total identifiable net assets		<u>(143,815)</u>
Goodwill	<i>(v)</i>	<u><u>156,701</u></u>

Note (i): The fair value of consideration represents the present value of the purchase price of RMB312,000.

Note (ii): Prior to the acquisition, the Company had other receivables from the target group of RMB6,025, which was effectively settled with the seller upon completion of the acquisition.

Note (iii): Property and equipment acquired included properties acquired under finance lease of RMB416,000.

Note (iv): Identifiable intangible assets acquired consisted of customer relationships of RMB176,500 with an estimated useful life of 14.4 years.

Note (v): Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. Goodwill is assigned to the design, build-out and operation of data centers reporting unit. Goodwill primarily represents the expected synergies from combining operations of the target group with those of the Company and intangible assets that do not qualify for separate recognition and is not deductible for tax purposes. In accordance with ASC 350, goodwill is not amortized but is tested for impairment.

The amounts of net revenue and net loss of the target group included in the Company's consolidated statements of operations from the acquisition date to December 31, 2017 amounted to RMB42,072 and RMB23,859, respectively.

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Guangzhou 2 Acquisition

On October 9, 2017, the Company consummated an acquisition of all equity interests in a target group comprising onshore and offshore entities from third parties for a cash consideration of RMB233,984. The Company had paid the full consideration during 2018.

The target group owns a data center project (“Guangzhou 2”) in Guangzhou, China.

The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair value on the acquisition date and consisted of the following major items.

	Note	
Fair value of consideration.....		233,984
Effective settlement of pre-existing relationships upon consolidation	(i)	(1,807)
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash		(10,144)
Accounts receivable		(25,177)
Property and equipment.....	(ii)	(319,943)
Identifiable intangible assets	(iii)	(98,500)
Other assets		(14,135)
Accounts payable		56,431
Finance lease and other financing obligations, current.....		5,958
Finance lease and other financing obligations, non-current.....		101,875
Short-term borrowings.....		50,750
Long-term borrowings		52,999
Deferred tax liabilities.....		35,097
Other liabilities		5,579
		<hr/>
Total identifiable net assets.....		(159,210)
		<hr/>
Goodwill	(iv)	72,967
		<hr/> <hr/>

Note (i): Prior to the acquisition, the Company had payables to the target group of RMB1,807, which was effectively settled with the seller upon completion of the acquisition.

Note (ii): Property and equipment acquired included properties acquired under finance lease of RMB106,000.

Note (iii): Identifiable intangible assets acquired consisted of customer relationships of RMB98,500 with an estimated useful life of 11.8 years.

Note (iv): Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. Goodwill is assigned to the design, build-out and operation of data centers reporting unit. Goodwill primarily represents the expected synergies from combining operations of the target group with those of the Company and intangible assets that do not qualify for separate recognition and is not deductible for tax purposes. In accordance with ASC 350, goodwill is not amortized but is tested for impairment.

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The amounts of net revenue and net income of the target group included in the Company’s consolidated statements of operations from the acquisition date to December 31, 2017 amounted to RMB26,573 and RMB2,734, respectively.

Guangzhou 3 Acquisition

On May 2, 2018, the Company consummated an acquisition of all equity interests in a target group comprising onshore and offshore entities from third parties for an aggregate cash consideration of RMB262,244 (including contingent considerations of RMB245,244). As of the acquisition date, the Company estimated that, pursuant to the share purchase agreement, all specified conditions would be met and the Company would be obligated to settle full amount of the purchase price of RMB262,244. As of December 31, 2019, the fair value of remaining consideration payable was RMB118,336, of which RMB95,274 and RMB23,062 were recorded in other payables and other long-term liabilities, respectively. Pursuant to a supplemental agreement entered into between the seller and the Company in May 2020, both parties agreed to reduce the total cash consideration (including contingent consideration) from RMB262,244 to RMB207,310, subject to the achievement of the revised conditions as set out in the supplemental agreement. The adjustment of the cash consideration of RMB55,154 was recognized as gain from purchase price adjustment in the consolidated statement of operations for the six-month period ended June 30, 2020. As of June 30, 2020, the fair value of remaining consideration payable was RMB51,067, of which RMB31,412 and RMB19,655 were recorded in other payables and other long-term liabilities, respectively. The payment schedule of remaining consideration is based on the milestone related to the achievement of all specified conditions.

The target group owns a data center project (“Guangzhou 3”) in Guangzhou, China.

The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair value on the acquisition date and consisted of the following major items.

	Note	
Fair value of consideration.....	(i)	247,937
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash		(62)
Accounts receivable		(13,995)
Property and equipment.....	(ii)	(780,312)
Identifiable intangible assets	(iii)	(130,000)
Other assets		(43,039)
Accounts payable		471,532
Finance lease and other financing obligations, non-current.....		282,051
Short-term borrowings.....		47,580

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	Note
Long-term borrowings	30,000
Deferred tax liabilities.....	26,503
Other liabilities	<u>2,849</u>
 Total identifiable net assets.....	 <u>(106,893)</u>
 Goodwill	 (iv) <u><u>141,044</u></u>

Note (i): The fair value of consideration represents the present value of the purchase price of RMB262,244.

Note (ii): Property and equipment acquired included properties acquired under finance lease of RMB291,000.

Note (iii): Identifiable intangible assets acquired consisted of customer relationships of RMB130,000 with an estimated useful life of 7 years.

Note (iv): Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. Goodwill is assigned to the design, build-out and operation of data centers reporting unit. Goodwill primarily represents the expected synergies from combining operations of the target group with those of the Company and intangible assets that do not qualify for separate recognition and is not deductible for tax purposes. In accordance with ASC 350, goodwill is not amortized but is tested for impairment.

The amounts of net revenue and net loss of the target group included in the Company’s consolidated statements of operations from the acquisition date to December 31, 2018 amounted to RMB85,298 and RMB11,727 respectively.

Shanghai 11 Acquisition

On June 1, 2018, the Company consummated an acquisition of all equity interests in a target entity from third parties for an aggregate cash consideration of RMB320,000 (including contingent considerations of RMB70,000). As of the acquisition date, the Company estimated that, pursuant to the share purchase agreement, all specified conditions would be met and the Company would be obligated to settle full amount of the purchase price of RMB320,000. As of December 31, 2019, the fair value of remaining consideration payable of RMB1,400 was recorded in other payables, which was paid in the six-month period ended June 30, 2020.

The target entity owns a data center project (“Shanghai 11”) in Shanghai, China.

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The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair value on the acquisition date and consisted of the following major items.

	Note	
Fair value of consideration.....	(i)	319,119
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash		(404)
Property and equipment.....		(233,405)
Identifiable intangible assets	(ii)	(57,000)
Other assets.....		(94,647)
Accounts payable		91,136
Deferred tax liabilities.....		9,995
Other liabilities		<u>5,377</u>
 Total identifiable net assets.....		 <u>(278,948)</u>
 Goodwill	 (iii)	 <u><u>40,171</u></u>

Note (i): The fair value of the consideration represents the present value of the purchase price of RMB320,000.

Note (ii): Identifiable intangible assets acquired consisted of customer relationships of RMB23,000 with an estimated useful life of 10 years and favourable lease of RMB34,000 with an estimated useful life of 13.6 years. The favourable lease was reclassified to operating lease ROU assets upon adoption of ASC 842 *Leases* on January 1, 2019.

Note (iii): Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. Goodwill is assigned to the design, build-out and operation of data centers reporting unit. Goodwill primarily represents the expected synergies from combining operations of the target group with those of the Company and intangible assets that do not qualify for separate recognition and is not deductible for tax purposes. In accordance with ASC 350, goodwill is not amortized but is tested for impairment.

The amounts of net revenue and net loss of the target entity included in the Company's consolidated statements of operations from the acquisition date to December 31, 2018 amounted to RMB35,489 and RMB2,924, respectively.

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Guangzhou 6 Acquisition

On October 18, 2019, the Company consummated an acquisition of all equity interests in a target entity from a third party for an aggregate cash consideration of RMB431,727 (including contingent considerations of RMB243,736). As of the acquisition date, the Company estimated that, pursuant to the share purchase agreement, all specified conditions would be met and the Company would be obligated to settle full amount of the purchase price of RMB431,727. As of December 31, 2019 and June 30, 2020, the fair value of remaining consideration payable was RMB235,526 and RMB224,653, respectively, which was recorded in other payables. The payment schedule of remaining consideration is based on the milestone related to the achievement of all specified conditions.

The target entity owns a data center project (“Guangzhou 6”) in Guangzhou, China.

The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair value on the acquisition date and consisted of the following major items.

	Note	
Fair value of consideration.....	(i)	423,075
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash		(12,091)
Property and equipment.....	(ii)	(493,026)
Operating lease ROU assets		(9,168)
Identifiable intangible assets	(iii)	(15,000)
Other assets		(44,549)
Accounts payable		118,486
Finance lease and other financing obligations, current.....		16,828
Operating lease liabilities, current.....		886
Finance lease and other financing obligations, non-current.....		157,366
Operating lease liabilities, non-current.....		8,282
Deferred tax liabilities.....		1,040
Other liabilities		1,741
		<hr/>
Total identifiable net assets.....		(269,205)
		<hr/>
Goodwill	(iv)	153,870
		<hr/> <hr/>

Note (i): The fair value of consideration represents the present value of the purchase price of RMB431,727.

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Note (ii): Property and equipment acquired included properties acquired under finance lease of RMB174,194.

Note (iii): Identifiable intangible assets acquired consisted of customer relationships of RMB15,000 with an estimated useful life of 7.8 years.

Note (iv): Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. Goodwill is assigned to the design, build-out and operation of data centers reporting unit. Goodwill primarily represents the expected synergies from combining operations of the target group with those of the Company and intangible assets that do not qualify for separate recognition and is not deductible for tax purposes. In accordance with ASC 350, goodwill is not amortized but is tested for impairment.

The amounts of net revenue and net loss of the target entity included in the Company’s consolidated statements of operations from the acquisition date to December 31, 2019 amounted to nil and RMB8,816, respectively.

Beijing 10, Beijing 11 and Beijing 12 Acquisition

On June 5, 2020, the Company consummated an acquisition of all equity interests in a target group from third parties for an aggregate cash consideration of RMB847,586 (including contingent considerations of RMB130,720). As of the acquisition date, the Company estimated that, pursuant to the share purchase agreement, all specified conditions would be met and the Company would be obligated to settle full amount of the purchase price of RMB847,586. As of June 30, 2020, the fair value of remaining consideration payable was RMB527,586, which was recorded in other payables. The payment schedule of remaining consideration is based on the milestone related to the achievement of all specified conditions.

The target group owns three data center projects (“Beijing 10, Beijing 11 and Beijing 12”) in Beijing, China.

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The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair value on the acquisition date and consisted of the following major items.

	Note	
Fair value of consideration.....		847,586
Effective settlement of pre-existing relationship upon consolidation .	(i)	34,477
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash		(2,349)
Accounts receivable		(81,027)
Property and equipment.....	(ii)	(1,971,432)
Operating lease ROU assets		(94,821)
Identifiable intangible assets	(iii)	(191,000)
Other assets		(149,956)
Accounts payable		727,043
Finance lease and other financing obligations, current.....		171,979
Operating lease liabilities, current.....		6,092
Finance lease and other financing obligations, non-current.....		1,062,114
Operating lease liabilities, non-current.....		92,360
Deferred tax liabilities.....		13,833
Other liabilities		<u>38,586</u>
 Total identifiable net assets.....		 <u>(378,578)</u>
 Goodwill	 (iv)	 <u><u>503,485</u></u>

Note (i): Prior to the acquisition, the Company had receivables from the target group of RMB34,477, which was effectively settled upon completion of the acquisition.

Note (ii): Property and equipment acquired included properties acquired under finance lease of RMB632,427.

Note (iii): Identifiable intangible assets acquired consisted of customer relationships of RMB191,000 with an estimated useful life of 7.6 years.

Note (iv): Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. Goodwill is assigned to the design, build-out and operation of data centers reporting unit. Goodwill primarily represents the expected synergies from combining operations of the target group with those of the Company and intangible assets that do not qualify for separate recognition and is not deductible for tax purposes. In accordance with ASC 350, goodwill is not amortized but is tested for impairment.

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The amounts of net revenue and net profit of the target group included in the Company's consolidated statements of operations from the acquisition date to June 30, 2020 amounted to RMB28,850 and RMB582, respectively.

Supplemental pro forma financial information as if the acquisitions had occurred as of the earliest date presented has not been provided as the acquisitions are not material to the Company's results of operations for the years ended December 31, 2017, 2018 and 2019 and the six-month periods ended June 30, 2019 and 2020, either individually or in aggregate.

Asset acquisitions

In 2018, 2019 and the six months ended June 30, 2020, the Company consummated several acquisitions of certain target entities for total cash considerations (net of the cash acquired) of RMB124,667, RMB367,509 and RMB36,952, respectively. These acquisitions did not meet the definition of a business as of the acquisition date in accordance with ASC 805, *Business Combinations*, and were accounted for as assets acquisitions. The primary assets acquired were properties self-owned or under finance leases, equipment and leasehold improvements. As of December 31, 2019 and June 30, 2020, the remaining consideration payable was RMB13,070 and RMB45,440, respectively, which was recorded in other payables.

13 LOANS AND BORROWINGS

The Company's borrowings consisted of the following:

	<u>As of December 31,</u>			<u>As of</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>June 30,</u>
				<u>2020</u>
Short-term borrowings	462,946	684,788	397,213	734,208
Current portion of long-term borrowings	<u>327,538</u>	<u>598,532</u>	<u>740,524</u>	<u>947,579</u>
Sub-total	790,484	1,283,320	1,137,737	1,681,787
Long-term borrowings, excluding current portion	<u>3,459,765</u>	<u>5,203,708</u>	<u>8,028,473</u>	<u>9,337,882</u>
Total loans and borrowings.....	<u><u>4,250,249</u></u>	<u><u>6,487,028</u></u>	<u><u>9,166,210</u></u>	<u><u>11,019,669</u></u>

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Short-term borrowings

The Company's short-term borrowings consisted of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Unsecured short-term borrowings	230,000	30,000	80,000	70,000
Secured short-term borrowings	<u>232,946</u>	<u>654,788</u>	<u>317,213</u>	<u>664,208</u>
	<u>462,946</u>	<u>684,788</u>	<u>397,213</u>	<u>734,208</u>

Short-term borrowings were secured by the following assets:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Accounts receivable (<i>Note</i>)	11,615	18,796	11,535	37,782
Property and equipment, net	<u>–</u>	<u>203,290</u>	<u>–</u>	<u>–</u>
	<u>11,615</u>	<u>222,086</u>	<u>11,535</u>	<u>37,782</u>

The weighted average interest rates of short-term borrowings outstanding as of December 31, 2017, 2018 and 2019, and June 30, 2020 were 7.93%, 7.01%, 5.64% and 5.40% per annum, respectively.

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Long-term borrowings

The Company's long-term borrowings consisted of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Unsecured long-term borrowings	167,250	85,250	42,500	127,500
Secured long-term borrowings	<u>3,620,053</u>	<u>5,716,990</u>	<u>8,726,497</u>	<u>10,157,961</u>
	<u><u>3,787,303</u></u>	<u><u>5,802,240</u></u>	<u><u>8,768,997</u></u>	<u><u>10,285,461</u></u>

Long-term borrowings were secured by the following assets:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
				(unaudited)
Accounts receivable (<i>Note</i>).....	124,428	347,142	508,847	911,692
Property and equipment, net	698,922	1,513,446	2,493,872	3,401,995
Prepaid land use rights, net	<u>6,091</u>	<u>13,241</u>	<u>741,032</u>	<u>734,566</u>
	<u><u>829,441</u></u>	<u><u>1,873,829</u></u>	<u><u>3,743,751</u></u>	<u><u>5,048,253</u></u>

Note: The Company applied accounts receivable generated from certain data center operation as collateral to secure borrowings.

The weighted average interest rates of long-term borrowings as of December 31, 2017, 2018 and 2019, and June 30, 2020 were 6.93%, 7.42%, 7.40% and 7.02% per annum, respectively, taking into the consideration of debt issuance costs incurred relating to the facilities.

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The outstanding long-term borrowings mature serially from 2020 to 2032. The aggregate maturities of the above long-term borrowings for each for the five years and thereafter subsequent to December 31, 2019 are as follows:

	Long-term borrowings
Twelve-months ending December 31,	
2020	740,524
2021	1,875,218
2022	1,395,398
2023	2,844,152
2024	1,163,453
Thereafter.....	750,252
	<u>8,768,997</u>

The aggregate maturities of the above long-term borrowings for each for the five years and thereafter subsequent to June 30, 2020 are as follows:

	Long-term borrowings
Twelve-months ending June 30,	
2021	947,579
2022	1,995,581
2023	2,094,516
2024	2,258,340
2025	968,067
Thereafter.....	2,021,378
	<u>10,285,461</u>

The Company entered into secured loan agreements with various financial institutions for project development and working capital purpose with terms ranging from 1 to 13 years.

As of December 31, 2019, the Company had total working capital and project financing credit facilities of RMB11,984,401 from various financial institutions, of which the unused amount was RMB2,587,575. As of December 31, 2019, the Company had drawn down RMB9,396,826 of which RMB397,213 was recorded in short-term borrowings and RMB8,768,997 (net of debt issuance costs of RMB230,616) was recorded in long-term borrowings, respectively. Drawdowns from the credit facility are subject to the approval of the banks and are subject to the terms and conditions of each agreement.

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As of June 30, 2020, the Company had total working capital and project financing credit facilities of RMB17,814,872 from various financial institutions, of which the unused amount was RMB6,555,311. As of June 30, 2020, the Company had drawn down RMB11,259,561, of which RMB734,208 (net of debt issuance costs of RMB690) was recorded in short-term borrowings and RMB10,285,461 (net of debt issuance costs of RMB239,202) was recorded in long-term borrowings, respectively.

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, the Company could be obligated to notify the lender or repay any loans outstanding immediately or on an accelerated repayment schedule:

- (i) STT Communications Ltd. ceases to, directly or indirectly, own at least 50.1% of the equity interests of STT GDC Pte. Ltd. ("STT GDC");
- (ii) 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 GDS Holdings, 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 GDS Holdings, or (c) is not or ceases to be the single largest shareholder of GDS Holdings;
- (iii) GDS Holdings and GDS Investment Company are not or cease to be, directly or indirectly, the legal and beneficial owner of 100% of the 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 GDS Holdings), GDS Beijing, Global Data Solutions Co., Ltd. ("GDS Suzhou"), a subsidiary company of GDS Beijing and the relevant borrowing subsidiaries;
- (iv) 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;
- (v) GDS Beijing, GDS Suzhou and the relevant borrowing subsidiaries cease to, directly or indirectly, be the legal and beneficial owner of 100% of the equity interests of, and have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to control, their consolidated subsidiaries;
- (vi) there are changes in the shareholding structure of a principal operating subsidiary of GDS Holdings, as defined in the relevant loan facility agreement; and
- (vii) 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 fail to be renewed on or before the expiry date.

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There are certain other events in the loan facility agreements the occurrence of which could obligate GDS Holdings to notify the lender or repay any loans outstanding immediately or on an accelerated repayment schedule, including, among others, if the 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 GDS Holdings is 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 the Company (i) fails to repay any financial indebtedness in an aggregate amount exceeding US\$4,500, or, in some cases, RMB50,000, 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 People’s Bank of China (“PBOC”) in accordance with the regulations promulgated by PBOC governing loan market rating standards. As of June 30, 2020, the Company was in compliance with all of the abovementioned covenants.

14 CONVERTIBLE BONDS PAYABLE

Convertible Bonds due December 30, 2019 issued by the Company (“Convertible Bonds due 2019”)

On December 30, 2015, the Company entered into a subscription agreement with two investors (referred to as “PA investor” and STT GDC Pte. Ltd. or “STT GDC”) for Convertible Bonds due 2019 in an aggregate principal amount of US\$250,000 in four tranches. On December 30, 2015 and January 29, 2016, the Company received the first tranche of US\$100,000 (RMB648,950) from PA investor and the second tranche of US\$50,000 (RMB324,475) from STT GDC, respectively. The subscription for the remaining third and fourth tranches of the Convertible Bonds due 2019 in the aggregate principal amount of US\$100,000 (RMB648,950) expired on September 30, 2016. The Company pledged 100% of the equity interests in a subsidiary to the investors.

The key terms of the Convertible Bonds due 2019 are summarized as follows:

Maturity Date

- December 30, 2019

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Interest

- A simple rate of 5% per annum on the outstanding principal amount, payable by the Company semi-annually (the "Cash Interest").
- In the event that the bond holder has redeemed or converted part or whole of the principal amount, the bond holder shall be entitled to additional interest with a simple rate of 5% per annum (the "Accrued Interest"), payable in cash on the Maturity Date in the case of redemption or by issuance of ordinary shares of the Company at the Conversion Price on the Conversion Date in the case of conversion.

Conversion of the Convertible Bonds due 2019

- If the Company completes a qualifying initial public offering ("QIPO"), the bond holder, at any time between the date of completion of such QIPO (the "QIPO Completion Date") and the Maturity Date (the "Conversion Period"), have the right to convert up to 100% of the principal amount of the bond (in multiples of US\$10,000), together with the Accrued Interest thereon, into ordinary shares of the Company. The conversion price shall be US\$1.675262 subject to adjustments for situations such as share dividend, share split, consolidation, recapitalization, exchange or substitution of ordinary shares at any time or from time to time. The Company determined that there was no embedded beneficial conversion feature ("BCF") attributable to Convertible Bonds due 2019 at the commitment date because the initial conversion price of Convertible Bonds due 2019 was greater than the estimated fair value of the Company's ordinary shares as of December 30, 2015. The estimated fair value of the underlying ordinary shares on December 30, 2015 was determined by management with the assistance of an independent valuation firm. The valuation used an income approach, which requires the estimation of future cash flows and the application of an appropriate discount rate with reference to comparable listed companies engaged in a similar industry to convert such future cash flows to a single present value.
- The Company determined that the embedded conversion option of the Convertible Bonds due 2019 was not required to be accounted for as an embedded derivative for periods prior to the Company's IPO, as the underlying ordinary shares were not publicly traded or otherwise readily convertible into cash. Upon the listing of the Company's ordinary shares on November 2, 2016, the embedded conversion option has been accounted for separately as an embedded derivative with changes in its fair value recognized through the consolidated statement of operations. With the assistance of an independent appraiser, the Company determined that the fair value of the embedded conversion feature as a derivative liability was immaterial as of November 2, 2016 and December 31, 2016. Accordingly, no gain or loss was recognized in respect of the change in the fair value of such derivative liability for the year ended December 31, 2016.

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- If the Company completes a QIPO and the closing price of its shares is at or above 125% of the conversion price (i.e. 25% premium to the conversion price) for a period of at least ten consecutive trading days, the Company may, at its unilateral option, notify the bondholder that the bond then outstanding will be mandatorily converted at the end of the notice period in accordance with the terms and conditions of the bond.

Redemption on maturity

- Unless previously converted or purchased and cancelled in the circumstances, the bond will be redeemed on December 30, 2019 at its principal amount, plus Accrued Interest thereon.

In November 2017, the bond holders of the Convertible Bonds due 2019, exercised the right to convert 100% of the principal amount of the bonds, together with the Accrued Interest thereon into 97,870,263 newly issued Class A ordinary shares at the conversion price of US\$1.675262 pursuant to the terms of the bonds. Concurrent with the conversion, the accrued but unpaid Cash Interest was relinquished. The difference between par value of the shares issued of RMB32 and the carrying value of the convertible bonds, Accrued Interest and unpaid Cash Interest of RMB1,106,195 were recorded as additional paid-in capital upon conversion.

Convertible Notes due June 1, 2025 issued by the Company ("Convertible Bonds due 2025")

On June 5, 2018, the Company completed its issuance of Convertible Bonds due 2025 in an aggregate principal amount of US\$300,000. The related issuance costs of US\$8,948 were deducted from principal of the Convertible Bonds due 2025 and amortized over the period from issuance to the first put date (i.e. June 1, 2023) using the effective interest rate method. As of December 31, 2018 and 2019 and June 30, 2020, accrued interests of RMB3,432 and RMB3,488 and RMB3,540, respectively were recorded in accrued expenses.

The key terms of the Convertible Bonds due 2025 are summarized as follows:

Maturity Date

- June 1, 2025

Interest

- 2.0% per annum, accruing from June 5, 2018 (computed on the basis of 360-day year composed of twelve 30-day months), payable semiannually in arrears on June 1 and December 1 of each year.

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Repurchase of Notes

- Holders will have the right to require the Company to repurchase for cash all of their notes, or any portion of the principal thereof that is equal to US\$1 thousand or an integral multiple of US\$1 thousand, on June 1, 2023 or if a fundamental change occurs at any time.

Tax redemption

- The Company may redeem, at its option, all but not part of the Convertible Bonds due 2025 if it becomes obligated to pay to the holder of any note "additional amounts" (which are more than a de minimis amount) as a result of any change in tax law at the price equal to 100% of the principal amount together with accrued and unpaid interest. Upon receiving notice of redemption, each holder will have the right to elect to: convert its notes; or not have its notes redeemed and GDS Holdings will not pay any additional amounts as a result of such change in tax law.

Conversion rights

- Holders may convert their notes at their option at any time prior to the close of business on the third scheduled trading day immediately preceding the maturity date.
- The conversion rate is initially 19.3865 American Depository Shares or ADSs (each representing eight Class A ordinary shares) of the Company per US\$1 thousand principal amount of notes (equivalent to an initial conversion price of approximately US\$51.58 per ADS), and subject to changes under certain anti-dilution conditions.

The Company determined that the embedded conversion option of the Convertible Bonds due 2025 was not required to be accounted for as an embedded derivative pursuant to ASC 815 *Derivatives and Hedging*. The Company also determined that there was no embedded BCF attributable to Convertible Bonds due 2025 at the commitment date because the initial conversion price of Convertible Bonds due 2025 was greater than the fair value of the Company's ordinary shares. Contingent BCF will be assessed upon occurrence of an adjusting event to the conversion price. The Company also determined there was no other embedded derivative to be separated from the Convertible Bonds due 2025.

The effective interest rate of the Convertible Bonds, after considering the related issuance cost, was 2.65% as of December 31, 2018 and 2019, and June 30, 2020, respectively.

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15 ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables consisted of the following:

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
Accrued interest expenses.....	21,114	32,902	43,776	48,795
Accrued debt issuance costs and other financing costs	34,194	618	28,082	53,933
Income tax payable.....	20,122	43,898	93,307	128,100
Other tax payable.....	18,541	30,663	28,259	54,519
Consideration payables for acquisitions	159,489	192,367	362,032	845,853
Deferred government grants.....	–	4,800	6,003	172
Accrued payroll and welfare benefits.....	47,432	77,134	97,486	75,178
Accrued professional fees	15,725	32,076	41,630	42,734
Accrued rental fees	8,417	13,085	–	–
Accrued data center outsourcing service fees	–	10,715	17,989	6,857
Amount due to related parties...	–	–	11,988	21,388
Amount due to a financial institution	–	–	34,190	112,380
Interest rate swap contracts (Note 19).....	135	1,074	351	17,182
Other accrued operating expenses	29,701	28,818	38,020	59,484
Other payables	13,754	8,414	14,770	75,113
	<u>368,624</u>	<u>476,564</u>	<u>817,883</u>	<u>1,541,688</u>

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16 LEASE

Disclosures related to periods prior to adoption of the New Accounting Standard for Leases

Capital lease and other financing obligations

The Company's capital lease and other financing obligations are summarized as follows:

	As of December 31, 2017			As of December 31, 2018		
	Capital lease obligations	Other financing obligations	Total	Capital lease obligations	Other financing obligations	Total
Within 1 year	212,780	45,007	257,787	352,524	37,150	389,674
After 1 year but within						
2 years	220,293	63,151	283,444	453,891	80,276	534,167
After 2 years but within						
3 years	316,475	75,685	392,160	286,468	107,497	393,965
After 3 years but within						
4 years	144,052	76,678	220,730	282,627	111,616	394,243
After 4 years but within						
5 years	141,910	80,832	222,742	292,481	113,667	406,148
After 5 years	1,900,744	1,469,318	3,370,062	3,926,028	1,878,098	5,804,126
Total	2,936,254	1,810,671	4,746,925	5,594,019	2,328,304	7,922,323
Less: total future						
interest	(1,209,120)	(905,590)	(2,114,710)	(2,300,484)	(1,160,108)	(3,460,592)
Less: estimated						
construction costs	—	(231,228)	(231,228)	—	(160,506)	(160,506)
Present value of capital lease and other financing obligations ..	<u>1,727,134</u>	<u>673,853</u>	<u>2,400,987</u>	<u>3,293,535</u>	<u>1,007,690</u>	<u>4,301,225</u>
Including:						
– Current portion			97,943			166,898
– Non-current portion ..			2,303,044			4,134,327

The Company's capital and build-to-suit leases expire at various dates ranging from 2020 to 2039. The weighted average effective interest rate of the Company's capital and build-to-suit leases was 7.28% and 6.99% as of December 31, 2017 and 2018, respectively.

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Operating leases

The Company leases data centers, offices and other equipment that are classified as operating leases.

Future minimum operating lease payments as of December 31, 2017 are summarized as follow:

Twelve-months ending December 31,	
2018	135,599
2019	101,152
2020	88,587
2021	48,939
2022	48,723
Thereafter.....	<u>337,355</u>
Total.....	<u><u>760,355</u></u>

Future minimum operating lease payments as of December 31, 2018 are summarized as follow:

Twelve-months ending December 31,	
2019	95,082
2020	69,541
2021	48,072
2022	41,758
2023	40,952
Thereafter.....	<u>407,070</u>
Total.....	<u><u>702,475</u></u>

Rental expenses were approximately RMB155,148 and RMB108,550 for the years ended December 31, 2017 and 2018, respectively. The Company did not sublease any of its operating leases for the periods presented.

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Disclosures related to periods after the adoption of the New Accounting Standard for Leases

Leases and other financing obligations

Maturities of lease and other financing obligations as at December 31, 2019 and June 30, 2020 were as follows:

	As of December 31, 2019					As of June 30, 2020				
	Finance lease obligations	Other financing obligations	Total of finance lease and other financing obligations	Operating lease obligations	Total	Finance lease obligations	Other financing obligations	Total of finance lease and other financing obligations	Operating lease obligations	Total
Within 1 year.....	502,261	32,232	534,493	97,993	632,486	545,457	164,867	710,324	140,967	851,291
After 1 year but within 2 years	399,200	37,462	436,662	72,046	508,708	521,945	233,151	755,096	123,042	878,138
After 2 years but within 3 years	399,843	72,845	472,688	64,151	536,839	553,473	306,028	859,501	101,640	961,141
After 3 years but within 4 years	414,126	69,248	483,374	64,086	547,460	569,126	291,552	860,678	101,750	962,428
After 4 years but within 5 years	429,902	65,688	495,590	64,547	560,137	610,207	276,749	886,956	105,115	992,071
After 5 years.....	5,905,408	163,480	6,068,888	880,855	6,949,743	7,234,194	647,305	7,881,499	1,411,770	9,293,269
Total	8,050,740	440,955	8,491,695	1,243,678	9,735,373	10,034,402	1,919,652	11,954,054	1,984,284	13,938,338
Less: total future interest	(3,387,232)	(121,742)	(3,508,974)	(478,541)	(3,987,515)	(4,076,294)	(497,689)	(4,573,983)	(769,087)	(5,343,070)
Less: estimated construction costs...	–	(9,127)	(9,127)	–	(9,127)	–	(47,924)	(47,924)	–	(47,924)
Present value of lease and other financing obligations.....	<u>4,663,508</u>	<u>310,086</u>	<u>4,973,594</u>	<u>765,137</u>	<u>5,738,731</u>	<u>5,958,108</u>	<u>1,374,039</u>	<u>7,332,147</u>	<u>1,215,197</u>	<u>8,547,344</u>
Including:										
– Current portion ...			222,473	55,139	277,612			230,746	73,362	304,108
– Non-current portion.....			4,751,121	709,998	5,461,119			7,101,401	1,141,835	8,243,236

As of December 31, 2019 and June 30, 2020, the Company has additional leases, primarily for data center buildings, that have not yet commenced with total future lease payments of RMB815,472 and RMB292,830, respectively. These leases are expected to commence in fiscal year 2020 with lease terms of 1 year to 20 years.

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The components of lease cost are as follows:

	Year ended December 31,	Six-month periods ended June 30,	
	2019	2019	2020
		(unaudited)	
Finance lease cost:			
– Amortization of right-of-use assets ...	222,101	103,566	169,352
– Interest on lease liabilities	299,511	144,928	192,489
Operating lease cost	100,469	50,702	85,028
Short-term lease cost	5,004	1,772	3,223
Variable lease cost (<i>Note</i>)	–	–	(40,189)
Total lease cost	627,085	300,968	409,903

Note: During the six-month period ended June 30, 2020, the Company was granted lease concessions of RMB40,142 by certain landlords due to the effects of the COVID-19 pandemic. The lease concessions were primarily in the form of rent reduction. Such concessions were recognized as variable lease cost (credit) in the period when the concession was granted. In addition, the Company recognized variable lease cost (credit) of RMB47 in the six-month period ended June 30, 2020 for certain finance leases with floating interest rate.

Supplemental cash flow information related to leases is as follows:

	Year ended December 31,	Six-month periods ended June 30,	
	2019	2019	2020
		(unaudited)	
Cash paid for amounts included in measurement of lease liabilities (<i>Note</i>):			
– Operating cash flows from finance leases	(248,417)	(119,396)	(159,802)
– Operating cash flows from operating leases	(116,295)	(45,312)	(62,123)
– Financing cash flows from finance leases	(302,679)	(203,911)	(78,888)
Non-cash information on lease liabilities arising from obtaining ROU assets			
– Finance leases	708,757	699,524	660,325
– Operating leases	333,775	3,770	406,853

Note: The above table does not include cash paid for purchase of land use rights and initial direct costs of leases of RMB800,431 and RMB570,821 in the year ended December 31, 2019 and the six-month period ended June 30, 2020, respectively, which are included in “Payments for purchase of property and equipment and land use rights” in the consolidated statements of cash flows.

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Weighted average remaining lease term and weighted average discount rate for leases, excluding prepaid land use rights, are as follows:

	<u>As of December 31,</u> <u>2019</u>	<u>As of June 30,</u> <u>2020</u>
Weighted average remaining lease term:		
– Finance leases.....	15.2	14.1
– Operating leases	15.6	15.9
Weighted average discount rate:		
– Finance leases.....	6.91%	7.06%
– Operating leases.....	6.35%	6.25%

The Company enters into lease arrangements primarily for data center spaces, office spaces and equipment.

Data center buildings and land leases

During the year ended December 31, 2017, in addition to the capital lease liabilities assumed in the business combination, the Company recorded additional capital leases for two data center buildings with initial capital lease obligations totaling RMB262,206 through new lease agreements. In addition, the Company also recorded capital lease assets and capital lease obligations of RMB157,000 as a result of the amendment in respect of an existing lease. The leases have terms of 20 years through July 2035 to November 2037.

During the year ended December 31, 2018, the Company recorded additional capital leases for seven data center buildings with initial capital lease obligations totaling RMB1,300,453 through new lease agreements or acquisition of subsidiaries. The leases have terms of 15 or 20 years through March 2033 to June 2038.

During the year ended December 31, 2019 and the six-month period ended June 30, 2020, the Company entered into lease agreements with the landlords to lease the buildings and land, including those acquired through acquisition of subsidiaries, for certain data centers. The Company assessed the lease classification of the building and land components separately at the commencement date. During the year ended December 31, 2019 and the six-month period ended June 30, 2020, the Company recorded additional finance lease liabilities of RMB779,252 and RMB988,890 and operating lease liabilities of RMB167,685 and RMB390,515, respectively, through the above new leases or acquisition of subsidiaries.

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Build-to-suit leases

In October 2017, the Company entered into lease agreements with third party developer-lessors for the development, construction and the lease of four brand new buildings (the "Shanghai 6 Lease" and "Shanghai 7 Lease") in Shanghai, China. In accordance with ASC 840-40-55, the Company determined that it was the owner of the two buildings during the construction period for financial reporting purposes as it had substantially all of the construction period risks based on the maximum guarantee test (without considering probability that the Company having to make the payments). Accordingly, the Company recorded an asset for the estimated construction costs incurred for of the project and a liability for those costs funded by the lessor-developer during the construction period.

The constructions of the buildings in Shanghai 6 Lease by the developer-lessors had completed by December 31, 2018. Upon completion of the construction and commencement of the lease term, the Company assessed and concluded that the arrangements did not qualify for sales recognition under the sale-leaseback accounting guidance, and the Company continued to be the deemed owner of the build-to-suit assets for financial reporting purposes. Accordingly, the Company kept the construction costs of the assets on its balance sheet. In addition, lease payments less the portion considered to be interest expense decrease the financing liability. Upon adoption of ASC 842, the assets and liabilities for these leases recognized under ASC 840 were derecognized and then accounted for as finance leases in accordance with ASC 842 since January 1, 2019.

Upon adoption of ASC 842, the Company determined that it does not control the building in Shanghai 7 Lease during the construction period, and derecognized the related assets and liabilities recognized. The construction of the building in Shanghai 7 Lease completed in the year ended December 31, 2019, and a finance lease obligation of RMB108,160 and an operating lease liability of RMB132,196 was recognized in accordance with ASC 842 upon completion of the construction and commencement of the lease term.

In July and August 2018, the Company entered into two lease agreements with a third-party developer-lessor for the development, construction and lease of two brand new buildings (the "Shanghai 12 Lease" and the "Shanghai 13 Lease") in Shanghai, China. The Company paid deposits for the leases to the developer-lessor. Shanghai 12 Lease has an estimated lease term of 15.7 years commencing upon the delivery of the respective completed building to the Company to November 2035. Shanghai 13 Lease has a lease term of 20 years commencing upon the delivery of the respective completed building to the Company. The buildings will be constructed based on the Company's specifications and will not include any interior elements, such as electrical wiring, interior walls, ventilation and air conditioning systems, flooring or normal tenant improvements (referred to as cold-shell buildings). Upon completion of constructions and the delivery of the cold-shell buildings, the Company will convert the buildings into data centers. No rent is paid by the Company during the construction of the buildings. All project hard costs are to be paid by the developer-lessors, including site preparation and construction costs. If the Company terminates the agreements before the construction of the buildings are completed, the Company is obligated to reimburse the

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developer-lessors for costs incurred during the construction period, including but not limited to project application costs, project design fees, ground preparation and levelling costs. Before adoption of ASC 842, the Company determined that it was the owner of the buildings in Shanghai 12 Lease and Shanghai 13 Lease during the construction period for financial reporting purposes in accordance with ASC 840, as it had substantially all of the construction period risks based on the maximum guarantee test (without considering probability that the Company having to make the payments). Accordingly, the Company recorded an asset for the estimated construction costs incurred for the project and a liability for those costs funded by the lessor-developer during the construction period as of December 31, 2018. Upon adoption of ASC 842, the Company determined that it does not control the buildings in Shanghai 12 Lease and Shanghai 13 Lease during the construction period, and derecognized the related assets and liabilities recognized. The construction of the buildings in Shanghai 12 Lease and Shanghai 13 Lease completed in the six-month period ended June 30, 2020, finance lease obligations of RMB287,233 and operating lease liabilities of RMB62,205 were recognized.

Equipment lease

During the year ended December 31, 2017, the Company entered into a lease agreement with a third party lessor in respect of certain data center equipment (the "Hebei Equipment Lease"). Hebei Equipment Lease has a lease term of 3 years from November 2017 to November 2020. The Company determined that the lease is a capital lease as the present value of the minimum lease payments exceeded 90% of the fair value of the leased equipment at the inception of the lease. Accordingly, on the lease commencement date, the Company recorded capital lease assets and capital lease obligations at an amount equal to the present value of the minimum lease payments of RMB177,922.

During the year ended December 31, 2018, the Company entered into five lease agreements with third party lessors in respect of certain data center equipment. These equipment leases have lease terms of 3 years with initial capital lease obligations totaling RMB108,665.

During the year ended December 31, 2019 and the six-month period ended June 30, 2020, the Company entered into lease agreements with a third-party lessor for the leases of certain equipment in Hebei, China, in which the underlying assets needs to be constructed. The lessor purchased these underlying assets prior to the lease commencement for the construction based on the Company's specifications and supervision. The Company had the right to obtain the partially constructed underlying assets at any point during the construction period by making a payment to the lessor, so the Company concluded that it controls the underlying assets before the lease commencement in accordance with ASC 842-40-55-5. Accordingly, the Company recorded an asset for the estimated construction costs incurred for the equipment and a liability for those costs funded by the lessor during the construction period. Upon completion of the construction, the Company will assess if the arrangement qualifies for sales recognition under the sale and lease back accounting guidance. As of December 31, 2019 and June 30, 2020, the obligations under above lease arrangements are recognized as other financing obligations.

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In 2019, the Company also entered into two lease agreements with a third-party lessor for the leases of certain equipment in Hebei, China. As the ownership of the underlying assets will be transferred to the Company by the end of the lease term, such leases are recognized as finance leases. The relevant leases commenced when the Company received the equipment. The amount paid by the lessor to its vendor for equipment which was not received by the Company at December 31, 2019, was recognized as other financing obligations. Such other financing obligations were reclassified to finance lease obligation upon commencement of the lease in the six-month period ended June 30, 2020.

17 OTHER LONG-TERM LIABILITIES

Other long-term liabilities consisted of the following:

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
				(unaudited)
Consideration payable for acquisitions	120,881	79,083	23,062	19,655
Payables for purchase of property and equipment.....	195,749	206,591	231,459	185,310
Deferred revenue – non-current (Note 8).....	–	–	15,419	14,865
Deferred government grants.....	16,789	9,771	6,507	6,196
Interest rate swap contracts (Note 19).....	–	–	10,408	–
Asset retirement obligations	17,648	35,879	52,441	62,719
Others	7,831	9,488	6,241	9,589
Total	358,898	340,812	345,537	298,334

18 REDEEMABLE PREFERRED SHARES

On March 27, 2019 (the “Issue Date”), GDS Holdings completed its issuance of 150,000 Convertible Preferred Shares (“redeemable preferred shares”) to an investor at the subscription price of US\$1 thousand per share with total consideration of US\$150,000.

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The movement of redeemable preferred shares is set out as below:

	Redeemable preferred shares
Balance at January 1, 2019	–
Issuance of redeemable preferred shares	989,349
Change in redemption value of redeemable preferred shares	17,760
Accrual of redeemable preferred shares dividends	40,344
Settlement of redeemable preferred shares dividends	(25,014)
Foreign exchange impact	39,542
Balance at December 31, 2019	1,061,981
Accrual of redeemable preferred shares dividends	26,667
Settlement of redeemable preferred shares dividends	(40,068)
Foreign exchange impact	15,557
Balance at June 30, 2020	1,064,137

Key terms of the convertible preferred shares

Dividends

The holders of the preferred shares are entitled to receive, in priority to the holders of the ordinary shares, cumulative preferred share dividends which are payable quarterly in arrears on March 15, June 15, September 15 and December 15, commencing on June 15, 2019 (each such payment date being a "Regular Dividend Payment Date"). The dividends are 5.0% per annum of the respective preferred shares Stated Value (i.e. the subscription price of preferred shares plus any accrued dividends that are not paid on Regular Dividend Payment Date) (and shall be adjusted to an amount equal to the ordinary share dividend rate if higher). The dividend rate will increase to 7.0% per annum and further increase by 50 basis points each quarter thereafter if the Company has not redeemed all of the preferred shares outstanding as of the eighth anniversary of the Issue Date. The dividends are computed on a basis of a 360-day year and the actual number of days elapsed. Dividends may, at the option of the Company, be paid in cash only, be paid in cash or in additional preferred shares, or a combination thereof.

Conversion

The holders of preferred shares have the right to convert any or all of their holdings of preferred shares Stated Value into Class A Ordinary Shares based on the conversion rate then in effect.

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In addition, if, at any time beginning on March 15, 2022, (i) the volume-weighted average price ("VWAP") per ADS of the GDS Holdings equals or exceeds US\$53.40 (adjusted as according to anti-dilution provisions) for at least 20 trading days in any period of 30 consecutive trading days and (ii) the average daily trading volume of the ADS for such 20 qualifying trading days is at least US\$10,000 in the aggregate, at the Company's election, all of the preferred shares then outstanding shall be converted into a number of Class A Ordinary Shares based on the conversion rate then in effect.

The initial conversion rate is corresponding to a conversion price of US\$35.60 per ADS, and will be subject to adjustments for any split, subdivision, combination, consolidation, recapitalization or similar event.

Liquidation preference

Upon a liquidation, after satisfaction of all liabilities and obligations to creditors of the Company and before any distribution or payment shall be made to holders of ordinary shares, each holder of preferred shares shall be entitled to receive an amount per preferred share equal to the greater of: (1) the Stated Value of preferred shares plus any dividends accumulated but unpaid thereon after the immediately preceding Regular Dividend Payment Date to but excluding the date of liquidation; (2) the payment such holders would have received had such holders, immediately prior to such liquidation converted their preferred shares into Class A Ordinary Shares.

Optional Redemption by the Company

The preferred shares may be redeemed, in whole or in part, at any time after March 15, 2027, at the option of the Company at a redemption price per share equal to the sum of the Stated Value per preferred share to be redeemed plus an amount per share equal to accrued but unpaid dividends on such preferred shares after the immediately preceding Regular Dividend Payment Date to but excluding the date of redemption.

Repurchase at the Option of the Holder Upon a Fundamental Change

Upon the occurrence of a Fundamental Change, as defined in the share subscription agreement, each holder of preferred shares shall have the right to require the Company to repurchase all or any portion of such holder's preferred shares at a purchase price per preferred share equal to the greater of:

- (i) the sum of (x) 100% multiplied by the Stated Value per preferred share plus (y) an amount equal to accrued but unpaid dividends on such preferred share after the immediately preceding Regular Dividend Payment Date to but excluding the date of repurchase, plus (z) solely in the event that such Fundamental Change occurs prior to the third anniversary of the Issue Date, the present value of all undeclared dividends from the date of redemption to, and including, the third anniversary of the Issue Date, in each case, discounted to the date of redemption on the basis of actual

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days elapsed (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, which is the yield to maturity at the time of computation of United States Treasury securities with a constant maturity, plus 50 basis points, and

- (ii) the amount of cash and/or other assets such holder would have received had such holder, immediately prior to the occurrence of such Fundamental Change, converted such preferred shares into Class A Ordinary Shares.

Financing for Redemption of Convertible Preferred Shares

In the event that any preferred shares remain outstanding from and after the tenth anniversary of the Issue Date, the holders of preferred shares constituting at least 90% of the preferred shares issued as of the Issue Date (as adjusted for any split, subdivision, combination, consolidation, recapitalization or similar event with respect to the preferred shares) shall have the right to require the Company to sell all or a portion of its business and/or to conduct other fundraising or refinancing activities, and use reasonable best efforts to consummate such sale or to issue equity or debt securities (or obtain other debt financing) in an amount sufficient to redeem in full in cash, and use best endeavors to as soon as reasonably practicable redeem in full in cash, all of the preferred shares then outstanding at a redemption price per share equal to the sum of the Stated Value per preferred share to be redeemed plus an amount per share equal to accrued but unpaid dividends on such preferred shares after the immediately preceding Regular Dividend Payment Date to but excluding the date of redemption.

Voting rights

The holders of the preferred shares have voting rights equivalent to the ordinary shareholders on an "if converted" basis. In addition, the Company shall not take certain actions without first obtaining the written consent or affirmative vote at a meeting called for that purpose by holders of at least 75% of the then outstanding preferred shares.

The Company has classified these preferred shares as mezzanine equity in the consolidated balance sheets since they are contingently redeemable upon a Fundamental Change or include liquidation preference provisions that are not solely within the Company's control. The Company evaluated the embedded conversion, call and put options in the preferred shares to determine if they require bifurcation and are accounted for as derivatives, and concluded that there were no embedded derivatives to be bifurcated from the preferred share pursuant to ASC 815. The Company also determined that there was no BCF attributable to the preferred shares because the initial conversion price was higher than the fair value of the Company's ordinary shares.

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The Company incurred issuance cost of US\$2,646 for the issuance of such preferred shares, which was treated as an adjustment to the initial value of the redeemable preferred shares. The Company has elected to measure the redeemable preferred shares by recognizing changes in the redemption value immediately as they occur and adjust the carrying amount to equal the redemption value at the end of each reporting period. As a result, such issuance cost is immediately recognized as a change in redemption value and charged against retained earnings or, in the absence of retained earnings, by charges against additional paid-in capital.

19 DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31, 2017, 2018 and 2019, and June 30, 2020, the Company had outstanding interest rate swap contracts with notional amounts of US\$25,000, US\$82,200, US\$118,500 and US\$115,900, respectively.

The following table reflects the fair values of derivatives included in the consolidated balance sheets as of December 31, 2017, 2018 and 2019, and June 30, 2020:

		Consolidated balance sheets location	As of December 31,			As of June 30,
			2017	2018	2019	2020
Interest rate swap contracts (not designated as hedging instruments)	Other non-current assets	-	1,263	-	-	
Interest rate swap contracts (not designated as hedging instruments)	Accrued expenses and other payables	135	1,074	351	17,182	
Interest rate swap contracts (not designated as hedging instruments)	Other long-term liabilities	-	-	10,408	-	

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The following table reflects the location in the consolidated statements of operations and the amount of realized and unrealized gains (losses) recognized for the derivative contracts not designated as hedging instruments for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020:

	Consolidated statements of operations location	Years ended December 31,			Six-month periods ended June 30,	
		2017	2018	2019	2019	2020
		(unaudited)				
Interest rate swap contracts (not designated as hedging instruments) – realized loss	Interest expenses	(199)	(75)	(1,652)	(378)	(3,084)
Interest rate swap contracts (not designated as hedging instruments) – unrealized (loss) gain	Interest expenses	(140)	156	(10,606)	(12,575)	(6,180)
Foreign currency forward contracts (not designated as hedging instruments) – realized loss	Foreign currency exchange (loss) gain, net	(2,904)	-	-	-	-
		<u>(3,243)</u>	<u>81</u>	<u>(12,258)</u>	<u>(12,953)</u>	<u>(9,264)</u>

20 FAIR VALUE MEASUREMENT

As of December 31, 2017, 2018 and 2019, and June 30, 2020, the Company's financial assets and liabilities measured at fair value on a recurring basis were as follows:

	Fair value measurement using Level 2 inputs			
	As of December 31,			As of
	2017	2018	2019	June 30, 2020
Assets				
– Interest rate swap contracts (Note 19)	-	1,263	-	-
Liabilities				
– Interest rate swap contracts (Note 19)	135	1,074	10,759	17,182

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Following is a description of the valuation techniques that the Company uses to measure fair value of other financial assets and financial liabilities:

- Short-term financial instruments (cash, restricted cash, accounts receivable and payable, short-term borrowings, and accrued expenses and other payables) – cost approximates fair value because of the short maturity period.
- Long-term borrowings – fair value is based on the amount of future cash flows associated with each debt instrument discounted at the Company's current borrowing rate for similar debt instruments of comparable terms. The carrying values of the long-term borrowings approximate their fair values as all the long-term debt carry variable interest rates which approximate rates currently offered by the Company's bankers for similar debt instruments of comparable maturities.
- Convertible Bonds payable – the estimated fair value was RMB1,512,677, RMB2,448,646 and RMB3,408,248 as of December 31, 2018 and 2019 and June 30, 2020, respectively. The fair value was measured based on the price in the open market.

21 EQUITY

(a) Ordinary Shares

In October 2017, the Company issued 64,257,028 Class A ordinary shares to CyrusOne Inc., a third-party investor, at the price of US\$1.55625 per share.

In November 2017, the bond holders of the Convertible Bonds due 2019, exercised the right to convert 100% of the principal amount of the bonds, together with the Accrued Interest thereon into 97,870,263 newly issued Class A ordinary shares at the conversion price of US\$1.675262 pursuant to the terms of the bonds.

On January 26, 2018, the Company completed a public offering in which the Company offered and sold 8,000,000 ADSs (or 64,000,000 Class A ordinary shares), and SBCVC Holdings Limited ("SBCVC"), one of the Company's principal shareholders, sold 3,000,000 ADSs (or 24,000,000 Class A ordinary shares), at a price of US\$26.00 per ADS. On January 29, 2018, the underwriters exercised their option to purchase from the Company and SBCVC additional 225,000 ADSs (or 1,800,000 Class A ordinary shares) and 1,425,000 ADSs (or 11,400,000 Class A ordinary shares), respectively. The Company raised a total of US\$202,696 (RMB1,283,308) in proceeds from this public offering, net of underwriting discounts and commissions and other issuance costs.

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On March 19, 2019, the Company completed a public offering in which the Company offered and sold 13,731,343 ADSs (or 109,850,744 Class A ordinary shares), including 1,791,044 ADSs (or 14,328,352 Class A ordinary shares) purchased by the underwriters by exercising their option. The Company raised a total of US\$444,699 (RMB2,982,242) in proceeds from this public offering, net of underwriting discounts and commissions and other issuance costs.

On December 10, 2019, the Company completed a public offering in which the Company offered and sold 6,318,680 ADSs (or 50,549,440 Class A ordinary shares), including 824,175 ADSs (or 6,593,400 Class A ordinary shares) purchased by the underwriters by exercising their option. The Company raised a total of US\$277,256 (RMB1,951,884) in proceeds from this public offering, net of underwriting discounts and commissions and other issuance costs.

In June 2020, two investors, Hillhouse Capital ("Hillhouse") and STT GDC, purchased, through a private placement, US\$400,000 and US\$105,000 respectively of 62,153,848 newly issued Class A ordinary shares of the Company at a price equivalent to US\$65 per ADS (or US\$8.125 per share). The Company raised a total of US\$500,784 (RMB3,533,285) in proceeds from this private placement, after deducting underwriting commissions and other issuance costs.

As of June 30, 2020, the Company's outstanding share capital consisted of 1,210,996,227 Class A ordinary shares and 67,590,336 Class B ordinary shares.

(b) Dividends

No dividends of ordinary shares have been paid or declared by the Company during the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020.

Dividends of preferred share have been paid or declared by the Company during the year ended December 2019 and the six-month period ended June 30, 2020. See Note 18 above.

22 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, the related parties of the Company are as follows:

<u>Name of party</u>	<u>Relationship</u>
STT GDC.....	Principal ordinary shareholder of the Company
STT Singapore DC Pte. Ltd.....	Subsidiary of STT GDC
STT DEFU 2 Pte. Ltd.....	Subsidiary of STT GDC

In addition to the related party information disclosed elsewhere in the consolidated financial statements, the Company entered into the following material related party transactions.

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(a) Major transactions with related parties

		Years ended December 31,			Six-month periods ended June 30,	
		2017	2018	2019	2019	2020
					(unaudited)	
Commission income						
STT Singapore DC Pte. Ltd.	(i)	-	-	624	-	246
STT DEFU 2 Pte. Ltd.	(i)	-	-	332	-	244
		-	-	956	-	490
Conversion of convertible bonds from a related party						
STT GDC	(ii)	366,958	-	-	-	-
Interest expenses						
STT GDC	(ii)	30,078	-	-	-	-

(b) Major balances with related parties

		As of December 31,			As of
		2017	2018	2019	June 30,
					2020
Amount due to related parties:	(i)				
STT DEFU 2 Pte. Ltd.....		-	-	6,638	11,193
STT Singapore DC Pte. Ltd.....		-	-	5,350	10,195
		-	-	11,988	21,388

Note (i): During the year ended December 31, 2019, the Company successfully referred a customer to STT Singapore DC Pte. Ltd. and STT DEFU 2 Pte. Ltd. and recognized RMB624 and RMB332, respectively, as commission income. Income earned is based on amount billed on behalf of these two related parties to the ultimate customer amounting to RMB55,392 and RMB43,069, respectively. As of December 31, 2019, amount due to related parties represents the service fee received on behalf of the related parties for one of their customers, which is recorded in accrued expenses and other payables.

During the six-month period ended June 30, 2020, the Company recognized RMB246 and RMB244, respectively, as commission income from STT Singapore DC Pte. Ltd. and STT DEFU 2 Pte. Ltd. Income earned is based on amount billed on behalf of these two related parties to the ultimate customer amounting to RMB17,237 and RMB19,655, respectively. As of June 30, 2020, amount due to related parties represents the service fee received on behalf of the related parties for one of their customers, which is recorded in accrued expenses and other payables.

These amounts due to related parties are trade in nature and are settled on a recurring basis.

Note (ii): During the year ended December 31, 2017, the related interest expense arising from the Convertible Bonds due 2019 subscribed by STT GDC amounted to RMB30,078.

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In November 2017, the Convertible Bonds due 2019 and the Accrued Interest thereon due to STT GDC were fully converted into 32,540,515 newly issued Class A ordinary shares at the conversion price of US\$1.675262. In addition, upon conversion, the accrued but unpaid Cash Interest due to STT GDC of RMB4,991 was relinquished.

23 DISTRIBUTION OF PROFIT

Pursuant to the laws and regulations of the PRC, the Company's PRC entities are required to allocate at least 10% of their after tax profits, after making good of accumulated losses as reported in their PRC statutory financial statements, to the general reserve fund and have the right to discontinue allocations to the general reserve fund if the balance of such reserve has reached 50% of their registered capital. The general reserves are not available for distribution to the shareholders (except in liquidation) and may not be transferred in the form of loans, advances, or cash dividend.

These PRC entities are restricted in their ability to transfer the registered capital and general reserve fund to GDS Holdings in the form of dividends, loans or advances. The restricted portion amounted to RMB2,495,075, RMB4,768,715, RMB7,367,536 and RMB8,437,718 as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively, including non-distributable general reserve fund of RMB214, RMB579, RMB15,712 and RMB15,712 as of December 31, 2017, 2018 and 2019, and June 30, 2020 respectively.

24 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitments outstanding at December 31, 2017, 2018 and 2019, and June 30, 2020 not provided for in the financial statements were as follows:

	As of December 31,			As of
	2017	2018	2019	June 30,
				2020
Contracted for.....	1,065,551	1,017,325	2,722,084	3,343,911

Commitment for purchase of land use rights was RMB4,500 and nil as of December 31, 2019 and June 30, 2020, respectively.

(b) Lease commitments

The Company's lease commitments are disclosed in Note 16.

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(c) Litigation contingencies

In August 2018, the Company and its chief executive officer and chief financial officer were named as defendants in a consolidated class action lawsuit filed in the United States District Court. The complaints in the action allege that the Company's registration statements contained misstatements or omissions regarding its business, operation, and compliance in violation of the U.S. securities laws. As of December 31, 2019, the Company had unpaid legal cost and other related costs of approximately RMB5,748 pertaining to this. On April 7, 2020, the US District Court for the Southern District of New York granted the motion of the defendants (including GDS Holdings, its chief executive officer and chief financial officer) to dismiss the class action lawsuit. On May 6, 2020, plaintiffs filed a notice of appeal of that decision. On June 29, 2020, plaintiffs voluntarily withdrew their appeal, resulting in the dismissal of the case against all Defendants with prejudice.

25 SEGMENT INFORMATION

The Company has one operating segment, which is the design, build-out and operation of data centers. The Company's chief operating decision maker is the chief executive officer of the Company who reviews the Company's consolidated results of operations in assessing performance of and making decisions about resource allocations to this segment. Accordingly, no reportable segment information is presented.

During the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, substantially all of the Company's operations are in the PRC. As of December 31, 2017, 2018 and 2019, and June 30, 2020 the long-lived assets amounted to RMB6,695, RMB742,390, RMB1,605,892 and RMB1,740,765, respectively, were located in Hong Kong SAR, and substantially all of the remaining long-lived assets were in the PRC.

26 MAJOR CUSTOMERS

During the year ended December 31, 2017, the Company had three direct contracting customers, which generated over 10% of the Company's total revenues or RMB318,359, RMB166,384 and RMB163,719, respectively. During the year ended December 31, 2018, the Company had three direct contracting customers, which generated over 10% of the Company's total revenues or RMB563,698, RMB490,523 and RMB376,881, respectively. During the year ended December 31, 2019, the Company had three direct contracting customers, which generated over 10% of the Company's total revenues or RMB1,010,794, RMB712,780 and RMB535,990, respectively. During the six-month period ended June 30, 2020, the Company had three direct contracting customers, which generated over 10% of the Company's total revenues or RMB670,730, RMB416,396 and RMB270,071, respectively. During the years ended December 31, 2017, 2018 and 2019 and six-month period ended June 30, 2020, one of three direct contracting customers was also an end user customer.

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27 SUBSEQUENT EVENTS

a) New loan facilities

From July 2020 to October 19, 2020, six of the subsidiaries of the Company entered into various facility agreements with third-party banks for a total amount of RMB4,662,000 with various maturity dates.

b) Coronavirus outbreak

Beginning in January 2020, the emergence and wide spread of the novel Coronavirus (“COVID-19”) has resulted in quarantines, travel restrictions, and the temporary closure of businesses and facilities in China and elsewhere. Substantially all of the Company’s revenue and workforce are concentrated in China. Any economic slowdown in China or worldwide due to COVID-19 may adversely affect the Company’s business operations, financial condition and operating results, including but not limited to negative impact to the Company’s total revenues, slower collection of accounts receivable and additional allowance for doubtful accounts. While many of the restrictions on movement within China have been relaxed, the economy is seemingly on the path of recovery and the Company’s business has not been materially impacted at this time, there remains uncertainty about the viral resurgence which may impact the business ongoing performance and development. With the uncertainties surrounding the COVID-19 outbreak until a cure and vaccine has been discovered, the threat to the business disruption and the related financial impact remains.

c) Establishment of a joint venture

In July 2020, the Company formed a joint venture (“JV”) to undertake a major new data center project in Beijing (“BJ13”) with a private equity fund (“CPE Fund”) controlled by CITIC Private Equity Funds Management Co., Limited. The Company initially owns a 58% controlling interest in the JV, while CPE Fund owns 42%. The JV has taken an 82% equity interest in Tenglong IOT (Beijing) Data Technology Co., Ltd (“LicenseCo.”) through the acquisition of shares and injection of new capital. The LicenseCo. has taken an 88% equity interest in a company which owns the land use right for the site (“LandCo.”) through the injection of new capital. The JV will proceed to acquire the remaining 18% of the LicenseCo. when the data center development is complete and certain other conditions are met. The LicenseCo. will buy out the remaining 12% equity interest in the LandCo. when certain conditions are met. On completion of the project and satisfaction of certain other conditions, the Company will acquire CPE Fund’s 42% equity interest in the JV.

d) Offer to acquire Beijing 14

On September 22, 2020, the Company extended a legally-binding offer to acquire 100% of the equity interests in target companies which own a major data center in the Shunyi District of Beijing (“BJ14”). This transaction is subject to entry into definitive agreements as well as the completion of certain conditions precedent to the closing the transaction.

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SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to June 30, 2020.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountants’ Report from KPMG, Certified Public Accountants, Hong Kong, the Company’s reporting accountants, as set out in Appendix I to this document, and is included for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this document and the Accountants’ Report set out in Appendix I to this document.

A. 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 [REDACTED] on the consolidated net tangible assets attributable to the shareholders of the Company as of June 30, 2020 as if the [REDACTED] 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 the Company had the [REDACTED] been completed as of June 30, 2020 or at any future date.

[REDACTED]

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[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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SUMMARY OF OUR CONSTITUTION AND CAYMAN COMPANIES LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 1 December 2006 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association and its Amended and Restated Articles of Association.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.
- (c) The share capital of the Company is US\$100,100 divided into 2,002,000,000 shares of a nominal or par value of US\$0.00005, of which 1,800,000,000 shall be designated as Class A ordinary shares, 200,000,000 shall be designated as Class B ordinary shares and 2,000,000 shall be designated as preferred shares.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted by way of a special resolution passed on 18 October 2016 and to become effective immediately upon the completion of the Company's initial public offering of Class A Ordinary Shares represented by American Depositary Shares on the NASDAQ Global Market, effective on 7 November 2016. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of Class A ordinary shares, Class B ordinary shares and preferred shares.

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The Class A ordinary shares and the Class B ordinary shares shall carry equal rights and rank *pari passu* with one another other than:

Conversion from Class B ordinary shares to Class A ordinary Shares The Class B Ordinary Shares shall be subject to automatic conversion on the first to occur of (i) William Wei Huang ceasing to have beneficial ownership in not less than five per cent. (5%) of the then issued share capital of the Company on an as converted basis; (ii) the consultation draft Foreign Investment Law of the People's Republic of China published by the Ministry of Commerce of the PRC on January 19, 2015 (the "**FIL**") in the form implemented not requiring VIE Entities operating the PRC Business to be owned or controlled (as defined in the FIL as officially promulgated by the PRC legislator) by PRC nationals or entities (including without limitation the FIL as officially promulgated by the PRC legislator grandfathering then-existing VIE Entities in the PRC); (iii) the PRC law no longer requiring the conduct of the PRC Business to be owned or controlled by PRC nationals or entities; (iv) the promulgation of the FIL as it relates to VIE Entities is abandoned by the PRC legislator; or (v) the relevant authorities in the PRC having approved the Company's VIE structure without the need for the VIE Entities to be owned or controlled by PRC nationals or entities. In addition, a holder of Class B ordinary shares shall have the right to convert such Class B ordinary shares into Class A ordinary shares by notice in writing to the Company.

Voting rights Each Class B ordinary share shall carry the right to one (1) vote per Class B ordinary share other than in respect of the following matters only, in respect of which the Class B ordinary shares shall carry the right to twenty (20) votes per Class B ordinary share: (A) the appointment or removal of a majority of the Directors of the Company pursuant to the Articles, and (B) any amendment of the Articles or the Memorandum that would adversely affect the rights of the holders of the Class B Ordinary Shares. Each Class A ordinary share shall carry the right to one (1) vote per Class A ordinary share.

Transfers of Class B ordinary shares Class B ordinary shares cannot be assigned or transferred in whole or in part by Mr. Huang or any of the entities in whose name any Class B ordinary shares were registered as at the effective date of the Articles.

Conversion of Class A ordinary shares and the acquisition of additional Class B ordinary shares by Mr. Huang Class A ordinary shares are not convertible into Class B ordinary shares at any time other than as set out in the rest of this paragraph. The Articles provide that Mr. Huang shall only acquire Class A ordinary shares in his name or an entity established or controlled by him. Any Class A ordinary shares so acquired (whether by allotment and issue of new shares or acquisition of issued Class A ordinary shares) will be automatically converted into Class B ordinary shares.

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(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be a person or persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve in any way by special resolution.

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(iv) Transfer of shares

Subject to the restrictions on transfer of Class B ordinary shares referred to above, all transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, after compliance with any notice requirement of the Stock Exchange, be suspended at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

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(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange and/or any competent regulatory authority.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same from the day appointed for the payment thereof to the time of actual payment at such rate (not exceeding twenty per cent. (20%) per annum) as the board may determine, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate (not exceeding twenty per cent. (20%) per annum) as the board determines.

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(b) Directors

(i) Appointment, retirement and removal

Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. The maximum number of Directors shall be up to 11.

The Directors shall be divided into three classes: Class I, Class II and Class III. Each class shall consist of as nearly equal numbers of Directors as possible, and designated Class I, Class II, and Class III.

Article 86(2) provides that, by written notice to the Company, (a) for so long as STT continues to have Beneficial Ownership in not less than twenty-five per cent. (25%) of the issued share capital of the Company on an as converted basis, STT may appoint and remove three (3) directors (each an "STT Director"); (b) where STT has Beneficial Ownership in less than twenty-five per cent. (25%) but not less than fifteen per cent. (15%) of the issued share capital of the Company on an as converted basis, STT may appoint and remove two (2) STT Directors; and (c) where STT has Beneficial Ownership in less than fifteen per cent. (15%) but not less than eight per cent. (8%), of the then issued share capital of the Company on an as converted basis, STT may appoint and remove one (1) STT Director.

Article 86(4) provides that for so long as William Wei Huang continues to have Beneficial Ownership in not less than five per cent. (5%) of the then issued share capital of the Company on an as converted basis, the holders of the Class B Ordinary Shares shall have the right to nominate five (5) Directors (one of which is intended to be William Wei Huang) for appointment as Directors. Such Directors shall be elected by resolutions of the Members (with the Class B Ordinary Shares having twenty (20) votes per Class B Ordinary Share in respect of such resolutions). Upon either (i) the Automatic Conversion of the Class B Ordinary Shares, or (ii) the conversion of such of the Class B Ordinary Shares that results in William Wei Huang having Beneficial Ownership in less than five per cent. (5%) but not less than two per cent. (2%) of the then issued share capital of the Company on an as converted basis, (a) any Directors (other than William Wei Huang) appointed pursuant to the above provisions shall retire from office by rotation at the appropriate annual general meeting of Members in accordance with the terms of their appointment, and (b) at the relevant annual general meeting, their replacement as a Director shall be nominated by the Nominating and Corporate Governance Committee and shall be elected by resolutions of the Members (with the Class B Ordinary Shares having one (1) vote per Class B Ordinary Share in respect of such resolutions); and (c) Mr. Huang shall continue to have the right to appoint and remove one (1) Director (which is intended to be Mr. Huang). Upon Mr. Huang having Beneficial Ownership in less than two per cent. (2%) of the then issued share capital of the Company on an as converted basis, (a) Mr. Huang's above appointment right shall cease and terminate, (b) any Director appointed pursuant to such right shall retire from office by rotation at the appropriate annual general meeting of Members in accordance with the terms of their appointment, and (iii) at the

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relevant annual general meeting, their replacement as a Director shall be nominated by the Nominating and Corporate Governance Committee and shall be elected by resolutions of the Members (with the Class B Ordinary Shares having one (1) vote per Class B Ordinary Share in respect of such resolutions).

The Nominating and Corporate Governance Committee shall have the right to nominate one (1) Director (being an Independent Director) for appointment as a Director. Such Independent Director shall be elected by resolutions of the Members (with the Class B Ordinary Shares having twenty (20) votes per Class B Ordinary Share in respect of such resolutions).

The Nominating and Corporate Governance Committee shall have the right to nominate the remaining Directors (being, two (2) Independent Directors) for appointment as Directors. Such Directors, (at least two (2) of whom shall be Independent Directors) shall be elected by resolutions of the Members (with the Class B Ordinary Shares having one (1) vote per Class B Ordinary Share in respect of such resolutions).

Any Director (other than Mr. Huang (for so long as he is a Director) and any STT Director) may be removed by way of a special resolution of the Members at any time before the expiration of his period of office notwithstanding anything in the Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under any such agreement).

A vacancy on the Board created by the removal of a Director under the above provisions may be filled by the election or appointment by (i) resolution of the Members (passed in accordance with the provisions of Article 86(4) or Article 86(5) or Article 86(6), as the case may be) at the meeting at which such Director is removed, or (ii) (in the case of an Independent Director only) by the affirmative vote of a simple majority of the Nominating and Corporate Governance Committee.

The Board may from time to time by resolution increase or reduce the number of Directors but so that the number of Directors shall never be less than two (2). Any resolution to change the number of Directors shall require the prior written approval of the STT Directors. Where any increase or reduction is made in the number of Directors on the Board pursuant to these Articles, the number of Directors appointed under Article 86(4) shall increase or reduce proportionately, so that for so long as Mr. Huang continues to have Beneficial Ownership in not less than five per cent. (5%) of the then issued share capital of the Company on an as converted basis, Mr. Huang and the holders of the Class B Ordinary Shares shall always be entitled to nominate and/or appoint or control the nomination and/or appointment of, a majority of the Board of Directors of the Company.

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At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

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(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Notwithstanding anything to the contrary in the Articles or the Memorandum, the Company and the Directors shall not, without the prior approval of Members by ordinary resolution, with the Class B Ordinary Shares having only one vote per Class B Ordinary Share in respect of such resolution, take, approve, authorise, ratify, agree, commit to engage in or otherwise effect or consummate the allotment or issue of any shares or securities of the Company equal to ten per cent. (10%) or more of the existing issued share capital of the Company or of the votes attached to the existing issued share capital of the Company at the date of such allotment or issue in any 12-month period, whether in a single transaction or a series of transactions other than any allotment or issues of shares on the exercise of any options or warrants granted by the Company from time to time or any shares issued on the conversion by Ping An Insurance and by STT of the convertible and redeemable bonds due 2019 held by Ping An Insurance and STT respectively.

In particular and without prejudice to the generality of the foregoing the board is empowered to authorize by resolution or resolutions from time to time the issuance of one or more classes or series of preferred shares and to fix the designations, powers, preferences and relative, participating, optional and other rights, if any, and the qualifications, limitations and restrictions thereof, if any, including, without limitation, the number of shares constituting each such class or series, dividend rights, conversion rights, redemption privileges, voting powers, full or limited or no voting powers, and liquidation preferences, and to increase or decrease the size of any such class or series (but not below the number of shares of any class or series of preferred shares then outstanding) to the extent permitted by Law. Without limiting the generality of the foregoing, the resolution or resolutions providing for the establishment of any class or series of preferred shares may, to the extent permitted by law, provide that such class or series shall be superior to, rank equally with or be junior to the preferred shares of any other class or series.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

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The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

The Directors may, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

Notwithstanding anything to the contrary in the Articles or the Memorandum, the Company and the Directors shall not, without the prior approval of Members by ordinary resolution, with the Class B Ordinary Shares having only one vote per Class B Ordinary Share in respect of such resolution, take, approve, authorise, ratify, agree, commit to engage in or otherwise effect or consummate the authorisation, or entry into agreements for the sale of, agree to sell, transfer or dispose of, whether in one transaction or a series of transactions a material part of the assets or undertakings of the Company (material for the purposes of the relevant Article being assets or undertakings representing ten per cent. (10%) or more of the net tangible assets of the Company in its latest audited accounts).

(iv) Borrowing powers

Subject to the Articles, the board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

Subject to the rule of the Stock Exchange, the Director, shall receive such remuneration as the board may from time to time determine. The Directors are also entitled to be prepaid or repaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

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The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Subject to the rules of the Designated Exchange, the Board may, without the approval of the Company in general meeting, make payments to any Director or past Director of the Company by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being payment to which the Director is contractually entitled).

(vii) Loans and provision of security for loans to Directors

The articles contain no provision in this recalls similar to those prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may (a) hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles; (b) act by himself or his firm in a professional capacity for the Company (otherwise than as Auditor) and he or his firm may be remunerated for professional services as if he were not a Director, and (c) be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company.

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The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Notwithstanding the foregoing, no Independent Director shall without the consent of the Audit Committee take any of the foregoing actions or any other action that would reasonably be likely to affect such Director's status as an "Independent Director" of the Company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established provided that such Director shall disclose the nature of his interest in any contract or arrangement in which he is interested in accordance with Article 102 herein. Any such transaction that would reasonably be likely to affect a Director's status as an "Independent Director," or that would constitute a "related party transaction" as defined by Item 7.N of Form 20F promulgated by the SEC, shall require the approval of the Audit Committee.

A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first considered, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested. For the purposes of the Articles, a general Notice to the Board by a Director to the effect that:

- (a) he is a member or officer of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with that company or firm; or
- (b) he is to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with a specified person who is connected with him;

shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract or arrangement, provided that no such Notice shall be effective unless either it is given at a meeting of the Board or the Director takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.

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Following a declaration being made pursuant to the Articles, subject to any separate requirement for Audit Committee approval under applicable law or the listing rules of the Company's Designated Stock Exchange, and unless disqualified by the chairman of the relevant Board meeting, a Director may vote in respect of any contract or proposed contract or arrangement in which such Director is interested and may be counted in the quorum at such meeting.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

A meeting of the Board may be convened by the Secretary on request of a Director or by any Director.

The quorum necessary for the transaction of the business of the Board shall be a majority of the Directors then appointed, including (for so long as Mr. Huang continues to have Beneficial Ownership in not less than five per cent. (5%) of the then issued share capital of the Company on an as converted basis) two (2) Directors nominated for appointment by Mr. Huang pursuant to the provisions of the Articles and (for so long as STT continues to have Beneficial Ownership in not less than fifteen per cent. (15%) of the issued share capital of the Company on an as converted basis), two (2) STT Directors.

(d) Alterations to constitutional documents and the Company's name

Subject to the provisions of the Articles, including as set out below, (A) no Article shall be rescinded, altered or amended and no new Article shall be made until the same has been approved by a special resolution of the Members, and (B) a special resolution shall be required to alter the provisions of the Memorandum of Association or to change the name of the Company. The Class B Ordinary Shares shall have only one vote per Class B Ordinary Share in respect of any such special resolution.

For so long as Mr. Huang continues to have Beneficial Ownership in any of the issued share capital of the Company on an as converted basis, none of the provisions of Articles 9, 86, 102(4), 114, 122, 125(2), 58(2) and 166 shall be rescinded, altered or amended (either directly or by the inclusion of any new Articles herein) without the affirmative vote of Mr. Huang and/or the holders of the Class B Ordinary Shares as the case may be.

For so long as STT continues to have Beneficial Ownership in any of the issued share capital of the Company on an as converted basis, none of the provisions of Articles 86(1), 86(2), 86(8), 102(4), 122, 125(2), 58(2) and 166 shall be rescinded, altered or amended (either directly or by the inclusion of any new Articles herein) without the affirmative vote of STT.

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(e) Meetings of members

(i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than seventy-five per cents (75%) of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) *Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a clearing house (or its nominee(s)) or a central depository entity, being a corporation, is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised.

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A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year.

A majority of the Board or the Chairman of the Board may call extraordinary general meetings, which extraordinary general meetings shall be held at such times and locations (as permitted hereby) as such person or persons shall determine.

In addition to the powers to call meetings set out above:

- (i) for so long as either STT or the holders of the Class B Ordinary Shares and Mr. Huang have the right to nominate or appoint Directors contained in Articles 86(2) and Article 86(4), respectively, STT and/or Mr. Huang and/or any one or more of the registered holders of Class B Ordinary Shares (as the case may be) shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business necessary for the nomination and appointment of any such Directors;
- (ii) for so long as STT has the right to appoint any STT Director pursuant to Article 86(2), any one or more Members (other than STT or any affiliate of STT controlled by STT) holding at the date of deposit of the requisition not less than one-third of the issued Class A Ordinary Shares (excluding for the purposes of this Article), any Class A Ordinary Shares Beneficially Owned by STT or any affiliate of STT controlled by STT) shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and
- (iii) for so long as STT ceases to have the right to appoint any STT Director pursuant to Article 86(2), any one or more Members (including STT or any affiliate of STT controlled by STT) holding at the date of deposit of the requisition not less than one-third of the issued Class A Ordinary Shares shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

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Any such meeting shall be held within two (2) months after the deposit of such requisition. If within ten (10) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting and any extraordinary general meeting may be called by not less than ten (10) clear days' Notice but a general meeting may be called by shorter notice, subject to the Law, if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all the Members entitled to attend and vote thereat; and
- (b) in the case of any other meeting, by a majority in number of the Members having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.

The notice shall specify the time and place of the meeting and, in case of special business, the general nature of the business. The notice convening an annual general meeting shall specify the meeting as such. Notice of every general meeting shall be given to all Members other than to such Members as, under the provisions of these Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, to all persons entitled to a share in consequence of the death or bankruptcy or winding-up of a Member and to each of the Directors and the Auditors.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

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(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two (2) members entitled to vote and present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy representing not less than one-third in nominal value of the issued voting shares of the Company.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) *Accounts and audit*

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

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A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than ten (10) days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to applicable law and rules of the Designated Stock Exchange:

- (1) The Board shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the Board appoints another auditor. Such auditor may be a Member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company.
- (2) The Board may remove the Auditor at any time before the expiration of his term of office and may by resolution appoint another Auditor in his stead. Subject to the Law the accounts of the Company shall be audited at least once in every year.

The remuneration of the Auditor shall be fixed by the Board.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

Subject to the Companies Law, the board may from time to time declare dividends in any currency to be paid to the members.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. Dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

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Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

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The Board may from time to time pay to the Members such interim dividends as appear to the Board to be justified by the profits of the Company and in particular (but without prejudice to the generality of the foregoing) if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and provided that the Board acts bona fide the Board shall not incur any responsibility to the holders of shares conferring any preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferential rights and may also pay any fixed dividend which is payable on any shares of the Company half-yearly or on any other dates, whenever such profits, in the opinion of the Board, justifies such payment.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

The Register and branch register of Members, as the case may be, shall be open to inspection for such times and on such days as the Board shall determine by Members without charge or by any other person, upon a maximum payment of \$2.50 or such other sum specified by the Board, at the Office or Registration Office or such other place at which the Register is kept in accordance with the Law. The Register including any overseas or local or other branch register of Members may, after compliance with any notice requirement of the Designated Stock Exchange, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the Board may determine and either generally or in respect of any class of shares.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

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(j) Procedures on liquidation

The Board shall have power in the name and on behalf of the Company to present a petition to the court for the Company to be wound up.

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

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3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account." At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

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(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

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Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

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Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

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The undertaking for the Company is for a period of twenty years from 19 December 2006.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Law. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

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There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

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A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may

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apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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Further Information About Us

Our Incorporation

We were incorporated in the Cayman Islands under Cayman Companies Law as an exempted company with limited liability on December 1, 2006. We have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance with an address at Room 2005, 20/F, West Tower, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong. Mr. Daniel Newman has been appointed as our authorized representative for the acceptance of service of process and notices in Hong Kong.

As we were incorporated in the Cayman Islands, our corporate structure and Memorandum and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum and Articles of Association is set out in “Summary of our Constitution and Cayman Companies Law” in Appendix III.

Changes in Our Share Capital

As of the Latest Practicable Date, we had an authorized share capital of US\$100,100 divided into 2,002,000,000 shares comprising of 1,800,000,000 Class A ordinary shares with a par value of US\$0.00005 each, 200,000,000 Class B ordinary shares with a par value of US\$0.00005 each and 2,000,000 preferred shares of a par value of US\$0.00005 each, and we had 1,311,179,155 Shares issued and outstanding, including 1,243,588,819 Class A ordinary shares (including 50,184,168 Class A ordinary shares held by JPMorgan Chase Bank, N.A., as depositary, which are reserved for future delivery upon exercise or vesting of share awards granted under our Share Incentive Plans), 67,590,336 Class B ordinary shares, and 150,000 preferred shares.

The following tables set out the changes in the share capital of our Company during the periods presented in this document

	Fiscal year ended December 31, 2017			
	Class A ordinary shares	Class B ordinary shares	Preferred shares	Shareholders' Equity ⁽¹⁾
Balances as of January 1, 2017	692,418,707	67,590,336	nil	38,000.45
Issuance of Shares	182,127,291	nil	—	9,106.36
Shares surrendered	(866,655)	nil	—	(43.33)
Balances as of December 31, 2017	<u>873,679,343</u>	<u>67,590,336</u>	<u>nil</u>	<u>47,063.48</u>

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	Fiscal year ended December 31, 2018			
	Class A ordinary shares	Class B ordinary shares	Preferred shares	Shareholders' Equity⁽¹⁾
Balances as of January 1, 2018.....	873,679,343	67,590,336	nil	47,063.48
Issuance of Shares.....	65,800,000	nil	—	3,290.00
Shares surrendered	(36)	nil	—	0
Balances as of December 31, 2018	<u>939,479,307</u>	<u>67,590,336</u>	<u>nil</u>	<u>50,353.48</u>

	Fiscal year ended December 31, 2019			
	Class A ordinary shares	Class B ordinary shares	Preferred shares	Shareholders' Equity⁽¹⁾
Balances as of January 1, 2019.....	939,479,307	67,590,336	nil	50,353.48
Issuance of Shares.....	209,363,080	nil	150,000	10,475.65
Shares surrendered	(8)	nil	—	0
Balances as of December 31, 2019	<u>1,148,842,379</u>	<u>67,590,336</u>	<u>150,000</u>	<u>60,829.13</u>

	Six months ended June 30, 2020			
	Class A ordinary shares	Class B ordinary shares	Preferred shares	Shareholders' Equity⁽¹⁾
Balances as of January 1, 2020.....	1,148,842,379	67,590,336	150,000	60,829.13
Issuance of Shares.....	62,153,848	nil	—	3,107.69
Shares surrendered	nil	nil	—	nil
Balances as of June 30, 2020.....	<u>1,210,996,227</u>	<u>67,590,336</u>	<u>150,000</u>	<u>63,936.82</u>

Note:

(1) Calculated based on a par value of US\$0.00005 per Share.

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Changes in the Share Capital of Our Major Subsidiaries

The following alterations in the share capital of our Major Subsidiaries have taken place within the two years immediately preceding the date of this document:

GDS Investment Company

On March 28, 2018, the registered capital of GDS Investment Company was increased to US\$60 million.

On May 21, 2018, the registered capital of GDS Investment Company was further increased to US\$110 million.

On December 17, 2018 the registered capital of GDS Investment Company was further increased to US\$210 million.

On October 9, 2019, the registered capital of GDS Investment Company was further increased to US\$350 million.

On December 10, 2019, the registered capital of GDS Investment Company was further increased to US\$700 million.

Shanghai Shuchang Data Science & Technology Co., Ltd.* (“Shanghai Shuchang”)

On September 29, 2018, the registered capital of Shanghai Shuchang was increased to US\$25 million.

Shanghai Puchang Data Science & Technology Co., Ltd.* (“Shanghai Puchang”)

On May 25, 2018, the registered capital of Shanghai Puchang was increased to US\$20 million.

On September 29, 2018, the registered capital of Shanghai Puchang was increased to US\$49 million.

Shanghai Shuge Data Technology Co., Ltd.* (“Shanghai Shuge”)

On May 31, 2018, the registered capital of Shanghai Shuge was increased to US\$25 million.

On September 29, 2018, the registered capital of Shanghai Shuge was increased to US\$31 million.

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Beijing Wan Qing Teng Science & Technology Co., Ltd.* (“Beijing Wan Qing Teng”)

On July 2, 2018, the registered capital of Beijing Wan Qing Teng was increased to US\$50 million.

Shou Rong Yun (Beijing) Science & Technology Co., Ltd.* (“Shou Rong Yun”)

On August 28, 2018, the registered capital of Shou Rong Yun was increased to RMB150 million.

On February 10, 2020, the registered capital of Shou Rong Yun was further increased to RMB187 million.

Shenzhen Yungang EDC Technology Co., Ltd.* (“Shenzhen Yungang”)

On May 10, 2018, the registered capital of Shenzhen Yungang was increased to US\$67.1 million.

Shenzhen Qian Hai Wan Chang Technology Services Co., Ltd.* (“Qian Hai Wan Chang”)

On May 17, 2018, the registered capital of Qian Hai Wan Chang was increased to US\$55 million.

Guangzhou Shi Wan Guo Yun Lan Data Technology Co., Ltd.* (“Wan Guo Yun Lan”)

On June 13, 2018, the registered capital of Wan Guo Yun Lan was increased to US\$28.5 million.

On September 13, 2018, the registered capital of Wan Guo Yun Lan was further increased to US\$39.5 million.

On December 6, 2018, the registered capital of Wan Guo Yun Lan was further increased to US\$50 million.

EDC (Chengdu) Industry Co., Ltd.* (“EDC Chengdu”)

On June 22, 2018, the registered capital of EDC Chengdu was increased to US\$68 million.

On December 28, 2018, the registered capital of EDC Chengdu was further increased to US\$112.2 million.

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Langfang Wanguo Yunxin Data Science & Technology Co., Ltd.* (“Wanguo Yunxin”)

On April 30, 2019, the registered capital of Wanguo Yunxin was increased to RMB143.7 million.

On September 5, 2019, the registered capital of Wanguo Yunxin was further increased to RMB265 million.

On April 30, 2020, the registered capital of Wanguo Yunxin was further increased to RMB330 million.

Beijing Wan Teng Yun Science & Technology Co., Ltd.* (“Wan Teng Yun”)

On June 12, 2018, the registered capital of Wan Teng Yun was increased to RMB242 million.

On May 21, 2019, the registered capital of Wan Teng Yun was further increased to RMB325 million.

Beijing Hua Wei Yun Science & Technology Co., Ltd.* (“Hua Wei Yun”)

On June 12, 2018, the registered capital of Hua Wei Yun was increased to RMB242 million.

On May 21, 2019, the registered capital of Hua Wei Yun was further increased to RMB325 million.

Lanting (Beijing) Information Science and Technology Co., Ltd. (“Lanting Information”)

On June 3, 2020, the registered capital of Lanting Information was increased to RMB600 million.

Shanghai Jingshuo Data Science & Technology Co., Ltd. (“Shanghai Jingshuo”)

On September 27, 2020, the registered capital of Shanghai Jingshuo was increased to US\$105 million.

Further Information About Our Business

Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this document and are or may be material, as well as contracts required to be disclosed pursuant to the Hong Kong Stock Exchange’s Guidance Letter HKEX-GL94-18 and Listing Decision HKEX-LD43-3:

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- (1) an exclusive technology license and service agreement (獨家技術許可與服務協議) entered into by and between Beijing Wanguo Chang'an Science & Technology Co., Ltd. (北京萬國長安科技有限公司) ("**GDS Beijing**") and GDS (Shanghai) Investment Co., Ltd. (萬數(上海)投資有限公司) ("**GDS Investment Company**"), dated December 16, 2019, pursuant to which GDS Investment Company agreed to be engaged as the exclusive provider of software license, technical support and other services to GDS Beijing in return for service fees;
- (2) an exclusive technology license and service agreement (獨家技術許可與服務協議) entered into by and between Shanghai Shu'an Data Services Co., Ltd. (上海曙安數據服務有限公司) ("**GDS Shanghai**") and GDS Investment Company, dated December 18, 2019, pursuant to which GDS Investment Company agreed to be engaged as the exclusive provider of software license, technical support and other services to GDS Shanghai in return for service fees;
- (3) an exclusive technology license and service agreement (獨家技術許可與服務協議) entered into by and between Shanghai Xinwan Enterprise Management Co., Ltd. (上海信萬企業管理有限公司) ("**Management HoldCo**") and GDS Investment Company, dated December 16, 2019, pursuant to which GDS Investment Company agreed to be engaged as the exclusive provider of software license, technical support and other services to Management HoldCo in return for service fees;
- (4) an exclusive call option agreement (獨家轉股期權協議) entered into by and among Management HoldCo, GDS Beijing and GDS Investment Company with regards to GDS Beijing, dated December 16, 2019, pursuant to which Management HoldCo irrevocably grants to GDS Investment Company an exclusive call option under which, to the extent permitted by PRC law, Management HoldCo shall transfer all or part of its shares in GDS Beijing to GDS Investment Company and/or any other entity or individual designated by GDS Investment Company as required by GDS Investment Company;
- (5) an exclusive call option agreement (獨家轉股期權協議) entered into by and among Management HoldCo, GDS Shanghai and GDS Investment Company with regards to GDS Shanghai, dated December 18, 2019, pursuant to which Management HoldCo irrevocably grants to GDS Investment Company an exclusive call option under which, to the extent permitted by PRC law, Management HoldCo shall transfer all or part of its shares in GDS Shanghai to GDS Investment Company and/or any other entity or individual designated by GDS Investment Company as required by GDS Investment Company;
- (6) an exclusive call option agreement (獨家轉股期權協議) entered into by and among Li Wenfeng (李文峰), Management HoldCo and GDS Investment Company with regards to Management HoldCo, dated December 16, 2019, pursuant to which Li Wenfeng (李文峰) irrevocably grants to GDS Investment Company an exclusive call option under which, to the extent permitted by PRC law, Li Wenfeng (李文峰) shall transfer all or part of his shares in Management HoldCo to GDS Investment Company and/or any other entity or individual designated by GDS Investment Company as required by GDS Investment Company;

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- (7) an exclusive call option agreement (獨家轉股期權協議) entered into by and among Liang Yan (梁艷), Management HoldCo and GDS Investment Company with regards to Management HoldCo, dated December 16, 2019, pursuant to which Liang Yan (梁艷) irrevocably grants to GDS Investment Company an exclusive call option under which, to the extent permitted by PRC law, Liang Yan (梁艷) shall transfer all or part of her shares in Management HoldCo to GDS Investment Company and/or any other entity or individual designated by GDS Investment Company as required by GDS Investment Company;
- (8) an exclusive call option agreement (獨家轉股期權協議) entered into by and among Wang Qi (汪琪), Management HoldCo and GDS Investment Company with regards to Management HoldCo, dated December 16, 2019, pursuant to which Wang Qi (汪琪) irrevocably grants to GDS Investment Company an exclusive call option under which, to the extent permitted by PRC law, Wang Qi (汪琪) shall transfer all or part of his shares in Management HoldCo to GDS Investment Company and/or any other entity or individual designated by GDS Investment Company as required by GDS Investment Company;
- (9) an exclusive call option agreement (獨家轉股期權協議) entered into by and among Chen Liang (陳亮), Management HoldCo and GDS Investment Company with regards to Management HoldCo, dated December 16, 2019, pursuant to which Chen Liang (陳亮) irrevocably grants to GDS Investment Company an exclusive call option under which, to the extent permitted by PRC law, Chen Liang (陳亮) shall transfer all or part of her shares in Management HoldCo to GDS Investment Company and/or any other entity or individual designated by GDS Investment Company as required by GDS Investment Company;
- (10) an exclusive call option agreement (獨家轉股期權協議) entered into by and among Chen Yilin (陳怡琳), Management HoldCo and GDS Investment Company with regards to Management HoldCo, dated December 16, 2019, pursuant to which Chen Yilin (陳怡琳) irrevocably grants to GDS Investment Company an exclusive call option under which, to the extent permitted by PRC law, Chen Yilin (陳怡琳) shall transfer all or part of her shares in Management HoldCo to GDS Investment Company and/or any other entity or individual designated by GDS Investment Company as required by GDS Investment Company;
- (11) a shareholder voting rights proxy agreement (股東表決權委託協議) entered into by and among GDS Investment Company, GDS Beijing and Management HoldCo with regards to GDS Beijing, dated December 16, 2019, pursuant to which Management HoldCo irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising its rights as shareholder of GDS Beijing, and GDS Beijing irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising its rights as shareholder of its subsidiary;

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- (12) a shareholder voting rights proxy agreement (股東表決權委託協議) entered into by and among GDS Investment Company, GDS Shanghai and Management HoldCo with regards to GDS Shanghai, dated December 18, 2019, pursuant to which Management HoldCo irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising its rights as shareholder of GDS Shanghai, and GDS Shanghai irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising its rights as shareholder of its subsidiary;
- (13) a shareholder voting rights proxy agreement (股東表決權委託協議) entered into by and among GDS Investment Company, Management HoldCo and Li Wenfeng (李文峰) with regards to Management HoldCo, dated December 16, 2019, pursuant to which Li Wenfeng (李文峰) irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising his rights as shareholder of Management HoldCo, and Management HoldCo irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising its rights as shareholder of its subsidiary;
- (14) a shareholder voting rights proxy agreement (股東表決權委託協議) entered into by and among GDS Investment Company, Management HoldCo and Liang Yan (梁艷) with regards to Management HoldCo, dated December 16, 2019, pursuant to which Liang Yan (梁艷) irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising her rights as shareholder of Management HoldCo, and Management HoldCo irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising its rights as shareholder of its subsidiary;
- (15) a shareholder voting rights proxy agreement (股東表決權委託協議) entered into by and among GDS Investment Company, Management HoldCo and Wang Qi (汪琪) with regards to Management HoldCo, dated December 16, 2019, pursuant to which Wang Qi (汪琪) irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising his rights as shareholder of Management HoldCo, and Management HoldCo irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising its rights as shareholder of its subsidiary;
- (16) a shareholder voting rights proxy agreement (股東表決權委託協議) entered into by and among GDS Investment Company, Management HoldCo and Chen Liang (陳亮) with regards to Management HoldCo, dated December 16, 2019, pursuant to which Chen Liang (陳亮) irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising her rights as shareholder of Management HoldCo, and Management HoldCo irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising its rights as shareholder of its subsidiary;

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- (17) a shareholder voting rights proxy agreement (股東表決權委託協議) entered into by and among GDS Investment Company, Management HoldCo and Chen Yilin (陳怡琳) with regards to Management HoldCo, dated December 16, 2019, pursuant to which Chen Yilin (陳怡琳) irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising her rights as shareholder of Management HoldCo, and Management HoldCo irrevocably undertakes to authorize the person designated by GDS Investment Company for exercising its rights as shareholder of its subsidiary;
- (18) an equity interest pledge agreement (股權質押協議) entered into by and between Management HoldCo and GDS Investment Company with regards to GDS Beijing, dated December 16, 2019, pursuant to which Management HoldCo agrees to pledge all its equity shares in GDS Beijing as security to GDS Investment Company for the purpose of guaranteeing the performance of contractual obligations under certain transaction agreements entered into by Management HoldCo, GDS Investment Company and/or GDS Beijing and the discharge of the secured debts thereunder, and that GDS Investment Company shall have first priority;
- (19) an equity interest pledge agreement (股權質押協議) entered into by and between Management HoldCo and GDS Investment Company with regards to GDS Shanghai, dated December 18, 2019, pursuant to which Management HoldCo agrees to pledge all its equity shares in GDS Shanghai as security to GDS Investment Company for the purpose of guaranteeing the performance of contractual obligations under certain transaction agreements entered into by Management HoldCo, GDS Investment Company and/or GDS Shanghai and the discharge of the secured debts thereunder, and that GDS Investment Company shall have first priority;
- (20) an equity interest pledge agreement (股權質押協議) entered into by and between Li Wenfeng (李文峰) and GDS Investment Company with regards to Management HoldCo, dated December 16, 2019, pursuant to which Li Wenfeng (李文峰) agrees to pledge all his equity shares in Management HoldCo as security to GDS Investment Company for the purpose of guaranteeing the performance of contractual obligations under certain transaction agreements entered into by Li Wenfeng (李文峰), GDS Investment Company, and/or Management HoldCo and the discharge of the secured debts thereunder, and that GDS Investment Company shall have first priority;
- (21) an equity interest pledge agreement (股權質押協議) entered into by and between Liang Yan (梁艷) and GDS Investment Company with regards to Management HoldCo, dated December 16, 2019, pursuant to which Liang Yan (梁艷) agrees to pledge all her equity shares in Management HoldCo as security to GDS Investment Company for the purpose of guaranteeing the performance of contractual obligations under certain transaction agreements entered into by Liang Yan (梁艷), GDS Investment Company, and/or Management HoldCo and the discharge of the secured debts thereunder, and that GDS Investment Company shall have first priority;

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- (22) an equity interest pledge agreement (股權質押協議) entered into by and between Wang Qi (汪琪) and GDS Investment Company with regards to Management HoldCo, dated December 16, 2019, pursuant to which Wang Qi (汪琪) agrees to pledge all his equity shares in Management HoldCo as security to GDS Investment Company for the purpose of guaranteeing the performance of contractual obligations under certain transaction agreements entered into by Wang Qi (汪琪), GDS Investment Company, and/or Management HoldCo and the discharge of the secured debts thereunder, and that GDS Investment Company shall have first priority;
- (23) an equity interest pledge agreement (股權質押協議) entered into by and between Chen Liang (陳亮) and GDS Investment Company with regards to Management HoldCo, dated December 16, 2019, pursuant to which Chen Liang (陳亮) agrees to pledge all her equity shares in Management HoldCo as security to GDS Investment Company for the purpose of guaranteeing the performance of contractual obligations under certain transaction agreements entered into by Chen Liang (陳亮), GDS Investment Company, and/or Management HoldCo and the discharge of the secured debts thereunder, and that GDS Investment Company shall have first priority;
- (24) an equity interest pledge agreement (股權質押協議) entered into by and between Chen Yilin (陳怡琳) and GDS Investment Company with regards to Management HoldCo, dated December 16, 2019, pursuant to which Chen Yilin (陳怡琳) agrees to pledge all her equity shares in Management HoldCo as security to GDS Investment Company for the purpose of guaranteeing the performance of contractual obligations under certain transaction agreements entered into by Chen Yilin (陳怡琳), GDS Investment Company, and/or Management HoldCo and the discharge of the secured debts thereunder, and that GDS Investment Company shall have first priority;
- (25) an intellectual property rights license agreement (知識產權使用許可協議) entered into by and between GDS Beijing and GDS Investment Company, dated December 16, 2019, pursuant to which GDS Beijing agrees to grant an exclusive licence to GDS Investment Company to use its intellectual property rights in accordance with the terms and conditions therein;
- (26) an intellectual property rights license agreement (知識產權使用許可協議) entered into by and between GDS Shanghai and GDS Investment Company, dated December 18, 2019, pursuant to which GDS Shanghai agrees to grant an exclusive licence to GDS Investment Company to use its intellectual property rights in accordance with the terms and conditions therein;
- (27) an intellectual property rights license agreement (知識產權使用許可協議) entered into by and between Management HoldCo and GDS Investment Company, dated December 16, 2019, pursuant to which Management HoldCo agrees to grant an exclusive licence to GDS Investment Company to use its intellectual property rights in accordance with the terms and conditions therein;

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- (28) a loan agreement (借款協議) entered into by and among Management HoldCo, Huang Wei (黃偉), Huang Qiuping (黃秋萍) (Huang Wei and Huang Qiuping are collectively referred as “**Original Borrowers**”) and GDS Investment Company, dated December 16, 2019, pursuant to which GDS Investment Company shall provide a loan of RMB300,100,000 to Management HoldCo, of which the amount of RMB114,500,000 has been advanced by GDS Investment Company to the Original Borrowers and such amount shall be transferred to Management HoldCo;
- (29) a loan agreement (借款協議) entered into by and among Management HoldCo, the Original Borrowers and GDS Investment Company, dated December 18, 2019, pursuant to which GDS Investment Company shall provide a loan of RMB10,000,000 to Management HoldCo, of which the entire amount has been advanced by GDS Investment Company to the Original Borrowers and such amount shall be transferred to Management HoldCo;
- (30) a loan agreement (借款協議) entered into by and between Li Wenfeng (李文峰) and GDS Investment Company, dated December 16, 2019, pursuant to which GDS Investment Company shall provide a loan of RMB200,000 to Li Wenfeng (李文峰);
- (31) a loan agreement (借款協議) entered into by and between Liang Yan (梁艷) and GDS Investment Company, dated December 16, 2019, pursuant to which GDS Investment Company shall provide a loan of RMB200,000 to Liang Yan (梁艷);
- (32) a loan agreement (借款協議) entered into by and between Wang Qi (汪琪) and GDS Investment Company, dated December 16, 2019 pursuant to which GDS Investment Company shall provide a loan of RMB200,000 to Wang Qi (汪琪);
- (33) a loan agreement (借款協議) entered into by and between Chen Liang (陳亮) and GDS Investment Company, dated December 16, 2019 pursuant to which GDS Investment Company shall provide a loan of RMB200,000 to Chen Liang (陳亮);
- (34) a loan agreement (借款協議) entered into by and between Chen Yilin (陳怡琳) and GDS Investment Company, dated December 16, 2019 pursuant to which GDS Investment Company shall provide a loan of RMB200,000 to Chen Yilin (陳怡琳);
- (35) a share subscription agreement entered into by and among the Company and PA Goldilocks Limited (“**PA Goldilocks**”), dated March 13, 2019, pursuant to which PA Goldilocks shall subscribe from the Company and the Company shall allot and issue to PA Goldilocks 150,000 series A convertible preferred shares of par value of US\$0.00005 per share of the Company for an aggregate subscription price of US\$150,000,000 (the “**Share Subscription Agreement**”);

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- (36) an investor rights agreement entered into by and among the Company and PA Goldilocks, dated March 27, 2019, which sets forth certain rights and obligations of the parties thereto in connection with the transactions contemplated under the Share Subscription Agreement (the "**PA Goldilocks Investor Rights Agreement**");
- (37) a share purchase agreement entered into by and among the Company and STT GDC PTE. LTD. ("**STT GDC**"), dated June 22, 2020, pursuant to which STT GDC shall purchase from the Company, and the Company shall issue and sell to STT GDC 12,923,080 Class A ordinary shares of par value of US\$0.00005 per share of the Company for an aggregate subscription price of US\$105,000,000;
- (38) an investor rights agreement entered into by and between the Company and STT GDC, dated June 26, 2020 pursuant to which the Company undertakes to STT GDC that the Company shall not undertake any allotment and issuance of new equity securities in a transaction not subject to the registration requirements of the Commission (as defined therein) unless it first delivers to STT GDC a participation notice and complies with the provisions set forth therein (the "**STT GDC Investor Rights Agreement**");
- (39) an amendment No. 1 to the STT GDC Investor Rights Agreement entered into by and between the Company and STT GDC, dated August 4, 2020, pursuant to which the Company and STT GDC agreed to amend certain terms of the STT GDC Investor Rights Agreement;
- (40) an amendment No. 1 to the PA Goldilocks Investor Rights Agreement entered into by and between the Company and PA Goldilocks, dated June 26, 2020, pursuant to which the Company and PA Goldilocks agreed to amend certain terms of the PA Goldilocks Investor Rights Agreement;
- (41) a share purchase agreement entered into by and among the Company, GAOLING FUND, L.P. ("**Gaoling**") and YHG INVESTMENT, L.P. ("**YHG**"), dated June 22, 2020, pursuant to which each of Gaoling and YHG shall purchase from the Company, and the Company shall issue and sell to each of Gaoling and YHG, respectively, 47,100,992 and 2,129,776 Class A ordinary shares of par value of US\$0.00005 per share of the Company for an aggregate subscription price of US\$399,999,990 (the "**Hillhouse Share Purchase Agreement**");
- (42) an investor rights agreement entered into by and between the Company, Gaoling and YHG, dated June 26, 2020, which sets forth certain rights and obligations of the parties thereto in connection with the transactions contemplated under the Hillhouse Share Purchase Agreement; and
- (43) [REDACTED].

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Our Intellectual Property Rights

We believe the protection of our trademarks, copyrights, domain names, trade names, trade secrets, patents and other proprietary rights is critical to our business. We rely on a combination of trademark, fair trade practice, copyright and trade secret protection laws and patent protection in China and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our trademarks. We also enter into confidentiality and invention assignment agreements with all of our employees, and we rigorously control access to our proprietary technology and information.

As of the Latest Practicable Date, we had 111 registered computer software copyrights and 91 trademark registered in China, and one pending trademark application outside China, including registered trademarks for “GDS” and figure trademark . As of the Latest Practicable Date, we had 25 patents granted and 10 patent applications in China, and had registered 13 domain names, including “gds-services.com”.

Further Information About Directors and Executive Officers

Disclosure of Interests

See “Major Shareholders” for disclosure of interests of directors and executive officers.

Directors’ Service Contracts

We have entered into employment agreements with each of our directors who is also an officer. See “Directors, Senior Management and Employees — Compensation — Employment Agreements.”

Each of our directors has been nominated pursuant to our Articles of Association. Their terms of the appointment are for a period of three years. We may terminate an executive officer’s employment for cause, at any time, without notice or remuneration, for certain acts of the officer, including serious or persistent breach or non-observance of the employment terms or a conviction of a criminal offense. An executive officer may terminate his/her employment at any time with one-month prior written notice. Furthermore, we may terminate the employment at any time without cause upon advance written notice and certain amount of compensation payment.

Directors’ Remuneration

See “Directors, Senior Management and Employees — Compensation” for a discussion of Directors’ remuneration.

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Disclosures relating to Directors and Experts

Save as disclosed in this document:

- None of our directors nor any of the persons listed in “— Other Information — Qualification of Experts” below is materially interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to our subsidiaries and our consolidated affiliated entities, or are proposed to be acquired or disposed of by or leased to our subsidiaries and our consolidated affiliated entities.
- None of our directors nor any of the persons listed in “— Other Information — Qualification of Experts” below is materially interested in any contract or arrangement with us subsisting at the date of this document which is unusual in its nature or conditions or which is significant in relation to our business as a whole.
- None of the persons listed in “— Other Information — Qualification of Experts” below has any shareholding in us or any of our Major Subsidiaries or has the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in us or any of our Major Subsidiaries.

Share Incentive Plans

See “Directors, Senior Management and Employees — Compensation” for details about our Share Incentive Plans.

Other Information

Estate duty

Our directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

Litigation

See “Our Business — Legal Proceedings” for further information.

Joint Sponsors

The Joint Sponsors have made an application on behalf of our Company to [REDACTED] for the [REDACTED] of, and permission to [REDACTED], the Class A ordinary shares in issue (including Class A ordinary shares on conversion of convertible bonds and convertible preferred shares), the Class A ordinary shares to be issued pursuant to the [REDACTED] (including the additional Class A ordinary shares which may be issued pursuant

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to the exercise of the [REDACTED]), and the Class A ordinary shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of share options or other awards that have been or may be granted from time to time and the Class A ordinary shares to be issued after the conversion of Class B ordinary shares. All necessary arrangements have been made to enable such Shares to be admitted into [REDACTED].

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules.

The fee payable to each of the Joint Sponsors is US\$350,000 and is payable by our Company.

No Material Adverse Change

Our directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2020 (being the date to which our latest audited consolidated financial statements were prepared).

Qualification of Experts

The following are the qualifications of the experts (as defined under the Hong Kong Listing Rules and the Companies (WUMP) Ordinance) who have given opinions or advice which are contained in this document:

Name	Qualification
J.P. Morgan Securities (Far East) Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
Merrill Lynch Far East Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
China International Capital Corporation Hong Kong Securities Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO

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Bilingual Document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Miscellaneous

- Save as disclosed in this document or otherwise waived or exempted from disclosure pursuant to the waivers and exemptions disclosed in this document, within the two years immediately preceding the date of this document:
 - to the best of our knowledge, neither we nor any of our Major Subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
 - no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
 - no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any share capital or debentures of our Company or any of our Major Subsidiaries;
 - no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
 - there is no arrangement under which future dividends are waived or agreed to be waived.
- Our branch register of members will be maintained in Hong Kong by our [REDACTED]. Unless the directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our [REDACTED] in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to [REDACTED].

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- Our directors confirm that:
 - there has not been any interruption in our business which may have or have had a material adverse effect on our financial position in the 12 months immediately preceding the date of this document; and
 - save for the US\$300 million aggregate principal amount of 2% Convertible Senior Notes due 2025, we and our Major Subsidiaries have no outstanding debentures or convertible debt securities.
- The English version of this document shall prevail over the Chinese version.

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

Documents Delivered to the Registrar of Companies

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- **[REDACTED]**;
- a copy of each of the material contracts referred to in the section headed “Statutory and General Information — Further Information About Our Business — Summary of Material Contracts” in Appendix IV to this document; and
- the written consents referred to in the section headed “Statutory and General Information — Other Information — Consents of Experts” in Appendix IV to this document.

Documents Available for Inspection

Copies of the following documents will be available for inspection at the office of Simpson Thacher & Bartlett, 35/F ICBC Tower, 3 Garden Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- the Memorandum and Articles of Association of our Company;
- our audited consolidated financial statements for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020;
- the Accountants’ Report and the report on the unaudited pro forma financial information from KPMG, the texts of which are set out in Appendix I and II to this document;
- the legal opinion issued by King & Wood Mallesons, our PRC legal adviser, in respect of certain aspects of us;
- the letter of advice prepared by Conyers Dill & Pearman, our Cayman Islands legal adviser, summarizing certain aspects of Cayman Companies Law referred to in Appendix III to this document;
- the industry report prepared by Shanghai iResearch Co., Ltd, China referred to in the section headed “Industry Overview” in this document;
- the material contracts referred to in the section headed “Statutory and General Information — Further Information About Our Business — Summary of Material Contracts” in Appendix IV to this document;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

- the written consents referred to in the section headed "Statutory and General Information — Other Information — Consents of Experts" in Appendix IV to this document; and
- the Cayman Companies Law.