

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)  
[TABLE OF CONTENTS 2](#)

[Table of Contents](#)

As filed with the Securities and Exchange Commission on October 19, 2016

Registration No. 333-213951

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1  
TO

### Form F-1

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

## GDS Holdings Limited

(Exact name of Registrant as specified in its charter)

<b>Cayman Islands</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>7370</b> (Primary Standard Industrial Classification Code Number)	<b>Not Applicable</b> (I.R.S. Employer Identification Number)
---	--	---

2/F, Tower 2, Youyou Century Place  
428 South Yanggao Road  
Pudong, Shanghai 200127  
People's Republic of China  
+86-21-2033-0303

(Address and Telephone Number of Registrant's Principal Executive Offices)

Law Debenture Corporate Services Inc.  
400 Madison Avenue, 4th Floor  
New York, NY 10017, United States  
+1-212-750-6474

(Name, address and telephone number of agent for service)

#### Copies to:

Daniel Fertig, Esq.  
Chris Lin, Esq.  
Simpson Thacher & Bartlett LLP  
35th Floor, ICBC Tower  
3 Garden Road  
Central, Hong Kong  
+852-2514-7600

Gordon K. Davidson, Esq.  
William L. Hughes, Esq.  
Fenwick & West LLP  
801 California Street  
Mountain View, California 94041  
(650) 988-8500

Karen Yan, Esq.  
Fenwick & West LLP  
Unit 908, 9th floor  
Kerry Parkside Office  
No. 1155 Fang Dian Road  
Pudong New Area, Shanghai  
201204  
People's Republic of China  
+86-21-8017-1200

Approximate date of commencement of proposed sale to the public:  
As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

#### CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered <sup>(1)(3)</sup>	Proposed maximum offering price per share <sup>(3)</sup>	Proposed maximum aggregate offering price <sup>(2)(3)</sup>	Amount of registration fee <sup>(4)</sup>
Class A ordinary shares, US\$0.00005 par value per share <sup>(1)</sup> <sup>(2)</sup>	177,100,000	US\$1.75	US\$309,925,000	US\$35,921

(1) American depositary shares, or ADSs, issuable upon deposit of the Class A ordinary shares registered hereby will be registered under a separate registration statement on Form F-6 (Registration No. 333- ). Each ADS represents eight Class A ordinary shares.

(2) Includes Class A ordinary shares represented by ADSs initially offered and sold outside the United States that may be resold from time to time in the United States either as part of the distribution or within 40 days after the later of the effective date of this registration statement and the date the securities are first bona fide offered to the public.

(3) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(a) under the Securities Act of 1933, as amended.

(4) US\$23,180 of which was previously paid.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to such Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the United States Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated October 19, 2016.

## 19,250,000 American Depositary Shares



### GDS Holdings Limited

#### Representing 154,000,000 Class A Ordinary Shares

This is an initial public offering of shares of American depositary shares, or ADSs, each representing eight Class A ordinary shares of GDS Holdings Limited, or GDS Holdings.

GDS Holdings is offering 19,250,000 ADSs to be sold in this offering.

Prior to this offering, there has been no public market for the ADSs or our shares. It is currently estimated that the initial public offering price per ADS will be between US\$12.00 and US\$14.00. We have applied to list the ADSs on the NASDAQ Global Market under the symbol "GDS."

We are an "emerging growth company" under applicable United States federal securities laws and are eligible for reduced public company reporting requirements.

See "Risk Factors" on page 18 to read about factors you should consider before buying the ADSs.

Neither the United States Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per ADS	Total
Initial public offering price	US\$	US\$
Underwriting discount <sup>(1)</sup>	US\$	US\$
Proceeds, before expenses, to GDS Holdings	US\$	US\$

(1) We have agreed to reimburse the underwriters for certain expenses in connection with this offering. See "Underwriting."

Upon the completion of this offering, we will pay a preference dividend in the amount of US\$50.8 million to existing holders of our preferred shares, of which US\$11.4 million is to be paid in cash using a portion of the proceeds from this offering and US\$39.4 million is to be paid in the form of Class A ordinary shares. See "Prospectus Summary—The Offering—Preference Dividend" and "Dividend Policy" for more information.

To the extent that the underwriters sell more than 19,250,000 ADSs, the underwriters have the option to purchase up to an additional 2,887,500 ADSs from GDS at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the ADSs against payment in New York, New York on \_\_\_\_\_, 2016.

Upon completion of this offering, our outstanding share capital will consist of 677,708,466 Class A ordinary shares and 67,590,336 Class B ordinary shares, assuming the underwriters do not exercise their option to purchase additional ADSs. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting rights, director nomination rights and conversion rights. With respect to (i) the election of a simple majority of our directors and (ii) any change to our 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, and each Class B ordinary share is entitled to 20 votes. 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. Class B ordinary shares are convertible into Class A ordinary shares. Immediately after the completion of this offering, Mr. William Wei Huang, our founder, chairman and chief executive officer, will beneficially own 100% of the Class B ordinary shares issued and outstanding. For so long as there are Class B ordinary shares outstanding, the holders of Class B ordinary shares will also have the right to nominate one less than a simple majority, or five, of the directors to our board of directors, which directors shall be subject to the voting arrangements described above. In addition, pursuant to our articles of association as we expect them to be amended and become effective upon the completion of this offering, STT GDC, one of our principal shareholders, will have the right to appoint certain directors and the Class B shareholders will have the right to nominate certain directors to our board of directors for so long as each of them holds certain percentages of our issued share capital. See "Description of Share Capital."

(in alphabetical order)

Credit Suisse

J.P. Morgan

Citi

RBC Capital Markets

China Renaissance

Credit Agricole CIB

Prospectus dated \_\_\_\_\_, 2016.

## Leading developer and operator of high-performance data centers in China



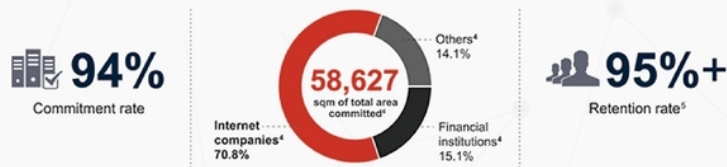
### High-performance data centers

#### High-availability, high-efficiency and high-reliability



### Large and fast growing customers

#### Serving some of the largest and most demanding customers for outsourced data center services in China



Note: GDS data as of September 30, 2016  
<sup>1</sup> According to 451 Research, within high-performance carrier-neutral data center services market in China, based on area committed as of September 30, 2016  
<sup>2</sup> Includes approximately 20,000 sqm for which the company has entered into a memorandum of understanding  
<sup>3</sup> Size of city market represents the relative approximate total amount of area in service and area under construction (including third-party data centers) in the relevant city  
<sup>4</sup> % distribution by total area committed, including 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  
<sup>5</sup> Average per annum among internet and financial institution customers for colocation services over the past two years

## TABLE OF CONTENTS

<a href="#">Prospectus Summary</a>	<a href="#">1</a>
<a href="#">Recent Developments</a>	<a href="#">17</a>
<a href="#">Risk Factors</a>	<a href="#">18</a>
<a href="#">Special Note Regarding Forward-Looking Statements</a>	<a href="#">67</a>
<a href="#">Use of Proceeds</a>	<a href="#">68</a>
<a href="#">Dividend Policy</a>	<a href="#">70</a>
<a href="#">Capitalization</a>	<a href="#">71</a>
<a href="#">Dilution</a>	<a href="#">72</a>
<a href="#">Exchange Rate Information</a>	<a href="#">74</a>
<a href="#">Enforcement of Civil Liabilities</a>	<a href="#">75</a>
<a href="#">Our History and Corporate Structure</a>	<a href="#">77</a>
<a href="#">Selected Consolidated Financial and Operating Data</a>	<a href="#">85</a>
<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">88</a>
<a href="#">Industry Overview</a>	<a href="#">121</a>
<a href="#">Business</a>	<a href="#">127</a>
<a href="#">Regulations</a>	<a href="#">146</a>
<a href="#">Management</a>	<a href="#">156</a>
<a href="#">Principal Shareholders</a>	<a href="#">169</a>
<a href="#">Related Party Transactions</a>	<a href="#">172</a>
<a href="#">Description of Share Capital</a>	<a href="#">173</a>
<a href="#">Description of American Depositary Shares</a>	<a href="#">191</a>
<a href="#">Shares Eligible for Future Sale</a>	<a href="#">203</a>
<a href="#">Taxation</a>	<a href="#">206</a>
<a href="#">Underwriting</a>	<a href="#">213</a>
<a href="#">Expenses Related to this Offering</a>	<a href="#">220</a>
<a href="#">Legal Matters</a>	<a href="#">221</a>
<a href="#">Experts</a>	<a href="#">221</a>
<a href="#">Where You Can Find More Information</a>	<a href="#">222</a>
<a href="#">Index to Financial Information</a>	<a href="#">F-1</a>

No dealer, salesperson or other person is authorized to give any information or to represent as to anything not contained in this prospectus or in any free writing prospectus we may authorize to be delivered or made available to you. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell, and we are seeking offers to buy, only the ADSs offered hereby, and only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date, regardless of the time of delivery of this prospectus or any sale of the ADSs.

Neither we nor the underwriters have done anything that would permit this offering or the possession or distribution of this prospectus or any filed free writing prospectus in any jurisdiction where other action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus or any free writing prospectus filed with the United States Securities and Exchange Commission, or SEC, must inform themselves about, and observe any restrictions relating to, the offering of the ADSs and the distribution of this prospectus or any filed free writing prospectus outside of the United States.

Until \_\_\_\_\_, 2016 (the 25th day after the date of this prospectus), all dealers that buy, sell or trade ADSs, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

## PROSPECTUS SUMMARY

*This summary highlights selected information contained in greater detail elsewhere in this prospectus. This summary may not contain all of the information that you should consider before investing in our ADSs. You should carefully read the entire prospectus, including "Risk Factors" and the financial statements, before making an investment decision.*

### Overview

We are a leading developer and operator of high-performance data centers in China. Our facilities are strategically located in China's primary economic hubs where demand for high-performance data center services is concentrated. Our data centers have large net floor area, high power capacity, density and efficiency, and multiple redundancy across all critical systems. We are carrier and cloud neutral, which enables our customers to connect to all major PRC telecommunications carriers, and to access a number of the largest PRC cloud service providers, whom we host in our facilities. We offer colocation and managed services, including a unique and innovative managed cloud value proposition. We have a 15-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. Our base of approximately 370 customers consists predominantly of large Internet companies, financial institutions, telecommunications and IT service providers, and large domestic private sector and multinational corporations. As of September 30, 2016, we had an aggregate net floor area of 48,822 sqm in service, 93.8% of which was committed, and an aggregate net floor area of 37,194 sqm under construction. According to 451 Research, an independent research firm, we are the largest service provider in the high-performance carrier-neutral data center services market in China, with 24.9% market share as measured by area committed as of September 30, 2016.

The market for high-performance data center services in China is experiencing strong growth. According to 451 Research, the market is expected to increase from US\$1.5 billion in 2015 to US\$2.4 billion in 2018, representing a compound annual growth rate, or CAGR, of 16.6%. Over the same period, the high-performance carrier-neutral data center services market in China is expected to grow with a higher CAGR of 20.5%. Demand is driven by the confluence of several secular economic and industry trends, including: rapid growth of the Internet, e-commerce and big data; rising adoption of cloud computing and server virtualization, which requires data centers with higher power capacity, density and efficiency; increasing criticality of information technology and data in the enterprise environment which requires data centers with higher reliability; and growing reliance by enterprises on outsourcing as a solution to the increasing complexity and cost of managing mission-critical IT infrastructure. We believe that, as a result of this strong demand and the challenges of sourcing, developing and operating new facilities that meet the required standard, there is a relative scarcity of high-performance data center capacity in China. According to 451 Research, as of December 31, 2015, when comparing the ratio of square meters of colocation area in service to GDP, the U.S. had a ratio of 207 sqm per US\$1 billion in GDP, while China only had a ratio of 107.

Our portfolio of data centers and secured expansion capacity are strategically located to address this growing demand. We operate our data centers to service our customers predominantly in Shanghai, Beijing, Shenzhen, Guangzhou and Chengdu, the primary financial, commercial, industrial and communications hubs in each region of China. According to 451 Research, approximately 90% of the market in terms of revenue for high-performance data center services in China was concentrated in these markets in 2015. We have also established a presence in Hong Kong which we believe is another important market for our customers. Our data centers are located in close proximity to the corporate headquarters and key operation centers of many large enterprises, providing convenient access for our customers. 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.

Our data centers are large-scale, 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 and optimize power usage efficiency, which enables our customers to deploy their IT infrastructure 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.

We currently serve approximately 370 customers, including large Internet companies, a diverse community of approximately 160 financial institutions, telecommunications and IT service providers and large domestic private sector and multinational corporations, many of which are leaders in their respective industries. Within our customer base, we host a number of major cloud service providers, including Aliyun, the cloud computing unit of Alibaba, which is present in several of our data centers. Contracts with our large Internet customers have terms of three to eight years, while contracts with our enterprise customers typically have terms of one to five years. We achieved an average retention rate of over 95% per annum among our Internet and financial institution customers for colocation services in our current data centers over the past two years.

As of September 30, 2016, we operated eight self-developed data centers with an aggregate net floor area of 39,781 sqm in service. We also operated capacity at approximately ten third-party data centers with an aggregate net floor area of 9,041 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 five new self-developed data centers and two phases of an existing data center with an aggregate net floor area of 37,194 sqm under construction. In addition, we had an estimated aggregate developable net floor area of approximately 20,000 sqm held for future development and entered into a memorandum of understanding for a lease of three data center shell buildings that we expect to provide us with additional net floor area of approximately 30,000 sqm. Our net revenue and results of operations are largely determined by the degree to which data center space is committed or pre-committed as well as its utilization. We had commitment rates of 76.3%, 87.5% and 93.8% as of December 31, 2014 and 2015 and September 30, 2016, respectively. We had utilization rates of 57.7%, 59.1% and 70.4% as of December 31, 2014 and 2015 and September 30, 2016, respectively. The difference between commitment rate and utilization rate is primarily attributable to customers who have entered into agreements but have not yet started to use revenue generating services.

Our net revenue grew from RMB468.3 million in 2014 to RMB703.6 million (US\$105.9 million) in 2015, representing an increase of 50.2%, and increased from RMB304.8 million in the six months ended June 30, 2015 to RMB447.1 million (US\$67.3 million) in the same period in 2016, representing an increase of 46.7%. Our adjusted EBITDA increased from RMB38.0 million in 2014 to RMB164.7 million (US\$24.8 million) in 2015, and increased from RMB73.8 million in the six months ended June 30, 2015 to RMB100.6 million (US\$15.1 million) in the same period in 2016. Our net loss decreased from RMB130.0 million in 2014 to RMB98.6 million (US\$14.8 million) in 2015. Our net loss increased from RMB47.3 million in the six months ended June 30, 2015 to RMB154.2 million (US\$23.2 million) in the same period in 2016. As of December 31, 2015 and June 30, 2016, our accumulated deficit was RMB582.3 million (US\$87.6 million) and RMB736.5 million (US\$110.8 million), respectively.

#### **Our Strengths**

We believe that the following strengths contribute to our success and differentiate us from our competitors:

- large-scale, high-performance data centers strategically located in China's key markets;
- first-mover with a proven track record and reputation for operational excellence;
- well-established and rapidly expanding relationships with large and fast growing customers;

- large secured expansion capacity and proven ability to source and develop additional data centers;
- unique value proposition in managed cloud services that complements our core colocation services; and
- visionary and experienced management team supported by sophisticated strategic investors.

#### **Our Strategies**

We aim to capitalize on the attractive growth opportunities in the data center services market in China. We intend to achieve our goal through the following strategies:

- expand our unique portfolio of strategically located high-performance data centers;
- pursue balanced sourcing strategy to maintain continuous competitive supply;
- increase market share by attracting new customers and leveraging customer relationships;
- capitalize on rising adoption of cloud computing in China; and
- continue to focus relentlessly on operational excellence and capital efficiency.

#### **Our Challenges**

Our business and successful execution of our strategies are subject to certain challenges, risks and uncertainties including:

- 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;
- our capacity to generate capital to meet our anticipated capital requirements while managing our existing indebtedness;
- 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; and
- our ability to compete effectively.

In addition, we face risks and uncertainties related to our corporate structure and regulatory environment in China, including:

- regulations on foreign investment restriction and value added telecommunications services, according to which we may have been non-compliant in the past;
- risks associated with our control over our consolidated variable interest entities, or VIEs, in China, which is based on contractual arrangements rather than equity ownership; and
- changes in the political and economic policies of the PRC government.

We also face other risks and uncertainties that may materially affect our business, financial conditions, results of operations and prospects. You should consider the risks discussed in "Risk Factors" and elsewhere in this prospectus before investing in our ADSs.

#### **Our Corporate Structure**

We are an exempted company and were incorporated in the Cayman Islands in 2006. We own 100% of the shares in EDC Holding Limited, or EDC Holding, an exempted company also incorporated in the Cayman Islands, through which we indirectly hold 100% of the equity interests in holding companies in Hong Kong, many of which own our data centers through one or more PRC entities. We refer to these PRC companies as our data center companies. Through EDC Holding we also indirectly hold 100% of the equity interests in Shanghai Free Trade Zone GDS Management Co., Ltd., or GDS Management Company.

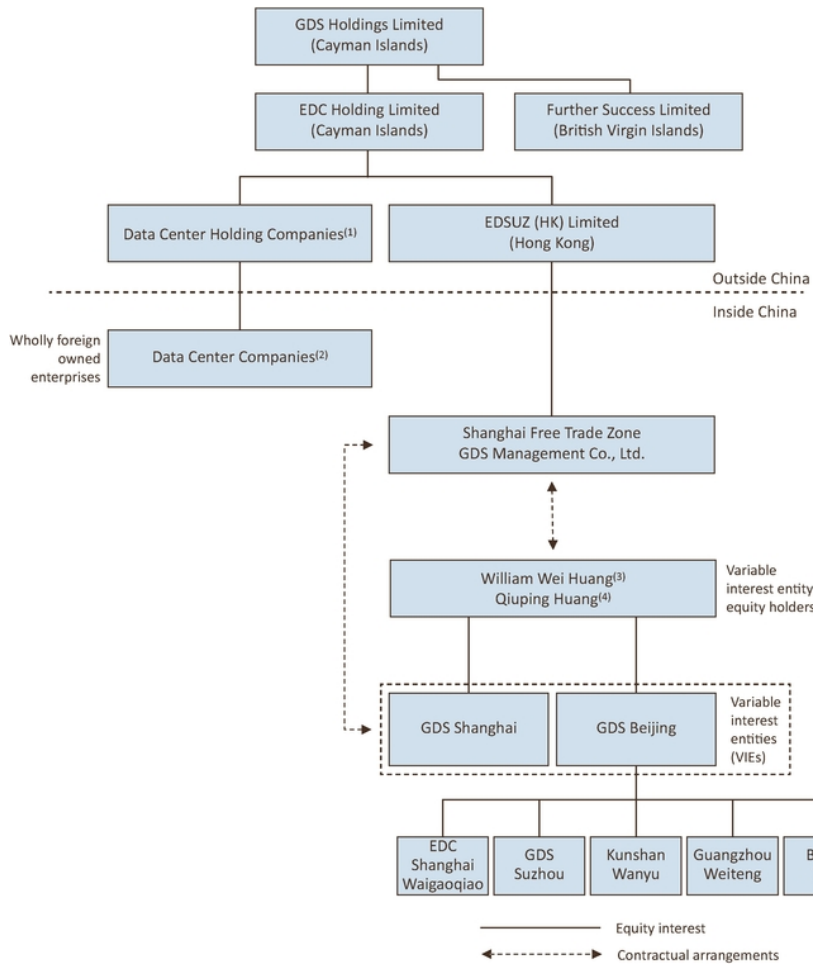
Due to PRC regulations that limit foreign equity ownership of entities providing value-added telecommunications services, or VATS, to 50%, and the inclusion of Internet data center services, or IDC services, within the scope of VATS, we conduct a substantial part of our operations in China through contractual arrangements among GDS Management Company, our data center companies, and two VIEs that hold licenses required to operate our business, Beijing Wanguo Chang'an Science & Technology Co., Ltd., or GDS Beijing, and Shanghai Shu'an Data Services Co., Ltd., or GDS Shanghai, and their shareholders. As a result of these contractual arrangements, we control GDS Shanghai, GDS Beijing and its subsidiaries, including Shanghai Waigaoqiao EDC Technology Co, Ltd., or EDC Shanghai Waigaoqiao, Global Data Solutions Co., Ltd., or GDS Suzhou, Kunshan Wanyu Data Service Co., Ltd., or Kunshan Wanyu, Guangzhou Weiteng Construction Co., Ltd., or Guangzhou Weiteng and Beijing Wanguo Yixin Science & Technology Co., Ltd., or Beijing Yixin, and have consolidated the financial information of these VIEs in our consolidated financial statements in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. We, through GDS Beijing, acquired all of the equity interest in Guangzhou Weiteng in May 2016 from a third party for an aggregate purchase price of RMB129.5 million (US\$19.5 million), subject to adjustment, if any, pursuant to the terms of conditions of the equity purchase agreement.

In 2003, some of our principal shareholders, including our founder, Mr. William Wei Huang, established Global Data Solutions Limited, a Cayman Islands exempted company. In 2001, Further Success Limited, or FSL, a limited liability company established in the British Virgin Islands and currently a direct wholly owned subsidiary of GDS Holdings acquired Global Data Solutions Co., Ltd., or GDS Suzhou, which was established by third parties in 2000. In 2006, GDS Beijing and GDS Holdings were established under the laws of the PRC and Cayman Islands, respectively. In 2009, we underwent restructuring with respect to GDS Beijing, which became a consolidated VIE. In 2010, GDS Suzhou was relocated from Shenzhen to Suzhou. In 2014, GDS Shanghai, which was established in 2011, also became a consolidated VIE.

Three of our principal shareholders, STT GDC Pte Ltd, or STT GDC (a wholly owned subsidiary of Singapore Technologies Telemedia Pte Ltd, or ST Telemedia), SBCVC Holdings Limited (SBCVC), and Mr. William Wei Huang, our founder, chairman and chief executive officer, currently own or exercise voting and investment control over approximately 45.1%, 18.1% and 13.6% (including ordinary shares (i) underlying share options exercisable within 60 days beneficially owned by Mr. Huang, and (ii) underlying convertible bonds convertible within 60 days beneficially owned by STT GDC), respectively, of our outstanding ordinary shares (assuming the conversion of our preferred shares into ordinary shares), and approximately 40.9% and 15.7% of our outstanding Class A ordinary shares, and 100.0% of our outstanding Class B ordinary shares, respectively, immediately after this offering, assuming no exercise by the underwriters of options to purchase additional ADSs, and accordingly, will exert significant influence and control over important corporate matters that require shareholder approval. 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, William Wei 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 ADSs and materially reduce the value of your investment."

The following diagram illustrates our corporate structure as of the date of this prospectus. It omits certain entities that are immaterial to our results of operations, business and financial condition. Equity interests depicted in this diagram are held as to 100%. The relationships between each of GDS Shanghai and GDS Beijing and GDS Management Company as illustrated in this diagram are governed by contractual arrangements and do not constitute equity ownership.





- (1) Includes 13 subsidiaries and consolidated entities (aside from EDSUZ (HK) Limited, shown above) incorporated in Hong Kong, seven of which hold our PRC-incorporated data center companies, and two additional subsidiaries incorporated in BVI and Macau, but excludes dormant or immaterial entities with no material business. See the chart presented in "Our History and Corporate Structure" for details on the data center holding companies.
- (2) Includes nine additional subsidiaries and consolidated entities incorporated in China. See the chart presented in "Our History and Corporate Structure" for details on the data center companies.
- (3) Holds equity interests of 99.90% in GDS Shanghai, and of approximately 99.97% in GDS Beijing.
- (4) Holds equity interests of 0.10% in GDS Shanghai, and of approximately 0.03% in GDS Beijing.

### **Our Corporate Information**

Our principal executive offices are located at 2/F Tower 2, Youyou Century Place, 428 South Yanggao Road, Pudong, Shanghai 200127, People's Republic of China. Our telephone number at this address is +86-21-2033-0303. Our registered office in the Cayman Islands is located at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our telephone number at this address is +1 (345) 949 1040. We also have four regional offices in Suzhou, Beijing, Chengdu and Shenzhen. Investors should submit any inquiries to the address and telephone number of our principal executive offices set forth above.

Our main website is [www.gds-services.com](http://www.gds-services.com), and the information contained on this website is not a part of this prospectus. Our agent for service of process in the United States is Law Debenture Corporate Service Inc. located at 400 Madison Avenue, 4th floor, New York, NY 10017.

### **Implications of Being an Emerging Growth Company**

As a company with less than US\$1.0 billion in revenue for the last fiscal year, we qualify as an "emerging growth company" pursuant to the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, in the assessment of the emerging growth company's internal control over financial reporting. The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. However, we have elected to "opt out" of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

We will remain an emerging growth company until the earliest of (a) the last day of our fiscal year during which we have total annual gross revenues of at least US\$1.0 billion; (b) the last day of our fiscal year following the fifth anniversary of the completion of this offering; (c) the date on which we have, during the previous three year period, issued more than US\$1.0 billion in non-convertible debt; or (d) the date on which we are deemed to be a "large accelerated filer" under the Securities Exchange Act of 1934, as amended, or the Exchange Act, which would occur if the market value of our ADSs that are held by non-affiliates exceeds US\$700 million as of the last business day of our most recently completed second fiscal quarter. Once we cease to be an emerging growth company, we will not be entitled to the exemptions provided in the JOBS Act discussed above.

### **Conventions That Apply to This Prospectus**

Unless we indicate otherwise, references in this prospectus to:

- "ADSs" are to our American depositary shares, each of which represents eight Class A ordinary shares, and "ADRs" are to the American depositary receipts that evidence our ADSs;
- "area committed" are to the net floor area of data centers in service for which agreements from customers remain in effect;
- "area held for future development" are to the estimated data center net floor area that we expect to be able to develop on land, at buildings and pursuant to development or lease agreements which we have secured, but which are not under construction;
- "area in service" are to the net floor area of data centers in service for which one or more modules have been equipped and fitted out ready for utilization by customers;
- "area pre-committed" are to the net floor area of data centers under construction for which agreements from customers remain in effect;

- "area utilized" are to the net floor area of data centers in service that is also revenue generating pursuant to customer agreements in effect;
- "area under construction" are to the net floor area of data centers which are under construction and are not yet ready for service;
- "China" and the "PRC" are to the People's Republic of China, excluding, for the purposes of this prospectus only, Taiwan, the Hong Kong Special Administrative Region and the Macao Special Administrative Region;
- "commitment rate" are to the ratio of area committed to area in service;
- "ordinary shares" refers to, prior to the completion of this offering, our ordinary shares, par value US\$0.00005 per share, and, upon, and after the completion of this offering, collectively, our Class A ordinary shares and Class B ordinary shares, par value US\$0.00005 per share;
- "pre-commitment rate" are to the ratio of area pre-committed to area under construction;
- "RMB" or "Renminbi" are to the legal currency of China;
- "self-developed data centers" are to data centers that we have either purpose-built, acquired while under construction and completed, or converted from existing buildings to fit our standards;
- "sqm" are to square meters;
- "third-party data centers" are to data center net floor area that we lease on a wholesale basis from other data center providers and use to provide data center services to our customers;
- "total area committed" are to the sum of area committed and area pre-committed;
- "US\$", "U.S. dollars," or "dollars" are to the legal currency of the United States;
- "utilization rate" are to the ratio of area utilized to area in service; and
- "we," "us," "our company" and "our" are to GDS Holdings Limited and its subsidiaries and consolidated affiliated entities, as the context requires.

Unless specifically indicated otherwise or unless the context otherwise requires, all references to our ordinary shares exclude (i) Class A ordinary shares issuable upon the exercise of outstanding options with respect to our ordinary shares under our share incentive plans and (ii) assumes that the underwriters will not exercise their over-allotment option to purchase additional ADSs.

The translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this prospectus were made at a rate of RMB6.6459 to US\$1.00, the exchange rates set forth in the H.10 statistical release of the Federal Reserve Board on June 30, 2016. We make no representation that the Renminbi or U.S. dollar amounts referred to in this prospectus could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. On October 14, 2016, the noon buying rate for Renminbi was RMB6.7277 to US\$1.00.

## THE OFFERING

ADSs Offered by Us	19,250,000 ADSs
Price per ADS	We estimate that the initial public offering price will be between US\$12.00 and US\$14.00 per ADS.
ADSs Outstanding Immediately After This Offering	19,250,000 ADSs (or 22,137,500 ADSs if the underwriters exercise in full the over-allotment option).
Ordinary Shares Outstanding Immediately After This Offering	745,298,802 ordinary shares (or 768,398,802 ordinary shares if the underwriters exercise in full the over-allotment option), comprising 677,708,466 Class A ordinary shares and 67,590,336 Class B ordinary shares, excluding ordinary shares issuable upon the exercise of options outstanding under our share incentive plans as of the date of this prospectus.
Over-Allotment Option	We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of 2,887,500 additional ADSs at the initial public offering price, less underwriting discounts and commissions, solely for the purpose of covering over-allotments.
The ADSs	<p>Each ADS represents eight Class A ordinary shares.</p> <p>The depositary will be the holder of the Class A ordinary shares underlying the ADSs and you will have the rights of an ADR holder as provided in the deposit agreement among us, the depositary and holders and beneficial owners of ADSs from time to time.</p> <p>You may surrender your ADSs to the depositary to withdraw the Class A ordinary shares underlying your ADSs. The depositary will charge you a fee for such an exchange.</p> <p>We may amend or terminate the deposit agreement for any reason without your consent. Any amendment that imposes or increases fees or charges or which materially prejudices any substantial existing right you have as an ADS holder will not become effective as to outstanding ADSs until 30 days after notice of the amendment is given to ADS holders. If an amendment becomes effective, you will be bound by the deposit agreement as amended if you continue to hold your ADSs.</p>

Ordinary Shares

To better understand the terms of the ADSs, you should carefully read the section in this prospectus entitled "Description of American Depositary Shares." We also encourage you to read the deposit agreement, which is an exhibit to the registration statement that includes this prospectus.

Upon completion of this offering, our outstanding share capital will consist of Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting rights, director nomination rights and conversion rights. With respect to (i) the election of a simple majority of our directors and (ii) any change to our 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, and each Class B ordinary share is entitled to 20 votes. 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. Class B ordinary shares are convertible into Class A ordinary shares. Class B ordinary shares will automatically convert into Class A ordinary shares under certain circumstances. For a description of Class A ordinary shares and Class B ordinary shares, see "Description of Share Capital."

Nomination and Appointment Rights under Our Amended Articles of Association

Our articles of association as we expect them to be amended and become effective upon completion of this offering, or our amended articles of association, provide that, for so long as there are Class B ordinary shares outstanding, the holders of Class B ordinary shares, or Class B shareholders, will be 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.

Our amended articles of association also 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 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 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 by our shareholders. 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 approval of the director or directors appointed by STT GDC.

The above rights may not be amended without the approval of the Class B shareholders or STT GDC, respectively. See "Management—Nomination, Appointment and Terms of Directors" and "Description of Share Capital."

Use of Proceeds

We estimate that we will receive net proceeds of approximately US\$226.7 million from this offering, or approximately US\$261.6 million if the underwriters exercise their option to purchase additional ADSs from us in full, assuming an initial public offering price of US\$13.00 per ADS, the mid-point of the estimated price range set forth on the cover of this prospectus, after deducting estimated underwriter discounts, commissions and estimated offering expenses payable by us. We anticipate using the net proceeds of this offering to repay certain portions of our indebtedness, to develop and acquire new data centers, to pay preference dividends to holders of our preferred shares and for general corporate purposes. See "Use of Proceeds" for more information.

Preference Dividend

Upon the completion of this offering, we will pay a preference dividend to the holders of our Series A, A\*, B, B1, B2, B4, B5 and C preferred shares. The preference dividend to be paid is determined based upon an annual rate of 6.0% from the date of the issuance of the respective preferred shares to the date of this offering plus an additional rate of return on certain preferred shares. The preference dividend will be paid in either cash or Class A ordinary shares at the election of each preferred shareholder. The shareholders of Series A, A\*, B, B1, B2 preferred shares have elected to receive the dividend in cash and the shareholders of Series B4, B5 and C preferred shares have elected to receive the dividend in our Class A ordinary shares. Accordingly, we will pay the preference dividend in an aggregate amount of US\$50.8 million, US\$11.4 million of which will be paid in cash and US\$39.4 million of which will be paid by our issuing

	<p>an aggregate 24,223,203 Class A ordinary shares to the holders of our preferred shares, respectively, assuming an initial public offering price of US\$13.00 per ADS, the mid-point of the estimated price range set forth on the cover of this prospectus.</p>
Risk Factors	<p>See "Risk Factors" and other information included in this prospectus for a discussion of the risks relating to investing in our ADSs. You should carefully consider these risks before deciding to invest in our ADSs.</p>
Directed ADS Program	<p>At our request, the underwriters have reserved up to 5% of the ADSs being offered by this prospectus for sale at the initial public offering price to our directors, officers, employees and business associates. The sales will be made by Piper Jaffray &amp; Co. through a directed share program. We do not know if these persons will choose to purchase all or any portion of these reserved ADSs, but any purchases they do make will reduce the number of ADSs available to the general public. Any reserved ADSs not so purchased will be offered by the underwriters to the general public on the same terms as the other ADSs.</p>
Listing	<p>We have applied to list our ADSs on the NASDAQ Global Market. Our Class A ordinary shares will not be listed on any exchange or quoted for trading on any over-the-counter trading system.</p>
Proposed NASDAQ Trading Symbol	<p>GDS</p>
Depositary	<p>JPMorgan Chase Bank, N.A.</p>
Lock-up	<p>We, our officers and directors, existing shareholders, and certain option and convertible bond holders, have agreed, with limited exceptions, with the underwriters not to offer, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any ADSs, ordinary shares or similar securities for a period of 180 days after the date of this prospectus, subject to certain exceptions. See "Shares Eligible for Future Sale" and "Underwriting."</p> <p>In addition, we will instruct JPMorgan Chase Bank, N.A., as the depositary, not to accept any deposit of any ordinary shares or issue any ADSs for 180 days after the date of this prospectus unless we otherwise instruct the depositary with the prior written consent of the representatives of the underwriters. The foregoing does not affect the right of ADS holders to cancel their ADSs and withdraw the underlying ordinary shares.</p>

The number of ordinary shares that will be outstanding immediately after this offering is 745,298,802, comprising 677,708,466 Class A ordinary shares and 67,590,336 Class B ordinary shares, which is based upon (i) 217,987,922 ordinary shares outstanding as of the date of this prospectus; (ii) the automatic conversion of preferred shares into 349,087,677 Class A ordinary shares immediately upon the completion of this offering; (iii) the issuance of 24,223,203 Class A ordinary shares immediately upon the completion of this offering in connection with the preference dividends to be paid to holders of our Series B4, B5 and C preferred shares, assuming an initial public offering price of US\$13.00 per ADS, the mid-point of the estimated price range set forth on the cover of this prospectus; and (iv) 154,000,000 Class A ordinary shares issued in connection with this offering (assuming the underwriters do not exercise their option to purchase additional ADSs), but excludes:

- 29,189,800 ordinary shares issuable upon the exercise of share options outstanding as of the date of this prospectus;
- 877,400 vested but not yet issued restricted shares; and
- 55,880,360 ordinary shares reserved for future issuance under our share incentive plans.



**SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA**

The following consolidated statements of operations data for the years ended December 31, 2014 and 2015 and the summary consolidated balance sheet data as of December 31, 2014 and 2015 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. The following summary consolidated statements of operations data for the six months ended June 30, 2015 and 2016 and the summary consolidated balance sheet data as of June 30, 2016 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. The unaudited condensed consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and include all adjustments, consisting only of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating result for the periods presented.

On June 30, 2014, we acquired EDC Holding from its shareholders whereby we issued shares to EDC Holding's shareholders in exchange for their shares in EDC Holding. Pursuant to the terms of the agreement, we issued 199,163,164 shares in exchange for approximately 93% of the shares in EDC Holding which we did not already own. Since the date of the acquisition, EDC Holding has been our wholly-owned subsidiary and has been consolidated with our results of operations. See note 8 of our consolidated financial statements included elsewhere in this prospectus.

Our historical results are not necessarily indicative of results to be expected for any future period. The following summary consolidated financial data for the periods and as of the dates indicated are qualified by reference to, and should be read in conjunction with, our consolidated financial statements and related

notes and the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations," both of which are included elsewhere in this prospectus.

	Year Ended December 31,			Six Months Ended June 30,		
	2014	2015		2015	2016	
	RMB	RMB	US\$	RMB	RMB	US\$
	(in thousands, except share data and per share data)					
<b>Consolidated Statements of Operations Data:</b>						
Net revenue	468,337	703,636	105,875	304,794	447,135	67,280
Cost of revenue	(388,171)	(514,997)	(77,491)	(221,519)	(332,034)	(49,961)
Gross profit	80,166	188,639	28,384	83,275	115,101	17,319
Operating expenses						
Selling and marketing expenses	(40,556)	(57,588)	(8,665)	(23,494)	(34,563)	(5,201)
General and administrative expenses	(113,711)	(128,714)	(19,367)	(58,837)	(131,452)	(19,779)
Research and development expenses	(1,597)	(3,554)	(535)	(1,257)	(4,765)	(717)
Loss from operations	(75,698)	(1,217)	(183)	(313)	(55,679)	(8,378)
Other income (expenses)						
Net interest expense	(124,973)	(125,546)	(18,891)	(60,440)	(110,292)	(16,595)
Foreign currency exchange (loss) gain, net	(875)	11,107	1,671	4,456	4,101	617
Government grants	4,870	3,915	589	1,030	1,030	155
Gain on remeasurement of equity investment	62,506	—	—	—	—	—
Others, net	(412)	1,174	177	1,362	179	27
Loss before income taxes	(134,582)	(110,567)	(16,637)	(53,905)	(160,661)	(24,174)
Income tax benefits	4,583	11,983	1,803	6,641	6,464	973
Net loss	(129,999)	(98,584)	(14,834)	(47,264)	(154,197)	(23,201)
Extinguishment of redeemable preferred shares	(106,515)	—	—	—	—	—
Change in redemption value of redeemable preferred shares	(69,116)	(110,926)	(16,691)	(55,462)	(57,869)	(8,707)
Dividends on redeemable preferred shares	(3,509)	(7,127)	(1,072)	(3,564)	(3,725)	(560)
Net loss available to ordinary shareholders	(309,139)	(216,637)	(32,597)	(106,290)	(215,791)	(32,468)
Net loss per ordinary share—basic and diluted	(1.91)	(0.99)	(0.15)	(0.49)	(0.99)	(0.15)
Weighted average number of ordinary shares outstanding—basic and diluted	162,070,745	217,987,922	217,987,922	217,987,922	217,987,922	217,987,922
Pro forma net loss per ordinary share—basic and diluted <sup>(1)</sup>		(0.17)	(0.03)		(0.26)	(0.04)
Pro forma weighted average number of ordinary share outstanding—basic and diluted <sup>(1)</sup>		587,615,180	587,615,180		587,615,180	587,615,180

- (1) Pro forma loss per share available to ordinary shareholders is calculated assuming (i) 349,087,677 preferred shares had been converted into the equivalent number of ordinary shares at the beginning of the period and (ii) assuming an initial offering price of US\$13.00 per ADS, the mid-point of the estimated price range set forth on the cover of this prospectus, 20,539,581 ordinary shares were issued to pay the preference dividends at the beginning of the period. The pro forma effect of the number of ordinary shares whose proceeds were necessary to pay the cash portion of the preference dividends was not material. See "Prospectus Summary—The Offering—Preference Dividend" and "Dividend Policy" for more information on the preference dividends that are to be issued upon completion of this offering.

	As of December 31,			As of June 30,					
	2014		2015	Actual		Pro Forma <sup>(1)</sup>		Pro Forma as Adjusted <sup>(2)</sup>	
	Actual RMB	Actual RMB	Actual US\$	Actual RMB	Actual US\$	Pro Forma RMB	Pro Forma US\$	Pro Forma RMB	Pro Forma US\$
(in thousands)									
<b>Consolidated Balance Sheet Data:</b>									
Cash	606,758	924,498	139,108	834,477	125,563	834,477	125,563	2,125,943	319,888
Accounts receivable, net	73,366	111,013	16,704	170,149	25,602	170,149	25,602	170,149	25,602
Total current assets	745,831	1,186,699	178,561	1,183,231	178,039	1,183,231	178,039	2,474,697	372,364
Property and equipment, net	1,694,944	2,512,687	378,081	3,591,456	540,402	3,591,456	540,402	3,591,456	540,402
Goodwill and intangible assets	1,350,524	1,341,599	201,869	1,442,125	216,995	1,442,125	216,995	1,442,125	216,995
Total assets	3,854,074	5,128,272	771,645	6,334,066	953,079	6,334,066	953,079	7,625,532	1,147,404
Total current liabilities	897,630	925,049	139,191	1,478,315	222,440	1,772,578	266,718	1,478,315	222,440
Total liabilities	1,706,600	3,073,463	462,460	4,380,909	659,189	4,675,172	703,467	4,241,677	638,239
Redeemable preferred shares	2,164,039	2,395,314	360,420	2,499,117	376,039	—	—	—	—
Total shareholders' (deficit) equity <sup>(3)</sup>	(16,565)	(340,505)	(51,235)	(545,960)	(82,149)	1,658,894	249,612	3,383,855	509,165

- (1) Reflects (i) the automatic conversion of all our outstanding preferred shares into 349,087,677 Class A ordinary shares immediately upon the completion of this offering, and (ii) the preference dividend as if the preference dividend were declared and payable on June 30, 2016 and as if a qualified IPO, as defined in our shareholder's agreement, had occurred on June 30, 2016.
- (2) Reflects (i) the automatic conversion of all our outstanding preferred shares into 349,087,677 Class A ordinary shares immediately upon the completion of this offering, (ii) the assumed payment of the preference dividend on our preferred shares of US\$50.8 million based upon, and settled through, the date of this offering, US\$11.4 million of which will be paid in cash and US\$39.4 million of which will be paid in 24,223,203 Class A ordinary shares of the Company, assuming an initial offering price of US\$13.00 per ADS, the mid-point of the estimated price range set forth on the cover of this prospectus, (iii) the issuance and sale of the Class A ordinary shares in the form of ADSs offered hereby at an assumed initial public offering price of US\$13.00 per ADS, the mid-point of the estimated public offering price range shown on the front cover of this prospectus, after deducting underwriting discounts, commissions and estimated offering expenses payable by us and assuming no exercise of the underwriters' over-allotment option, and (iv) the repayment of approximately RMB139.2 million (US\$21.0 million) of the outstanding indebtedness of certain of our subsidiaries using a portion of the proceeds to us from this offering.
- (3) A US\$1.00 increase (decrease) in the assumed initial public offering price of US\$13.00 per ADS would increase (decrease) total shareholders' equity by US\$17.9 million.

### Key Financial Metrics

We monitor the following key financial metrics to help us evaluate growth trends, establish budgets, measure the effectiveness of our business strategies and assess operational efficiencies:

	Year Ended		Six Months	
	December 31, 2014	December 31, 2015	Ended June 30, 2015	Ended June 30, 2016
<b>Other Consolidated Financial Data:</b>				
Gross margin <sup>(1)</sup>	17.1%	26.8%	27.3%	25.7%
Operating margin <sup>(2)</sup>	(16.2)%	(0.2)%	(0.1)%	(12.5)%
Net margin <sup>(3)</sup>	(27.8)%	(14.0)%	(15.5)%	(34.5)%

- (1) Gross profit as a percentage of net revenue.
- (2) Income (loss) from operations as a percentage of net revenue.
- (3) Net income (loss) as a percentage of net revenue.

## 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,		
	2014	2015		2015	2016	
	RMB	RMB	US\$	RMB	RMB	US\$
<b>Other Consolidated Financial Data:</b>	(in thousands, except percentages)					
Adjusted EBITDA <sup>(1)</sup>	38,044	164,701	24,782	73,755	100,557	15,131
Adjusted EBITDA margin <sup>(2)</sup>	8.1%	23.4%	23.4%	24.2%	22.5%	22.5%

(1) Adjusted EBITDA is defined as net income or net loss excluding net interest expenses, incomes tax benefits, depreciation and amortization, accretion expenses for asset retirement costs, share-based compensation expenses, and gain on remeasurement of equity investment.

(2) Adjusted EBITDA margin is defined as adjusted EBITDA 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 expenses eliminated in calculating adjusted EBITDA 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.

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 operation and cash flow data prepared in accordance with U.S. GAAP.

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 years 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,		
	2014	2015		2015	2016	
	RMB	RMB	US\$	RMB	RMB	US\$
	(in thousands)					
Net loss	(129,999)	(98,584)	(14,834)	(47,264)	(154,197)	(23,201)
Net interest expenses	124,973	125,546	18,891	60,440	110,292	16,595
Income tax benefits	(4,583)	(11,983)	(1,803)	(6,641)	(6,464)	(973)
Depreciation and amortization	82,753	145,406	21,879	63,968	93,469	14,064
Accretion expenses for asset retirement costs	73	255	38	86	270	41
Share-based compensation expenses	27,333	4,061	611	3,166	57,187	8,605
Gain on remeasurement of equity investment	(62,506)	—	—	—	—	—
Adjusted EBITDA	<u>38,044</u>	<u>164,701</u>	<u>24,782</u>	<u>73,755</u>	<u>100,557</u>	<u>15,131</u>

## RECENT DEVELOPMENTS

The following sets forth our selected unaudited financial data for the three months ended September 30, 2016.

- *Net revenue.* We expect that our net revenue for the three months ended September 30, 2016 will be no less than RMB282.3 million (US\$42.5 million), as compared to net revenue of RMB189.8 million (US\$28.6 million) for the three months ended September 30, 2015.
- *Adjusted EBITDA.* We expect that our adjusted EBITDA for the three months ended September 30, 2016 will be no less than RMB74.1 million (US\$11.1 million), as compared to adjusted EBITDA of RMB42.7 million (US\$6.4 million) for the three months ended September 30, 2015.

For information regarding our Adjusted EBITDA, see "—Summary Consolidated Financial and Operating Data—Non-GAAP Measures."

Our selected unaudited financial data for the three months ended September 30, 2016 may not be indicative of our financial results for future interim periods or for the full year ending December 31, 2016. See "Risk Factors—Risk Factors Relating to Our Business and Industry—Our operating results may fluctuate, which could make our future results difficult to predict, and may fall below investor or analyst expectations."

On September 30, 2016, we entered into a memorandum of understanding with a property development company for the lease of three data center shell buildings to be built-to-suit in phases on a site in the Shanghai Waigaoqiao Free Trade Zone in close proximity to our existing data centers. Once the built-to-suit lease agreements are finalized, we expect these buildings to provide us with additional data center net floor area of approximately 30,000 sqm.

On October 14, 2016, the Uptime Institute, an unbiased advisory organization focused on improving the performance, efficiency, and reliability of business critical infrastructure, recognized five of our data centers with their "Management and Operations Approved Site" awards. The award recognizes data center service providers that have maximized service uptime potential, achieved operational efficiency and reduced risk of errors. We believe we are the only data center service provider in China that has obtained the award for multiple data centers.

## RISK FACTORS

You should consider carefully all of the information in this prospectus, including the risks and uncertainties described below and our consolidated financial statements and related notes, before making an investment in our ADSs. Any of the following risks and uncertainties could have a material adverse effect on our business, financial condition, results of operations and prospects. The market price of our ADSs could decline significantly as a result of any of these risks and uncertainties, and you may lose all or part of your investment.

### Risk Factors Relating to Our Business and Industry

#### ***A slowdown in the demand for data center resources 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 resources 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 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 space 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 occurs, they are likely to impact market demand and pricing for our services.

#### ***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 RMB468.3 million in 2014 to RMB703.6 million (US\$105.9 million) in 2015, and increased from RMB304.8 million in the six months ended June 30, 2015 to RMB447.1 million (US\$67.3 million) in the same period in 2016, respectively. 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 managed service contract arrangement and provide consulting services. Our net revenues for colocation were RMB342.5 million, RMB500.9 million (US\$75.4 million) and RMB330.8 million (US\$49.8 million) in 2014, 2015 and the six months ended June 30, 2016, representing 73.1%, 71.2% and 74.0% of total net revenue over the same periods, respectively. Our net revenues for managed services and consulting services were RMB108.4 million, RMB152.7 million (US\$23.0 million) and RMB105.6 million (US\$15.9 million) in 2014, 2015 and the six months ended June 30, 2016, representing 23.2%, 21.7% and 23.6% of total net revenue over the same periods, 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 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;
- 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.

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 cloud infrastructure and managed 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 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.

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.

***We face risks associated with 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.***

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 contract. 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 our capacity to generate capital may 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 identify suitable land or facilities 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. There can be no assurance that our future net revenue would be sufficient to offset increases in these costs, or that our business operations 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.

***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 June 30, 2016, we had total consolidated indebtedness of RMB3,464.9 million (US\$521.4 million), including borrowings, capital lease obligations and convertible bonds. Our high level of 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 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.



We have financing arrangements in place with various lenders to support specific data center construction projects. Certain of these financing arrangements are secured by our accounts receivable, property and equipment and land use rights. The terms of these financing arrangements may impose covenants and obligations on the part of both the borrowing subsidiary of ours and us as guarantor. For example, some of these agreements contain requirements to maintain a specified minimum cash balance at all times or require that the borrower's outstanding loans stay within a "borrowing range." A subsidiary of ours in the past failed to meet the borrowing range requirement and although the subsidiary obtained a waiver letter from the creditor that waived the covenant violations, we cannot provide any assurances that we will always be able to meet any covenant tests under our financing arrangements. For more information regarding covenants arising from our financing arrangements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations."

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.

***We may 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. If we are not able to generate sufficient operating cash flows, our ability to fund our expansion plan may be limited. We may need to raise additional funds through equity 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. 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 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.

***Increased power costs and limited availability of power resources 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 centralized power utility suppliers, State Grid and Southern Grid, to provide our data centers with power, our data centers could have limited or inadequate access to power.

The amount of power required by our customers may increase as they adopt new technologies, for example, for virtualization of hardware resources. 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 contracts, 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 space 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 would harm our financial condition and results of operations.

***We have a history of net losses and may continue to incur losses in the future.***

We incurred net losses of RMB130.0 million, RMB98.6 million (US\$14.8 million) and RMB154.2 million (US\$23.2 million) in 2014, 2015 and the six months ended June 30, 2016, respectively, and we may incur losses in the future. 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 space, 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 leasing data center space, increased headcount and increased utility expenses.

***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 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 the landlords of the buildings in which our leased facilities are located;
- physical, electronic and cyber security breaches;
- fire, 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 China Banking Regulatory Commission, or CBRC, and other 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. See "Regulations—Regulations Related to Information Technology Outsourcing Services Provided to Banking Financial Institutions." 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 new 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 cause material and negative effect to our revenue growth, profitability and results of operations.

***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 four categories: business interruption for lost profits, property and casualty, public 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 the cloud infrastructure and managed cloud services space, 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.

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 data center operations are located in properties that we have entered into long-term operating leases. Such leases generally have ten to twenty year terms. In some instances, we may negotiate an option to purchase the leased premises and facilities 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 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 two lease agreements 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. Two of our data centers are located in properties that are 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 three 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 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. As of the date of this prospectus, the majority of our self-built data centers were located in close proximity to the central business districts of Shanghai, Beijing, Shenzhen, Guangzhou and Chengdu. 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 customer to be the end user of our data center services. We may enter into contracts directly with our end user customer or through an intermediate contracting party. See "Business—Our Customers." 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 end user customer that generated 26.8% of our total net revenue in 2014 and two end user customers that generated 20.1% and 10.3% of our total net revenue, respectively, in 2015, and 17.1% and 15.7% of our total net revenue in the six months ended June 30, 2016, respectively. No other end user 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 end user customers who account for a large percentage of our total area committed. As of September 30, 2016, we had two end user customers who accounted for 26.1% and 20.8%, respectively, of our total area committed. No other end user customer accounted for 10% or more of total area committed. Moreover, for several of our data centers, a limited number of end user customers accounted for substantial majority of area committed or area utilized. If there are delays in the move in where the net floor area they are committed to are 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.

There are a number of factors that could cause us to lose major customers. Because many of our contracts 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 contract. 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 who 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 contracts 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 contracts 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 contract, and the customer may in some cases be able to terminate its contract. 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 contracts.

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 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 contract renewal rates.***

We seek to renew customer contracts when those contracts 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 contract renewals for our services. Nevertheless, we cannot assure you that we will be able to renew service contracts with our existing customers or re-commit space relating to expired service contracts to new customers if our current customers do not renew their contracts. In the event of a customer's termination or non-renewal of expired contracts, our ability to enter into services contracts so that new or other existing customers utilize the expired existing space in a timely manner will impact our results of operations. Our quarterly churn rate, which we define as the ratio of quarterly service revenue from contracts which terminated or expired without renewal during the quarter to the total quarterly service revenue for the preceding quarter, averaged 1.4%, 1.0% and 1.6% in 2014, 2015 and the nine months ended September 30, 2016, respectively. Between September 30, 2016 and December 31, 2016 and during 2017, data center service agreements with our customers with respect to 5.8% and 13.5%, respectively of our total area committed as at September 30, 2016 will become due for renewal.

***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. 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 contracts 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 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 Internet and financial services industries. As of September 30, 2016, end user customers from the Internet and financial services industries accounted for 70.8% and 15.1% of our total area committed, respectively. Our business and growth depends on continued demand for our services from our current and potential customers in the 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 contracts with many customers, and our failure to accurately estimate the resources and time required for the fulfillment of our obligations under these contracts 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 contracts, 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 contract 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 contracts. 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 contract commitments are subject to reduction and potential cancellation.***

Many of our customer contracts 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 contracts. Our customer contract commitments could significantly decrease if any of the customer contracts is terminated either pursuant to, or in violation of, the terms of such contract. In addition, our customer contract commitments during a particular future period may be reduced for reasons outside of our customers' control, such as general current economic conditions. If our customer contract commitments are significantly reduced, our results of operations and the price of our ADSs could be materially and adversely affected.

Even if our current and future customers have entered into a binding contract with us, they may choose to terminate such contract 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 contract, 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.

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 "Business—Competition."

Competition is primarily centered on reputation and track record, quality and availability of data center space, 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.

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 buildup of new data centers or reduced demand for data center services could result in an oversupply of data center space 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.

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

Among the data centers 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 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 respect to one data center in Beijing, a portion of the property 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. In respect of some data centers, the usage of leased properties for data center purposes may be deemed to be inconsistent with the designated usage as stated under the building ownership certificates. 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 properties for the designated usage only, we may not be able to continue to use these properties 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. Renovation of certain other of our data centers was carried out without obtaining construction 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 incurred, 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."

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 cloud-related services, and as a result, our business, operating results and financial condition.***

Our cloud managed 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.

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 or they may decide to terminate their agreements with us, any of which could adversely and materially affect our business expansion plan and expected growth.

***Our data center infrastructure may become obsolete or unmarketable and we may not be able 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 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 or are in the process of registering the figure trademark in China in several categories that cover our services areas. 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 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 contracts 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 contracts 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.

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

We contract with third parties for the supply of hardware, such as servers and other equipment, 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, including security services.***

We engage third-party contractors to carry out various services relating to our data center facilities, including security services. 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 at the level of quality required by us, resulting in inappropriate access to our facilities.

***Any difficulties in identifying and consummating future acquisitions may expose us to potential risks and have an adverse effect on our business, results of operations or financial condition.***

We may seek to make strategic acquisitions and enter into alliances to further expand our business. 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 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 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, 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. The occurrence of any of these events could have a material and adverse effect on our ability to manage our business, our financial condition and our 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 capital markets may be severely restricted at a time

when we would like, or need, to do so, which could have an impact on our flexibility to pursue additional expansion opportunities and maintain our desired level of revenue growth in the future.

***Our success depends on a substantial degree upon our senior management, including Mr. William Wei 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. William Wei 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.

***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 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.

***Failure to commence or resume development of land that we have been granted right to use within the required timeframe may subject us to default liabilities under land use right grant contracts and cause us to lose such land use rights.***

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. According to the relevant PRC regulations, the PRC government may impose an "idle land fee" equal to 20% of the land premium on land user 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 fail 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 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.

As of the date of this prospectus, (i) we have not commenced development of one parcel of the land in Kunshan, which was to commence in December 2012; and (ii) we suspended the development of one parcel of the land in Chengdu after completion of the construction of the existing buildings thereon in November 2010 and have not resumed development of such parcel of land, and upon such suspension, the area of the developed land was less than one-third of the total land area. Therefore, the PRC government may treat such two parcels of land as idle lands, in which case we may be required to pay idle land fees or penalties, change the planned use of the land, find another parcel of land, or even be required to forfeit the land to PRC government. We may further be subject to penalties for breach of relevant land use right grant contracts and be required to pay damages.

We have not been subject to any penalties or required to forfeit any land as a result of failing to commence or resume development pursuant to the relevant land grant contract. However, we cannot assure you that we will not be subject to penalties as a result of any failure to commence development in accordance with the relevant land grant contract. 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 or other assets.***

We are required to perform an annual goodwill impairment test. For example, in connection with acquiring EDC Holding in June 2014, we recorded a substantial amount of goodwill in our consolidated financial statements. As of June 30, 2016, we carried RMB1,341.1 million (US\$201.8 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. Our actual results may differ materially from our projections, which may result in the need to recognize impairment of some or all of the goodwill we recorded.

***We are subject to China's anti-corruption laws and upon the completion of this offering, will be subject to 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, results of operations and financial condition.***

We operate our business in China and are thus subject to PRC 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. Upon the completion of this offering, we will also be 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 are in the process of implementing 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 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. or foreign authorities, including Chinese authorities, 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 southeastern 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 Shanghai, Beijing,

Shenzhen, Guangzhou, Chengdu 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 natural disasters or public health emergencies, such as the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, Zika virus, Ebola virus, or another epidemic. 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.

***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 will be subject to the reporting requirements of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the NASDAQ after the completion of this offering. 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 fiscal year ending December 31, 2017, we must 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, once we cease to be an "emerging growth company" as the term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our management may conclude that our internal control over financial reporting is not effective. Moreover, 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 will require that we incur substantial additional professional fees and internal costs to expand our accounting and finance functions and that we expend significant management efforts. Prior to this offering, we were never required to test our internal controls within a specified period, and, as a result, we may experience difficulty in meeting these reporting requirements in a timely manner. Prior to this offering, we were a private company with limited accounting personnel and other resources with which to address our internal controls and procedures. Our management has not completed an assessment of the effectiveness of our internal control over financial reporting and our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting.

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 ADSs could decline and we could be subject to sanctions or investigations by the NASDAQ, SEC or other regulatory authorities.

**Compliance with rules and requirements applicable to public companies may cause us to incur increased costs, which may negatively affect our results of operations.**

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and the NASDAQ, have required changes in corporate governance practices of public companies. We expect these rules and regulations to increase our legal, accounting and financial compliance costs and to make certain corporate activities more time-consuming and costly. Complying with these rules and requirements may be especially difficult and costly for us because we may have difficulty locating sufficient personnel in China with experience and expertise relating to U.S. GAAP and U.S. public company reporting requirements, and such personnel may command higher salaries relative to what similarly experienced personnel would command in the United States. If we cannot employ sufficient personnel to ensure compliance with these rules and regulations, we may need to rely more on outside legal, accounting and financial experts, which may be expensive. In addition, we will incur additional costs associated with our public company reporting requirements. We are evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

**Risks Related to Our Corporate Structure**

***If the PRC government deems that the contractual arrangements in relation to GDS Shanghai or GDS Beijing 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 e-commerce which does not apply to us. Any such foreign investor must also have experience and a good track record in providing value-added telecommunications services 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, GDS Management Company, Shenzhen Yungang EDC Technology Co., Ltd., Beijing Wanguo Shu'an Science & Technology Development Co., Ltd., Beijing Hengpu'an Data Technology Development Co., Ltd., Guojin Technology (Kunshan) Co., Ltd., Shanghai Yungang EDC Technology Co., Ltd., Shenzhen Pingshan New Area Global Data Science & Technology Development Co., Ltd., EDC Technology (Suzhou) Co., Ltd., EDC (Chengdu) Industry Co., Ltd. and EDC Technology (Kunshan) Co., Ltd., are foreign-invested enterprises, or FIEs. To comply with PRC laws and regulations, we conduct our business in China through contractual arrangements with our consolidated VIEs and their shareholders. These contractual arrangements provide us with effective control over our consolidated VIEs 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—Variable Interest Entity Contractual Arrangements."

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 and the relevant regulatory measures concerning the telecommunications industry, there can be no assurance that the PRC government, such as MOFCOM or MIIT or other authorities that regulates 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 Ministry of Industry and Information Technology, or the MIIT, or the Ministry of Commerce, or the 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. 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;
- restricting or prohibiting our use of the proceeds from overseas offering 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 enactment timetable, interpretation and implementation of the draft PRC Foreign Investment Law, and its enactment may materially and adversely affect our business and financial condition." 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 the years ended December 31, 2014 and 2015, our consolidated VIEs contributed 2.0% and 4.3% of our total net revenue. In the six months ended June 30, 2016, 49.8% of our total net revenue was attributed to our consolidated VIEs. Following our restructuring, we expect that, going forward, substantially all of our net revenue will be generated from our consolidated VIEs as we shift the revenue-generating aspects of our business to our consolidated VIEs in connection with the restructuring described in this prospectus. See "Our History and Corporate Structure."

***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. For a description of these contractual arrangements, see "Our History and Corporate Structure—Variable Interest Entity Contractual Arrangements." In 2014 and 2015, 2.0% and 4.3% of our total net revenue, respectively, were attributed to our consolidated VIEs. In the six months ended June 30, 2016, 49.8% of our total net revenue was attributed to our consolidated VIEs. We expect this proportion to increase going forward as we shift the revenue-generating aspects of our business to our consolidated VIEs in connection with the restructuring described in this prospectus. See "Our History and Corporate Structure." 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 conditions 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."

***The shareholders of our consolidated VIEs 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 shareholders of our consolidated VIEs to abide by the obligations under such contractual arrangements. In particular, GDS Shanghai is 99.90% owned by William Wei Huang, our chairman and chief executive officer, and 0.10% owned by Qiuping Huang, and GDS Beijing is approximately 99.97% owned by William Wei Huang, and approximately 0.03% owned by Qiuping Huang. The interests of William Wei Huang and Qiuping Huang in their individual capacities as the shareholders of GDS Shanghai and GDS Beijing may differ from the interests of our company as a whole, as what is in the best interests of GDS Shanghai and GDS Beijing, 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 and their subsidiaries 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 shareholders of GDS Shanghai and GDS Beijing may encounter, on one hand, and as a beneficial owner of our company, on the other hand; 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 GDS Shanghai and GDS Beijing 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 GDS Shanghai and GDS Beijing as provided under the shareholder voting rights proxy agreements, directly appoint new directors of GDS Shanghai and GDS Beijing. 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 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.

***Our corporate actions are substantially controlled by our principal shareholders, including our founder, chairman and chief executive officer, William Wei 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 ADSs and materially reduce the value of your investment.***

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 of a simple majority of our directors. Immediately after the completion of this offering, Mr. William Wei Huang will beneficially own 100% of the Class B ordinary shares issued and outstanding, and any additional Class A ordinary shares which are acquired by the Class B shareholders will be converted into Class B ordinary shares. In addition, for so long as there are Class B ordinary shares outstanding, the Class B shareholders will be 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 will have 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 "Management—Appointment and Terms of Directors" and "Description of Share Capital."

Furthermore, three of our principal shareholders—STT GDC, SBCVC Holdings Limited (SBCVC), and William Wei Huang, our founder, chairman and chief executive officer—currently own or exercise voting and investment control over approximately 45.1%, 18.1% and 13.6% (including ordinary shares (i) underlying share options exercisable within 60 days beneficially owned by Mr. Huang, and (ii) underlying convertible bonds convertible within 60 days beneficially owned by STT GDC), respectively, of our outstanding ordinary shares (assuming the conversion of our preferred shares into Class A ordinary shares), and approximately 40.9% and 15.7% of our outstanding Class A ordinary shares, and 100% of our outstanding Class B ordinary shares, respectively, immediately after this offering, assuming no exercise by the underwriters of options to purchase additional ADSs.

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 the ADSs.

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 ADSs. As a result of the foregoing, the value of your investment could be materially reduced.

***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.

***Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the draft PRC Foreign Investment Law, and its enactment may materially and adversely affect our business and financial condition.***

The MOFCOM published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in China. While the MOFCOM solicited comments on this draft, substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the proposed legislation and the extent of revision to the currently proposed draft. The draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in China.

Among other things, the draft Foreign Investment Law purports to introduce the principle of "actual control" in determining whether a company is considered a foreign invested enterprise, or an FIE. The draft Foreign Investment Law specifically provides that entities established in China but "controlled" by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction, but cleared by the MOFCOM as "controlled" by PRC entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the "restriction category" or similar category that could appear on any such "negative list." In this connection, "control" is broadly defined in the draft law to cover any of the following summarized categories:

- holding 50% or more of the voting rights or similar rights and interests of the subject entity;
- holding less than 50% of the voting rights or similar rights and interests of the subject entity but having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to materially influence the board, the shareholders' meeting or other equivalent decision making bodies; or
- having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial, staffing and technology matters.

Once an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within a "negative list" purported to be separately issued by the State Council in the future, market entry clearance by the MOFCOM or its local counterparts would be required.

The "variable interest entity" structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. Under the draft Foreign Investment Law, VIEs that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors. For any companies with a VIE structure in an industry category that is in the "restriction category" or similar category that could appear on any such "negative list," the existing VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC state owned enterprises or agencies, or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the VIEs will be treated as FIE, in which case, the existing VIE structures will likely be scrutinized and subject to foreign investment restrictions and approval from the MOFCOM and other supervising authorities such as MIIT. Any operation in the industry category on the "negative list" without market entry clearance may be considered as illegal.

However, there are significant uncertainties as to how the control status of our company, our consolidated VIEs would be determined under the enacted version of the Foreign Investment Law. In addition, it is uncertain whether any of the businesses that we currently operate or plan to operate in the future through our consolidated VIEs and the businesses operated by our equity investees with a VIE structure would be on the to-be-issued "negative list" and therefore be subject to any foreign investment restrictions or prohibitions. We also face uncertainties as to whether the enacted version of the Foreign Investment Law and the final "negative list" would mandate further actions, such as MOFCOM market entry clearance, to be completed by companies with existing VIE structure and whether such clearance can be timely obtained, or at all. If we or our equity investees with a VIE structure were not considered as



ultimately controlled by PRC domestic investors under the enacted version of the Foreign Investment Law, further actions required to be taken by us or such equity investees under the enacted Foreign Investment Law may materially and adversely affect our business and financial condition.

In addition, our corporate governance practice may be materially impacted and our compliance costs could increase if we were not considered as ultimately controlled by PRC domestic investors under the Foreign Investment Law, if enacted as currently proposed. For instance, the draft Foreign Investment Law as proposed purports to impose stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from investment implementation report and investment amendment report that would be required for each investment and alteration of investment specifics, an annual report would be mandatory, and large foreign investors meeting certain criteria would be required to report on a quarterly basis. Any company found to be non-compliant with these information reporting obligations could potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible could be subject to criminal liabilities.

#### **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 and may require us to obtain regulatory approval for this offering.***

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. The Catalog divides industries into three categories: encouraged, restricted and prohibited. Industries not include in the Catalog are permitted industries. Industries such as VATS, including IDC services, restrict foreign investment. 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 of the People's Republic of China*, or the Telecom Regulations, telecommunications service providers are required to procure operating licenses prior to their commencement of operations.

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 Telecom Catalogue publicized in February 2003 by the Ministry of Information Industry, or MII, 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", 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 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 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 telecommunication 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 and Guangzhou. In order to adapt to the new regulatory requirements and address pre-existing customer contracts, we converted GDS Suzhou into a domestic company wholly owned by GDS Beijing by acquiring all of the equity interests in GDS Suzhou from FSL, 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. MIIT has approved GDS Beijing's application to expand its IDC license coverage to include GDS Suzhou and Kunshan Wanyu so that they are now authorized to provide IDC services. See "Our History and Corporate Structure—2016 Variable Interest Entity Restructuring." As part of the VIE restructuring, we have converted and changed the shareholding of EDC Shanghai Waigaoqiao in the same way as GDS Suzhou, and we will apply for the expansion of GDS Beijing's IDC license so that EDC Shanghai Waigaoqiao can also be authorized to provide IDC services. Guangzhou Weiteng is in the process of applying for its own IDC license. 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.

However, there can be no assurance that we can complete VIE restructuring in a timely manner or that our contracts signed before the completion of the VIE restructuring with any of our WFOEs as the service provider 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.

***GDS Shanghai may be regarded as being non-compliant with the regulations on VATS, due to operating beyond the permitted geographic scope of its IDC license.***

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. However, if the MIIT regards GDS Shanghai 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 (HK) Limited, has entered into IDC service agreements with customers outside China, which may be regarded as non-compliance with the regulations on foreign investment restriction and value added telecommunications services, by providing IDC service without qualification.***

During the period from 2015 to the first half of 2016, GDS (HK) 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.

We are in the process of amending the IDC service agreements so that GDS Beijing or its subsidiary is the contracted service provider. However, we cannot assure you that our agreements as they were in effect prior to such amendment will not be found to have been 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 and 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. We will apply for the expansion of the scope in their IDC licenses to meet legislation development. However, since this is a comparatively new requirement, it is uncertain when the MIIT will commence granting companies IDC licenses with such expanded service scope. If the MIIT regards any of our companies in China as being non-compliant, penalties could be assessed against us, and our business, financial condition, expected growth and prospects would be materially and adversely affected.

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 fashion, 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 space 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 September 30, 2016, we operated an aggregate net floor area of 9,041 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 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 fashion, or at all. If any of these situations occur, our business, financial condition and prospects could be materially and adversely affected.

***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, 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.

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 recently 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 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;
- environment laws and regulations;
- security laws and regulations;
- establishment of or changes in shareholder of foreign investment enterprises;
- foreign exchange;
- taxes, duties and fees;
- customs; and
- land planning and land use rights.

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. 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. For 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 Related to Land Use Rights" 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.

***The approval of the China Securities Regulatory Commission, or the CSRC, may be required in connection with this offering 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 the MOFCOM, the State-Owned Assets Supervision and Administration Commission, or the SASAC, the State Administration of Taxation, the State Administration for Industry and Commerce, or the SAIC, the CSRC, and the SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which came into effect on September 8, 2006 and were amended on June 22, 2009. The M&A Rules include, among other things, provisions that purport to require that an offshore special purpose vehicle 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 is not required in the context of this offering because we did not acquire 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 other PRC regulatory body subsequently determines that we need to obtain the CSRC's approval for this offering or if the CSRC or any other PRC government authorities promulgates any interpretation or implements rules before our listing that would require us to obtain CSRC or other governmental approvals for this offering, 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 proceeds from this offering 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 our ability to complete this offering. The CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable for us, to halt this offering before settlement and delivery of the ADSs offered by this prospectus. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that such settlement and delivery may not occur.

The new 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 the 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 the 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 "Regulation—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 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. William Wei 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.

***Any failure to comply with PRC regulations regarding our employee 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 have been granted options may follow SAFE Circular 37 to apply for the foreign exchange registration before our company becomes an overseas listed company. After our company becomes an overseas listed company upon completion of this offering, we and our directors, executive officers and other employees who are PRC residents and who have been granted options will be 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, according to which, employees, directors, supervisors and other management members participating in any stock incentive plan of an overseas publicly listed company who are PRC residents are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. We will make efforts to comply with these requirements upon completion of our initial public offering. However, there can be no assurance that they can successfully register with SAFE in full compliance with the rules. Failure to complete the SAFE registrations may subject them 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 law.

***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 Standing Committee of the National People's Congress of China 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 unfix-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 unfix-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 five 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 conditions 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 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 December 31, 2015, the restricted assets was RMB1,323.1 million (US\$199.1 million), all of which consisted of registered capital. Our subsidiaries did not have any retained earnings available for distribution in the form of dividends as of December 31, 2015. 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.



***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 assets of an enterprise. The State Administration of Taxation 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 Circular 82, on April 22, 2009. 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 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 Circular 82 may reflect the State Administration of Taxation's 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 subsidiary 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 subsidiary 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, or the Double Tax Avoidance Arrangement, 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 ADSs or Class A ordinary shares 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 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 gain realized on the transfer of ADSs or Class A ordinary shares 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 Class A ordinary shares or ADSs,

and any gain realized from the transfer of our Class A ordinary shares or 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 ADSs or Class A ordinary shares 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 ADSs or Class A ordinary shares 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 ADSs or Class A ordinary shares by such investors, are deemed as income derived from sources within the PRC and thus are subject to PRC tax, the value of your investment in our ADSs or Class A ordinary shares 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 State Administration of Taxation issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or 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 State Administration of Taxation, on December 10, 2009. Pursuant to this Bulletin, 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 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 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.

There is uncertainty as to the application of Bulletin 7, or previous rules under Circular 698. Especially as Bulletin 7 is lately promulgated, it is not clear how it will be implemented. Bulletin 7 may be determined

by the tax authorities to be applicable to our offshore restructuring transactions or sale of our shares or those of our offshore subsidiaries where non-resident enterprises, being the transferors, were involved. For example, in the past, we acquired 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 Bulletin 7 or to establish that we and our non-resident enterprises should not be taxed under Bulletin 7, 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 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 investment.***

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. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the RMB has started to appreciate slowly against the U.S. dollar, though there have been periods when the U.S. dollar has appreciated against the RMB. On August 11, 2015, the People's Bank of China, or the PBOC, allowed the RMB to depreciate by approximately 2% against the U.S. dollar. It is difficult to predict how long such depreciation of RMB against the U.S. dollar may last and when and how the relationship between the RMB and the U.S. dollar may change again.

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 ADSs in U.S. dollars. To the extent that we need to convert U.S. dollars we receive from this offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our Class A ordinary 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.

***The audit report included in this prospectus is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, our investors are deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issues the audit report included in our prospectus filed with the U.S. Securities and Exchange Commission, 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, 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 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.

***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 late 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 of 2002 against the Chinese 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 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.

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 ADSs may be adversely affected.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delay or abandonment of this offering, delisting of our Class A ordinary shares from the NASDAQ or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

#### **Risks Related to This Offering**

***There has been no public market for our shares or ADSs prior to this offering, and you may not be able to resell our ADSs at or above the price you paid, or at all.***

Prior to this offering, there has been no public market for our shares or ADSs. We have applied to list our ADSs on the NASDAQ Global Market. Our shares will not be listed on any exchange or quoted for trading on any over-the-counter trading system. If an active trading market for our ADSs does not develop after this offering, the market price and liquidity of our ADSs will be materially and adversely affected.

Negotiations with the underwriters determined the initial public offering price for our ADSs which may bear no relationship to their market price after the initial public offering. There can be no assurance that an active trading market for our ADSs will develop or that the market price of our ADSs will not decline below the initial public offering price.

***The trading price of our ADSs may be volatile, which could result in substantial losses to you.***

The trading prices of our ADSs are likely to be volatile and could fluctuate widely due to factors beyond our control. 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 the United States, which consequently may impact the trading performance of our 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. In addition, 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 and in 2015, which may have a material and adverse effect on the trading price of our ADSs.

In addition to the above factors, the price and trading volume of our 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;
- 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;
- fluctuations of exchange rates between the RMB and the U.S. dollar;
- release or expiry of lock-up or other transfer restrictions on our outstanding shares or ADSs; and
- sales or perceived potential sales of additional Class A ordinary shares 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 ADSs and trading volume could decline.***

The trading market for our ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades our ADSs or publishes inaccurate or unfavorable research about our business, the market price for our 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 trading volume for our ADSs to decline.

***Techniques employed by short sellers may drive down the market price of our 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.

It is not clear what effect such negative publicity could have on us. If we were to become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we could have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which 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 its business operations and stockholders equity, and any investment in our ADSs could be greatly reduced or rendered worthless.

***As our initial public offering price is substantially higher than our net tangible book value per share, you will experience immediate and substantial dilution.***

If you purchase ADSs in this offering, you will pay more for your ADSs than the amount paid by existing shareholders for their ordinary shares on a per ADS basis. As a result, you will experience immediate and substantial dilution of approximately US\$9.8639 per ADS (assuming no exercise of outstanding options to acquire Class A ordinary shares and no exercise of the underwriters' option to purchase additional ADSs), representing the difference between our pro forma as adjusted net tangible book value per ADS of US\$3.1361, as of June 30, 2016, after giving effect to this offering, and the assumed public offering price of US\$13.00 per ADS, the mid-point of the estimated price range set forth on the cover of this prospectus. In addition, you will experience further dilution to the extent that our ordinary shares are issued upon the exercise of share options. All of the ordinary shares issuable upon the exercise of currently outstanding share options will be issued at a purchase price on a per ADS basis that is less than the public offering price per ADS in this offering. See "Dilution" for a more complete description of how the value of your investment in our ADSs will be diluted upon completion of this offering.

***Because we do not expect to pay dividends in the foreseeable future after this offering, you must rely on price appreciation of our ADSs for return on your investment.***

We currently intend to retain most, if not all, of our available funds and any future earnings after this offering to fund the development and growth of our business. As a result, other than the preference dividends to be paid to holders of our preferred shares, we do not expect to pay any cash dividends in the foreseeable future. See "Dividend Policy." Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

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 investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value after this offering or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

***Our ADSs are subject to substantial dilution upon the conversion of our convertible bonds held by certain holders.***

We have outstanding convertible bonds in the aggregate principal amount of US\$150.0 million due December 30, 2019. We may, at our option, require the original subscribers, STT GDC Pte Ltd, or STT GDC, to subscribe for an additional amount of these bonds as to US\$50.0 million, and thereafter, a subsidiary of Ping An Insurance (Group) Company of China, Ltd., or Ping An Insurance, to subscribe for an additional amount of these bonds as to US\$50.0 million, at any time until September 30, 2016. In addition, following this offering, we may require the conversion of the bonds assuming the average per-Class A-ordinary-share-equivalent closing trading price of our ADSs in any period of ten (10) consecutive trading days following this offering is at least 125% of US\$1.675262 and we exercise our right to cause STT GDC and Ping An Insurance to convert the bonds. If the bondholders elect to convert, or we cause the bondholders to convert, their bonds, approximately 93,231,684 Class A ordinary shares will be issued. The conversion of the bonds would result in substantial dilution of our ADSs and Class A ordinary shares and a decline in their market price.

***Substantial future sales or perceived potential sales of our ADSs in the public market could cause the price of our ADSs to decline.***

Sales of our ADSs in the public market after this offering, or the perception that these sales could occur, could cause the market price of our ADSs to decline significantly. Upon completion of this offering, we will have 745,298,802 ordinary shares outstanding, comprising 677,708,466 Class A ordinary shares and 67,590,336 Class B ordinary shares, including 154,000,000 Class A ordinary shares represented by ADSs newly issued in connection with this offering, assuming the underwriters do not exercise their option to purchase additional ADSs. All ADSs representing our Class A ordinary shares sold in this offering will be freely transferable by persons other than our "affiliates" without restriction or additional registration under the U.S. Securities Act of 1933, as amended, or the Securities Act. All of the other Class A ordinary shares outstanding after this offering will be available for sale, upon the expiration of the lock-up periods described elsewhere in this prospectus beginning from the date of this prospectus (if applicable to such holder), subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act. Any or all of these ordinary shares may be released prior to the expiration of the applicable lock-up period at the discretion of the designated representatives. To the extent shares are released before the expiration of the applicable lock-up period and sold into the market, the market price of our ADSs could decline significantly. See "Shares Eligible for Future Sale—Lock-Up Agreements."

Certain major holders of our Class A ordinary shares after completion of this offering will have the right to cause us to register under the Securities Act the sale of their shares, subject to the applicable lock-up periods in connection with this offering. 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 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. See "Management—Share Incentive Plans." 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 in the form of ADSs upon issuance, subject to volume limitations applicable to affiliates and the lock-up agreements described in the "Underwriting" section of this prospectus. If a large number of our ordinary shares or securities convertible into our ordinary shares are sold in the public market in the form of ADSs after they become eligible for sale, the sales could reduce the trading price of our ADSs and impede our ability to raise future capital. In addition, any ordinary shares that we issue under our share incentive plans would dilute the percentage ownership held by the investors who purchase ADSs in this offering.



**You, as holders of ADSs, may have fewer rights than holders of our ordinary 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, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw your Class A ordinary shares to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but there can be no assurance that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your 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, you may not be able to exercise your right to vote and you may lack recourse if your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

**Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.**

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depositary will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

**You may not receive cash dividends if the depositary decides it is impractical to make them available to you.**

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 other than the preference dividends to be paid to holders of our preferred shares. See "Dividend Policy." To the extent that there is a distribution, the depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A ordinary shares your 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 you.

**You may be subject to limitations on transfer of your ADSs.**

Your 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

depository 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 a company incorporated under the laws of the Cayman Islands. We conduct our operations outside the United States and substantially all of our assets are located outside the United States. In addition, all of our directors and executive officers and the experts named in this prospectus reside outside the United States, and most of their assets are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against them in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands, the PRC or other relevant jurisdiction may render you unable to enforce a judgment against our assets or the assets of our directors and officers. For more information regarding the relevant laws of the Cayman Islands and China, see "Enforcement of Civil Liabilities."

***You may face difficulties in protecting your interests, and your ability to protect your rights through 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 (2013 Revision) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against the 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. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

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 will have discretion under the post-offering memorandum and articles of association we expect to adopt, 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.

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. For a discussion of significant differences between the provisions of the Companies Law (2013 Revision) of the Cayman Islands and the laws applicable to companies incorporated in the United States and their shareholders, see "Description of Share Capital—Differences in Corporate Law."

***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, including Class A ordinary shares represented by our ADSs, at a premium.***

We have adopted amended and restated articles of association to be effective upon the completion of this offering 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 ADSs may fall and the voting and other rights of the holders of our ordinary shares and 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 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.

***We are an emerging growth company within the meaning of the Securities Act and may take advantage of certain reduced reporting requirements.***

We are an "emerging growth company," as defined in the JOBS Act, and we may take advantage of certain exemptions from various requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 of Sarbanes-Oxley Act of 2002 for so long as we are an emerging growth company. As a result, if we elect not to comply with such auditor attestation requirements, our investors will not have access to certain information they may deem important.

The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. However, we have elected to "opt out" of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

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

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

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

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

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

As a Cayman Islands company listed on the NASDAQ Global Market, we are subject to the NASDAQ corporate governance listing standards. However, NASDAQ Stock Market Rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NASDAQ corporate governance listing standards.

For instance, we are not required to:

- have a majority of the board be independent (although all of the members of the audit committee must be independent under the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act);
- have a compensation committee or a nominations or corporate governance committee consisting entirely of independent directors; or
- have regularly scheduled executive sessions with only independent directors each year.

We have relied on and intend to continue to rely on some of these exemptions. As a result, you may not be provided with the benefits of certain corporate governance requirements of the NASDAQ.

**We may become a passive foreign investment company, or PFIC, which could result in adverse United States 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 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. See "Taxation—Material United States Federal Income Tax Considerations—Passive Foreign Investment Company."

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 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, as defined under "Taxation—Material United States Federal Income Tax Considerations." 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. See "Taxation—Material United States Federal Income Tax Considerations—Passive Foreign Investment Company." There can be no assurance that we will not be a PFIC for 2016 or any future taxable year. Simpson Thacher & Bartlett LLP, our United States counsel, does not express any opinion about our status as a PFIC in any taxable year.

***We will incur increased costs as a result of being a public company, particularly after we cease to qualify as an "emerging growth company."***

Upon completion of this offering, we will become a public company and expect to incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the NASDAQ, impose various requirements on the corporate governance practices of public companies. As a company with less than US\$1.0 billion in net revenue for our last fiscal year, we qualify as an "emerging growth company" pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company's internal control over financial reporting and permission to delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we have elected to "opt out" of the provision that allow us to delay adopting new or revised accounting standards and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. After we are no longer 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 of 2002 and the other rules and regulations of the SEC. For example, as a result of becoming a public company, we will need to increase the number of independent directors and adopt policies regarding internal controls and disclosure controls and procedures. We also expect that operating as a public company will make 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 will incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to 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.

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

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus 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. The forward-looking statements are contained principally in the sections entitled "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Industry Overview" and "Business." 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 prospectus 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 keeping and strengthening our relationships with customers; and
- general economic and business conditions in the regions where we operate.

This prospectus also contains market data relating to the data center and cloud services industry in China, including market position, market size, and growth rates of the markets in which we participate, that are based on industry publications and reports. This prospectus contains statistical data and estimates published by 451 Research, LLC, or 451 Research, including a report which we commissioned 451 Research to prepare and for which we paid a fee. We have not independently verified the accuracy or completeness of the data contained in these industry publications and reports. The data center and cloud services industry in China may not grow at the rates projected by market data, or at all. The failure of these markets to grow at the projected rates may have a material adverse effect on our business and the market price of our ADSs. If any one or more of the assumptions underlying the market data turns out to be incorrect, actual results may differ from the projections based on these assumptions. In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate is necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in "Risk Factors" and elsewhere in this prospectus. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this prospectus relate only to events or information as of the date on which the statements are made in this prospectus. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this prospectus and the documents that we have referred to in this prospectus and have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

## USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately US\$226.7 million, or approximately US\$261.6 million if the underwriters exercise their option to purchase additional ADSs in full, after deducting underwriting discounts and the estimated offering expenses payable by us and based upon an assumed initial offering price of US\$13.00 per ADS (the mid-point of the estimated public offering price range shown on the front cover of this prospectus). A US\$1.00 increase (decrease) in the assumed initial public offering price of US\$13.00 per ADS would increase (decrease) the net proceeds to us from this offering by US\$17.9 million, after deducting the estimated underwriting discounts and commissions and estimated aggregate offering expenses payable by us and assuming no change to the number of ADSs offered by us as set forth on the cover page of this prospectus.

We plan to use the net proceeds of this offering as follows:

- approximately US\$21.0 million for the repayment of a portion of our outstanding indebtedness as described below;
- approximately US\$180.0 million for development and acquisition of new data centers;
- approximately US\$11.4 million for the payment of preference dividends to holders of our preferred shares; and
- the balance of the net proceeds for general corporate purposes.

On September 17, 2015, our subsidiary Shenzhen Yungang EDC Technology Co., Ltd., entered into a term loan facility agreement with United Overseas Bank (China) Limited, Shenzhen Branch and Credit Agricole Corporate and Investment Bank (China) Limited for a principal amount of RMB430.0 million (US\$64.7 million) for the subsidiary's Shenzhen data centers SZ1 and SZ2 respectively, and an amendment agreement dated August 5, 2016 to extend an additional term loan facility with a principal loan amount of RMB100.0 million (US\$15.0 million) for financing the borrower's Shenzhen data center SZ3. The interest rate agreed under the term loan facility agreements is 1.2x or 1.3x of PBOC's base rate for loans, as applicable. The effective interest rate on the loan as of the date of this prospectus was 6.18% per annum. The maturity date of the loan is September 18, 2020. The proceeds from the loan are being used for the construction, renovation and fitting-out of, as well as equipment for, the premises of data centers SZ1, SZ2 and SZ3.

On October 28, 2015, our subsidiary Beijing Hengpu'an Data Technology Development Co., Ltd. entered into a term loan facility agreement with United Overseas Bank Limited for a principal amount of RMB120.0 million (US\$18.1 million) for financing borrower's Beijing data center (BJ1). The interest rate agreed under said term loan facility agreement is a fixed rate of 6.5625% per annum or 1.25x of PBOC's base rate (as applicable based on the tranches of facilities utilized under the agreement). The effective interest rate on the loan as of the date of this prospectus was 6.56% per annum. The maturity date of the loan is December 21, 2020. The proceeds from the loan are being used for the construction, renovation and fitting-out of, as well as equipment for, the premises of data center BJ1.

An aggregate RMB537.2 million (US\$80.8 million) was outstanding on the foregoing two loan facilities as of the date of this prospectus, approximately RMB139.2 million (US\$21.0 million) of which we are required to repay upon the completion of this offering. For other details concerning these loan facilities, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations—Beijing and Shenzhen Loan Facilities."

For information as to preference dividends to holders of our preferred shares, see "Dividend Policy."

The foregoing represents our intentions as of the date of this prospectus with respect of the use and allocation of the net proceeds of this offering based upon our present plans and business conditions, but our management will have significant flexibility and discretion in applying the net proceeds of the offering.



The occurrence of unforeseen events or changed business conditions may result in application of the proceeds of this offering in a manner other than as described in this prospectus.

To the extent that the net proceeds we receive from this offering are not immediately applied for the above purposes, we intend to invest our net proceeds in short-term, interest bearing, debt instruments or bank deposits.

In utilizing the proceeds of this offering, we, as an offshore holding company, are permitted under PRC laws and regulations to provide funding to our PRC subsidiaries only through loans or capital contributions and to our consolidated VIEs only through loans. Subject to satisfaction of applicable government registration and approval requirements, we may extend inter-company loans to our PRC subsidiaries or make additional capital contributions to our PRC subsidiaries to fund their capital expenditures or working capital. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all.

## DIVIDEND POLICY

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 Class A ordinary 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.

Holders of our preferred shares are entitled to receive preference dividends at an annual rate of 6% per annum of the respective preferred shares issue price, out of any funds legally available for this purpose, when, as and if declared by us. The right to receive dividends on the preferred shares are cumulative, and the right to such dividends shall accrue to holders of the preferred shares notwithstanding the fact that dividends on said shares are not declared or paid in any calendar year. Upon completion of this offering, we will pay a preference dividend in the amount of US\$50.8 million to our preferred shareholders, of which US\$11.4 million is to be paid in cash and US\$39.4 million is to be paid in the form of Class A ordinary shares. Upon completion of this offering, the amount to be paid in cash will be paid from the proceeds of this offering. For the amount that is to be paid in the form of Class A ordinary shares, we will issue 24,223,203 Class A ordinary shares to holders of our preferred shares assuming an initial public offering price of US\$13.00 per ADS, the mid-point of the estimated public offering price range shown on the front cover of this prospectus.

Any other 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 Class A ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See "Description of American Depositary Shares." Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

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. 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.

**CAPITALIZATION**

The following table sets forth our capitalization as of June 30, 2016 presented on:

- an actual basis;
- a pro forma basis to reflect (i) the automatic conversion of all our outstanding preferred shares into 349,087,677 Class A ordinary shares immediately upon the completion of this offering, and (ii) the assumed payment of the preference dividend on our preferred shares of RMB294.3 million (US\$44.3 million) assumed to have been declared and payable on June 30, 2016 and as if a qualified IPO, as defined in our members agreement, had occurred on June 30, 2016, RMB72.5 million (US\$10.9 million) of which will be payable in cash and RMB221.8 million (US\$33.4 million) of which will be payable in our Class A ordinary shares; and
- a pro forma as adjusted basis to reflect (i) the automatic conversion of all our outstanding preferred shares into 349,087,677 Class A ordinary shares immediately upon the completion of this offering, (ii) the assumed payment of the preference dividend on our preferred shares of RMB337.7 million (US\$50.8 million) based upon, and settled through, the date of this offering, RMB76.1 million (US\$11.4 million) of which will be paid in cash and RMB261.6 million (US\$39.4 million) of which will be paid in 24,223,203 Class A ordinary shares of the Company, assuming an initial offering price of US\$13.00 per ADS, the mid-point of the estimated price range set forth on the cover of this prospectus, (iii) the issuance and sale of the Class A ordinary shares in the form of ADSs offered hereby at an assumed initial public offering price of US\$13.00 per ADS, the mid-point of the estimated public offering price range shown on the front cover of this prospectus, after deducting underwriting discounts, commissions and estimated offering expenses payable by us and assuming no exercise of the underwriters' over-allotment option, and (iv) the repayment of approximately RMB139.2 million (US\$21.0 million) of the outstanding indebtedness of certain of our subsidiaries using a portion of the proceeds to us from this offering.

The pro forma and pro forma as adjusted information below is illustrative only and our capitalization following the completion of this offering is subject to adjustment based on the initial public offering price of our ADSs and other terms of this offering determined at pricing. You should read this table in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of June 30, 2016					
	Actual		Pro Forma		Pro Forma as Adjusted <sup>(3)</sup>	
	RMB	US\$	RMB	US\$	RMB	US\$
	(in thousands)					
Long-term borrowings, excluding current portion <sup>(1)</sup>	825,392	124,196	825,392	124,196	686,160	103,246
Obligations under capital leases, non-current	873,972	131,505	873,972	131,505	873,972	131,505
Convertible bonds payable	994,243	149,602	994,243	149,602	994,243	149,602
Redeemable preferred shares	2,499,117	376,039	—	—	—	—
Shareholders' (deficit) equity:						
Ordinary shares	76	11	189	28	248	37
Additional paid-in capital <sup>(2)</sup>	302,939	45,583	2,507,680	377,327	4,232,582	636,871
Accumulated other comprehensive loss	(112,525)	(16,931)	(112,525)	(16,931)	(112,525)	(16,931)
Accumulated deficit	(736,450)	(110,812)	(736,450)	(110,812)	(736,450)	(110,812)
Total (deficit) equity <sup>(2)</sup>	(545,960)	(82,149)	1,658,894	249,612	3,383,855	509,165
<b>Total</b>	<b>4,646,764</b>	<b>699,193</b>	<b>4,352,501</b>	<b>654,915</b>	<b>5,938,230</b>	<b>893,518</b>

(1) Does not reflect borrowings drawn down under our Shenzhen, Shanghai and Weiteng Loan Facilities in the aggregate amount of RMB845.2 million (US\$127.2 million) from July 1, 2016 to the date of this prospectus. These borrowings have a maturity date ranging from September 2017 to September 2021.

(2) A US\$1.00 increase (decrease) in the assumed initial public offering price of US\$13.00 per ADS would increase (decrease) additional paid-in capital and total equity by US\$17.9 million.

(3) The Pro Forma As Adjusted column has assumed accrual of the preference dividend based upon, and settled through, the date of this offering. For each additional thirty-day period from July 1, 2016 through the date of this offering, an additional preference dividend amount of RMB10.3 million (US\$1.6 million) will accrue, of which RMB0.8 million (US\$0.1 million) will be settled in cash, and an additional RMB9.5 million (US\$1.5 million) of which in the form of 880,183 Class A ordinary shares will be issued, assuming an initial offering price of US\$13.00 per ADS, the mid-point of the estimated price range set forth on the cover of this prospectus.

**DILUTION**

If you invest in our ADSs, your interest will be diluted to the extent of the difference between the initial public offering price per ADS and our net tangible book value per ADS after this offering. Dilution results from the fact that the initial public offering price per Class A ordinary share is substantially in excess of the book value per ordinary share attributable to the existing shareholders for our presently outstanding ordinary shares and holders of our preferred shares which will automatically convert into our Class A ordinary shares upon the completion of this offering.

Our net tangible book value as of June 30, 2016 was approximately RMB511.0 million (US\$76.9 million), or RMB2.3443 (US\$0.3527) per ordinary share as of that date, and US\$2.8220 per ADS. Net tangible book value represents the amount of our total consolidated assets, less the amount of our intangible assets, goodwill and total consolidated liabilities. Dilution is determined by subtracting net tangible book value per ordinary share, after giving effect to (i) the automatic conversion of all of our outstanding preferred shares into Class A ordinary shares immediately upon the completion of this offering, (ii) the issuance of 24,223,203 Class A ordinary shares immediately upon the completion of this offering and cash payout in connection with the preference dividends to be paid to the holders of our preferred shares at an assumed initial public offering price of US\$ 13.00 per ADS (the mid-point of the estimated initial public offering price range shown on the front cover of this prospectus), and (iii) the issuance and sale by us of shares in the form of ADSs in this offering at an assumed initial public offering price of US\$13.00 per ADS (the mid-point of the estimated initial public offering price range shown on the front cover page of this prospectus) after deduction of the underwriting discounts and commissions and estimated offering expenses payable by us from the initial public offering price per Class A ordinary share.

Without taking into account any other changes in net tangible book value after June 30, 2016, other than to give effect to (i) the automatic conversion of all of our outstanding preferred shares into Class A ordinary shares immediately upon the completion of this offering, (ii) the issuance of 24,223,203 Class A ordinary shares immediately upon the completion of this offering and cash payout in connection with the preference dividends to be paid to the holders of our preferred shares at an assumed initial public offering price of US\$13.00 per ADS (the mid-point of the estimated initial public offering price range shown on the front cover of this prospectus), and (iii) the issuance and sale by us of Class A ordinary shares in the form of ADSs in this offering at an assumed initial public offering price of US\$13.00 per ADS (the mid-point of the estimated initial public offering price range shown on the front cover page of this prospectus) after deduction of the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of June 30, 2016 would have been US\$292.2 million, or US\$0.3920 per outstanding ordinary share and US\$3.1361 per ADS. This represents an immediate increase in net tangible book value of US\$0.0393 per ordinary share and US\$0.3141 per ADS to the existing shareholders and an immediate dilution in net tangible book value of US\$1.2330 per ordinary share and US\$9.8639 per ADS to investors purchasing ADSs in this offering.

The following table illustrates such dilution:

	Per Ordinary Share	Per ADS
Actual net tangible book value per share as of June 30, 2016	US\$ 0.3527	2.8220
Pro forma net tangible book value per share after giving effect to the automatic conversion of all of our outstanding preferred shares into Class A ordinary shares	0.1356	1.0848
Pro forma as adjusted net tangible book value per share after giving effect to (i) the automatic conversion of all of our outstanding preferred shares into Class A ordinary shares, (ii) the issuance of Class A ordinary shares and cash payout in connection with the preference dividends to be paid to holders of our preferred shares, and (iii) this offering	0.3920	3.1361
Assumed initial public offering price	1.6250	13.00
Dilution in net tangible book value per share to new investors in the offering	1.2330	9.8639

The amount of dilution in net tangible book value to new investors in this offering set forth above is determined after giving effect to (i) the automatic conversion of our outstanding preferred shares, (ii) the issuance of ordinary shares in connection with the preference dividends to be paid to holders of our preferred shares, and (iii) this offering from the public offering price per ordinary share.

A US\$1.00 increase (decrease) in the assumed public offering price of US\$13.00 per ADS (the mid-point of the estimated initial public offering price range shown on the front cover page of this prospectus) would increase (decrease) our pro forma net tangible book value after giving effect to the offering by US\$17.9 million, the pro forma net tangible book value per ordinary share and per ADS after giving effect to this offering by US\$0.0240 per ordinary share and US\$0.1922 per ADS and the dilution in pro forma net tangible book value per ordinary share and per ADS to new investors in this offering by US\$0.1010 per ordinary share and US\$0.8078 per ADS, assuming no change to the number of ADS offered by us as set forth on the front cover page of this prospectus, and after deducting underwriting discounts and commissions and other offering expenses.

The following table summarizes, on a pro forma basis as of June 30, 2016, the differences between existing shareholders, including holders of our preferred shares, and the new investors with respect to the number of ordinary shares (in the form of ADSs or shares) purchased from us, the total consideration paid and the average price per ordinary share and per ADS paid before deducting the underwriting discounts and commissions and estimated offering expenses. The total number of ordinary shares does not include ordinary shares underlying the ADSs issuable upon the exercise of the option to purchase additional ADSs granted to the underwriters.

	Ordinary Shares Total		Total Consideration		US\$ Average Price per Ordinary Share Equivalent		Average Price per ADS Equivalent	
	Number	Percent	Amount	Percent	US\$	US\$	US\$	US\$
Existing shareholders	567,075,599	78.6%	US\$ 457.4 million	64.6%	US\$ 0.81	US\$ 6.45		
New investors	154,000,000	21.4%	US\$ 250.2 million	35.4%	US\$ 1.63	US\$ 13.0		
<b>Total</b>	<b>721,075,599</b>	<b>100.0%</b>	<b>US\$ 707.6 million</b>	<b>100.0%</b>				

If the underwriters were to fully exercise the over-allotment option to purchase 23,100,000 additional shares of our Class A ordinary shares from us, the percentage of shares of our ordinary shares held by existing shareholders would be 76.2%, and the percentage of shares of our common stock held by new investors would be 23.8%.

The pro forma information discussed above is illustrative only. Our net tangible book value following the completion of this offering is subject to adjustment based on the actual initial public offering price of our ADSs and other terms of this offering determined at pricing.

The discussion and tables above take into consideration the automatic conversions of our redeemable preferred shares upon the completion of this offering, and they do not take into consideration of (i) the conversion into Class A ordinary shares of our convertible bonds due 2019 or (ii) any outstanding share options or vested but not yet issued restricted shares. Following this offering, we may require the conversion of the convertible bonds due 2019 assuming the average per-ordinary-share-equivalent closing trading price of our ADSs in any period of ten (10) consecutive trading days following this offering is at least 125% of US\$1.675262 and we exercise our right to cause STT GDC and Ping An Insurance to convert the bonds. If the bondholders elect to convert, or we cause the bondholders to convert, their bonds (including interests accrued), at least 91,681,348 Class A ordinary shares will be issued. In addition, as of the date of this prospectus, there are also (i) 29,189,800 ordinary shares issuable upon exercise of outstanding share options at an exercise price of US\$0.7792 per share; (ii) 877,400 vested but not yet issued restricted shares; and (iii) 55,880,360 ordinary shares reserved for future issuance under our share incentive plans. To the extent that the convertible bonds due 2019 are converted after our IPO or if any of these options are exercised, there will be further dilution to new investors.

**EXCHANGE RATE INFORMATION**

Substantially all of our operations are conducted in China and substantially all of our net revenue is denominated in Renminbi. This prospectus contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this prospectus were made at a rate of RMB6.6459 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on June 30, 2016. We make no representation that the Renminbi or U.S. dollar amounts referred to in this prospectus could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. On October 14, 2016, the noon buying rate for Renminbi was RMB6.7277 to US\$1.00.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this prospectus or will use in the preparation of our periodic reports or any other information to be provided to you. For all dates and periods, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board.

Period	Noon Buying Rate			
	Period End	Average <sup>(1)</sup>	Low	High
		(RMB per US\$1.00)		
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016				
April	6.4738	6.4754	6.5004	6.4571
May	6.5798	6.5259	6.5798	6.4738
June	6.6459	6.5892	6.6481	6.5590
July	6.6371	6.6771	6.7013	6.6371
August	6.6776	6.6466	6.6778	6.6239
September	6.6685	6.6702	6.6790	6.6600
October (through October 14, 2016)	6.7277	6.6924	6.7277	6.6685

Source: Federal Reserve Statistical Release

(1) Annual averages are calculated using the average of the rates on the last business day of each month during the relevant year. Monthly averages are calculated using the average of the daily rates during the relevant month.

## ENFORCEMENT OF CIVIL LIABILITIES

We are incorporated under the laws of the Cayman Islands as an exempted company with limited liability. We are incorporated in the Cayman Islands because of certain benefits associated with being a Cayman Islands corporation, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of foreign exchange control or currency restrictions and the availability of professional and support services. However, the Cayman Islands has a less developed body of securities laws as compared to the United States and provides protections for investors to a lesser extent. In addition, Cayman Islands companies may not have standing to sue before the federal courts of the United States.

Substantially all of our operations are conducted in China, and substantially all of our assets are located in China. In addition, most of our directors and officers are residents of jurisdictions other than the United States and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or these persons, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States. It may also be difficult for you to enforce in United States courts judgments obtained in United States courts based on the civil liability provisions of the United States federal securities laws against us and our officers and directors.

We have appointed Law Debenture Corporate Services Inc. as our agent to receive service of process with respect to any action brought against us in the United States District Court for the Southern District of New York under the federal securities laws of the United States or of any state in the United States or any action brought against us in the Supreme Court of the State of New York in the County of New York under the securities laws of the State of New York.

Conyers Dill & Pearman, our counsel as to Cayman Islands law, and King & Wood Mallesons, our counsel as to PRC law, have advised us that there is uncertainty as to whether the courts of the Cayman Islands or the PRC would, respectively, (1) recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States and (2) entertain original actions brought in the Cayman Islands or the PRC against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

Conyers Dill & Pearman has informed us that the uncertainty with regard to Cayman Islands law relates to whether a judgment obtained from the United States courts under the civil liability provisions of the securities laws will be determined by the courts of the Cayman Islands as penal or punitive in nature. If such a determination is made, the courts of the Cayman Islands will not recognize or enforce the judgment against a Cayman company. Because the courts of the Cayman Islands have yet to rule on whether such judgments are penal or punitive in nature, it is uncertain whether they would be enforceable in the Cayman Islands. Conyers Dill & Pearman has further advised us that a final and conclusive judgment in the federal or state courts of the United States under which a sum of money is payable, other than a sum payable in respect of taxes, fines, penalties or similar charges, may be subject to enforcement proceedings as a debt in the courts of the Cayman Islands under the common law doctrine of obligation.

In addition, Conyers Dill & Pearman has advised us that there is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the Cayman Islands will generally recognize as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts in the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (i) such courts had proper jurisdiction over the parties subject to such judgment; (ii) such courts did not contravene the rules of natural justice of the Cayman Islands; (iii) such judgment was not obtained by fraud; (iv) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (v) no new admissible evidence relevant

to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (vi) there is due compliance with the correct procedures under the laws of the Cayman Islands.

King & Wood Mallesons has advised us that the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedure Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedure Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. King & Wood Mallesons has advised us further that under PRC law, a foreign judgment, which does not otherwise violate basic legal principles, state sovereignty, safety or social public interest, may be recognized and enforced by a PRC court, based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. As there existed no treaty or other form of reciprocity between China and the United States governing the recognition and enforcement of judgments as of the date of this prospectus, including those predicated upon the liability provisions of the United States federal securities laws, there is uncertainty whether and on what basis a PRC court would enforce judgments rendered by United States courts.



## OUR HISTORY AND CORPORATE STRUCTURE

We are an exempted company and were incorporated in the Cayman Islands in 2006. We own 100% of the shares in EDC Holding, an exempted company also incorporated in the Cayman Islands, through which we indirectly hold 100% of the equity interests in holding companies in Hong Kong, many of which own our data centers through one or more data center companies. Through EDC Holding we also indirectly hold 100% of the equity interests in GDS Management Company.

Due to PRC regulations that limit foreign equity ownership of entities providing VATS at 50%, and the inclusion of IDC services within the scope of VATS, we conduct a substantial part of our operations in China through contractual arrangements among GDS Management Company, our data center companies and two VIEs that hold licenses required to operate our business, GDS Beijing and GDS Shanghai, and their shareholders. As a result of these contractual arrangements, we control GDS Shanghai, GDS Beijing and its subsidiaries, including EDC Shanghai Waigaoqiao, GDS Suzhou, Kunshan Wanyu, Guangzhou Weiteng and Beijing Yixin and have consolidated the financial information of these VIEs in our consolidated financial statements in accordance with U.S. GAAP. MITT has approved GDS Beijing's application to expand its IDC license coverage to include GDS Suzhou and Kunshan Wanyu so that they are now authorized to provide IDC services. See "—2016 Variable Interest Entity Restructuring." As part of the VIE restructuring, we have converted and changed the shareholding of EDC Shanghai Waigaoqiao in the same way as GDS Suzhou, and we will apply for the expansion of GDS Beijing's IDC license so that EDC Shanghai Waigaoqiao will also be authorized to provide IDC services. 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 consolidated VIEs. See "Regulations—Regulations Related to Value-Added Telecommunications Business" for additional details.

Historically, in 2014 and 2015 prior to our VIE restructuring, our consolidated VIEs, GDS Beijing and GDS Shanghai, contributed 2.0% and 4.3% of our total net revenue, and we conducted the substantial majority of our operations through GDS Suzhou when it was a WFOE under PRC law. See "—2016 Variable Interest Entity Restructuring" and "Risk Factors—Risks Related to Doing Business in the People's Republic of China—We may be regarded as existing, in a state of historical non-compliance with the regulations on foreign investment restriction and value added telecommunications services, for which penalties may be assessed that may materially and adversely affect our business, financial condition, growth strategies and prospects and may require us to obtain regulatory approval for this offering." As a result of our internal restructuring, GDS Suzhou became a domestic-owned enterprise under PRC law and an operating subsidiary of GDS Beijing. GDS Suzhou has received approval from the MITT for providing IDC services with authorization from GDS Beijing under its IDC license. As of the date of this prospectus, we conducted the substantial majority of our operations in China through GDS Suzhou. Accordingly, going forward we expect that substantially all of our net revenue will be generated through our consolidated VIEs, GDS Shanghai, GDS Beijing and its subsidiaries.

In 2003, some of our principal shareholders, including our founder, Mr. William Wei Huang, established Global Data Solutions Limited, a Cayman Islands exempted company. In 2001, FSL acquired GDS Suzhou, which was established by third parties in 2000. In 2006, GDS Beijing and GDS Holdings were established under the laws of the PRC and Cayman Islands, respectively. In 2009, we underwent restructuring with respect to GDS Beijing, which became a consolidated VIE. In 2010, GDS Suzhou was relocated from Shenzhen to Suzhou. In 2014, GDS Shanghai, which was established in 2011, also became a consolidated VIE.

### Acquisition of EDC Holding

EDC Holding was established in 2008 and is principally engaged in data center infrastructure services in the PRC. We held approximately 7% equity interests in EDC Holding on a fully diluted basis prior to the acquisition. In June 2014, in an effort to enhance our service offerings and to increase business synergy, we acquired all the equity interests in EDC Holding (preferred and ordinary shares) we did not already own by issuing 199,163,164 shares to the then-shareholders of EDC Holding.

We were identified as the accounting acquirer for the following reasons: (i) we were the entity that issued the new equity interests; (ii) a shareholder of ours held the largest minority voting interest in the combined entity; (iii) our shareholders have the ability to elect, appoint or remove a majority of the members of the governing body of the combined entity; (iv) our management dominates the management of the combined entity after the acquisition; and (v) we have a significantly larger relative size in terms of net revenue and operations than that of EDC Holding.

#### **Acquisition of Guangzhou Weiteng**

In May 2016, we, through GDS Beijing, acquired all the equity interest in Guangzhou Weiteng from a third party for an aggregate purchase price of RMB129.5 million (US\$19.5 million), subject to adjustment, if any, pursuant to the terms and conditions of the equity purchase agreement. Guangzhou Weiteng is a limited liability company organized and existing under the PRC law and operates a data center project in Guangzhou, and is in the process of applying for its own IDC license.

#### **2016 VIE Restructuring**

The laws and regulations regarding VATS licenses in the PRC, especially those in relation to IDC services, are relatively new and are still evolving, and their interpretation and enforcement involve significant uncertainties. PRC laws and regulations restrict foreign equity ownership of entities that hold VATS licenses, and such licenses have been denied to entities whose foreign equity ownership exceeds permitted thresholds.

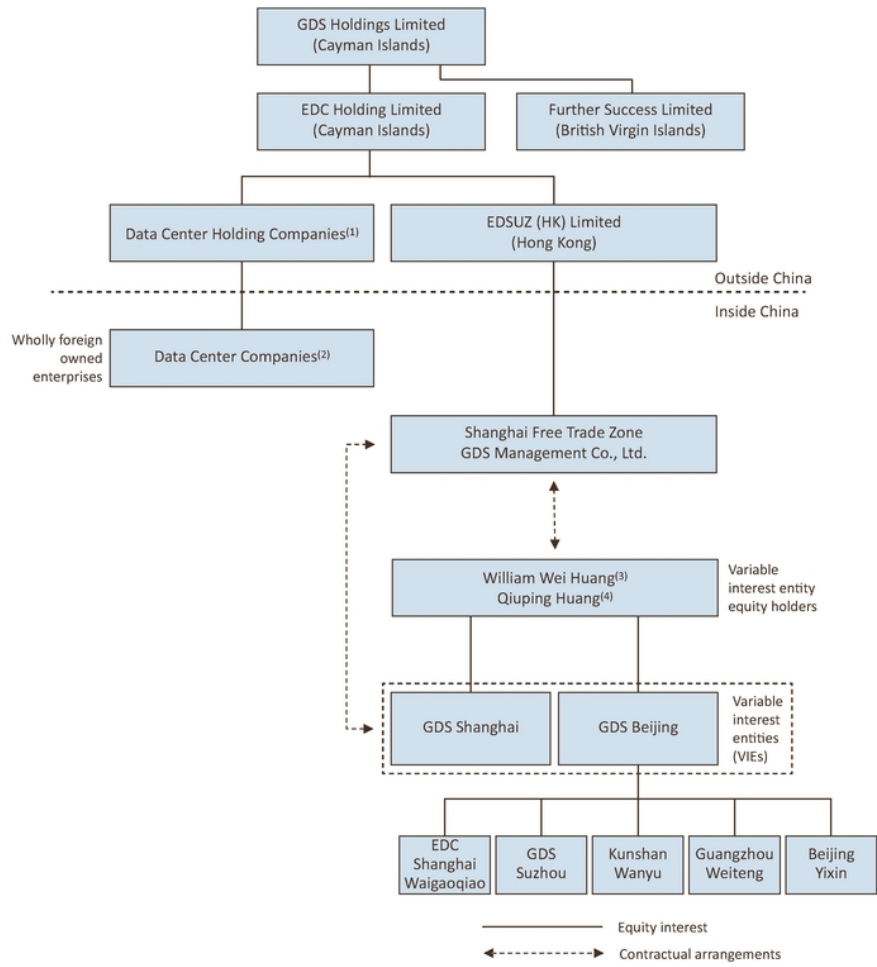
Before 2013, the definition of IDC service did not offer clear guidance as to whether our business at the time fell within its scope. Between 2010 and 2012, in order to comply with then-effective laws and administrative practice, we consulted relevant officials of local branches of the MIIT. Based on such consultations, we understood that we were not required to hold an IDC license in order for us to operate our business lawfully, and we entered into most of our customer contracts through GDS Suzhou, a WFOE, because we believed that restrictions on foreign investment in IDC services did not apply in our case.

On May 6, 2013, 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 VATS licenses, especially with regards to IDC services. A national consulting body and certain 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 of IDC services under the Q&A is identical to that under the Telecom Catalogue, whether a business model should be deemed to be an IDC service 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 this 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, most of our services would be deemed IDC services, and that such 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 and Guangzhou. In order to adapt to the new regulatory requirements and address pre-existing customer contracts, we converted GDS Suzhou into a domestic company wholly owned by GDS Beijing by way of transferring all of the equity interests in GDS Suzhou from FSL to GDS Beijing in order to enable GDS Suzhou to engage in the provision of IDC services with the authorization of GDS Beijing, and under the auspices of an IDC license held by GDS Beijing. As part of the VIE restructuring, we have converted and changed the shareholding of EDC Shanghai Waigaoqiao in the same way as GDS Suzhou, and we will apply for the expansion of GDS Beijing's IDC license so that EDC Shanghai Waigaoqiao will also be authorized to provide IDC services. In addition, with regard to the other WFOEs that have not contributed substantial revenue, we are considering measures to ensure that any services that may have to be provided 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.

**Our Corporate Structure**

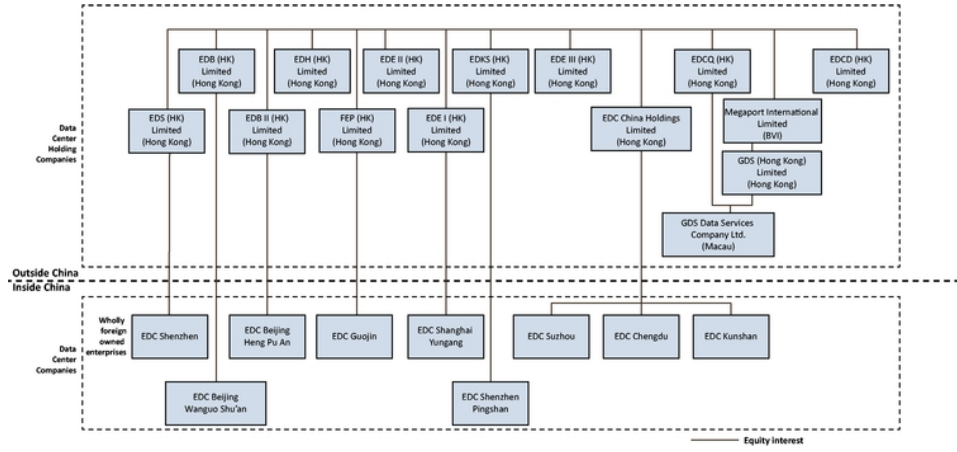
The following diagrams illustrate our corporate structure as of the date of this prospectus. They omit certain entities that are immaterial to our results of operations, business and financial condition. Equity interests depicted in this diagram are held as to 100%. The relationships between each of GDS Shanghai and GDS Beijing and GDS Management Company as illustrated in this diagram are governed by contractual arrangements and do not constitute equity ownership.



<sup>(1)</sup> Includes 13 subsidiaries and consolidated entities (aside from EDSUZ (HK) Limited, shown above) incorporated in Hong Kong, seven of which hold our PRC-incorporated data center companies, and two additional subsidiaries incorporated in BVI and Macau, but excludes dormant or immaterial entities with no material business. See the chart below for details on the data center holding companies.

- (2) Includes nine additional subsidiaries and consolidated entities incorporated in China. See the chart below for details on the data center companies.
- (3) Holds equity interests of 99.90% in GDS Shanghai, and of approximately 99.97% in GDS Beijing.
- (4) Holds equity interests of 0.10% in GDS Shanghai, and of approximately 0.03% in GDS Beijing.

Guangzhou Weiteng and EDC Shanghai Waigaoqiao operate the GZ1 and SH1 data centers, respectively. Other data centers are operated by the data center companies indicated in the diagram above, which in turn are held by data center holding companies indicated in the diagram above. The following diagram illustrates the structure of these data center holding companies and their data center companies:



The following table sets forth the full legal names of the data center holding companies and corresponding project companies:

<u>Data center holding company</u>	<u>Data center company</u>	<u>Data center</u>
EDS (HK) Limited	Shenzhen Yungang EDC Technology Co., Ltd., or EDC Shenzhen	Shenzhen data centers SZ1, SZ2 and SZ3
EDB (HK) Limited	Beijing Wanguo Shu'an Science & Technology Development Co., Ltd., or EDC Beijing Wanguo Shu'an	Site in Beijing for future development
EDB II (HK) Limited	Beijing Hengpu'an Data Technology Development Co., Ltd., or EDC Beijing Heng Pu An	Beijing data centers BJ1 and BJ2
FEP (HK) Limited	Guojin Technology (Kunshan) Co., Ltd., or EDC Guojin	Site in Kunshan for future development
EDE I (HK) Limited	Shanghai Yungang EDC Technology Co., Ltd., or EDC Shanghai Yungang	Shanghai data centers SH2, SH3 and SH4
EDKS (HK) Limited	Shenzhen Pingshan New Area Global Data Science & Technology Development Co., Ltd., or EDC Shenzhen Pingshan	Shenzhen data center SZ4
EDC China Holdings Limited	EDC Technology (Suzhou) Co., Ltd., or EDC Suzhou	—
	EDC (Chengdu) Industry Co., Ltd., or EDC Chengdu	Chengdu data center CD1
	EDC Technology (Kunshan) Co., Ltd., or EDC Kunshan	Kunshan data center KS1

**VIE Contractual Arrangements**

***Contractual Arrangements among GDS Management Company, GDS Beijing and GDS Shanghai***

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 Suzhou, an operating subsidiary of GDS Beijing that is now authorized by GDS Beijing to provide IDC services. Each of GDS Beijing and GDS Shanghai holds an IDC license which is required to operate our business. We effectively control GDS Beijing and GDS Shanghai through a series of contractual arrangements between these consolidated VIEs, their shareholders and GDS Management Company. These contractual arrangements allow us to:

- exercise effective control over our consolidated VIEs, namely GDS Shanghai, GDS Beijing and GDS Beijing's subsidiaries, namely EDC Shanghai Waigaoqiao, GDS Suzhou, Kunshan Wanyu, Guangzhou Weiteng and Beijing Yixin;
- 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 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 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 is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, GDS Management Company, our consolidated VIEs, GDS Beijing and GDS Shanghai, and the shareholders of each of GDS Beijing and GDS Shanghai.

*Agreements that Provide us with Effective Control over our Consolidated VIEs*

**Equity Interest Pledge Agreements.** Pursuant to the equity interest pledge agreements, each shareholder of each of GDS Beijing and GDS Shanghai has pledged all of his or her equity interest in GDS Beijing or GDS Shanghai as a continuing first priority security interest, as applicable, to respectively guarantee GDS Beijing'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, and shareholder voting rights proxy agreement, as well as GDS Shanghai's and its shareholders' performance of their obligations under the other 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 any of its shareholders breaches their contractual obligations under these agreements, GDS Management 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. Each of the shareholders of GDS Beijing and GDS Shanghai 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 Management Company. The equity interest pledge agreements remain effective until GDS Beijing and GDS Shanghai and its shareholders 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 Management Company with the relevant office of the Administration for Industry and Commerce in accordance with the PRC Property Rights Law.

**Shareholder Voting Rights Proxy Agreement.** Pursuant to the shareholder voting rights proxy agreements, each shareholder of GDS Beijing and GDS Shanghai has irrevocably appointed the PRC citizen(s) as designated by GDS Management 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 GDS Beijing and GDS Shanghai requiring shareholder approval, and appointing directors and executive officers. GDS Management 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 GDS Beijing and GDS Shanghai 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 GDS Beijing or GDS Shanghai, as applicable.

*Agreements that Allow us to Receive Economic Benefits from our Consolidated VIEs*

**Exclusive Technology License and Service Agreements.** Under the exclusive technology license and service agreements, GDS Management Company licenses certain technology to each of GDS Beijing and GDS Shanghai and GDS Management Company has the exclusive right to provide GDS Beijing and GDS Shanghai with technical support, consulting services and other services. Without GDS Management 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 Management Company. GDS Management 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 Management 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 Management Company and GDS Shanghai, dated April 13, 2016, GDS Shanghai has granted GDS Management Company an exclusive license to use for free any or all of the intellectual property rights owned by GDS Shanghai from time to time, and without the parties' prior written consent,

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 Management Company's use of the licensed intellectual property rights from GDS Shanghai. The parties have also agreed under the agreement that GDS Management 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 Shanghai. This agreement can only be early terminated by prior mutual consent of the parties and need to be renewed upon GDS Management 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, each shareholder of GDS Beijing and GDS Shanghai has irrevocably granted GDS Management 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 GDS Beijing and GDS Shanghai. 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 Management Company's prior written consent, the shareholders of each of GDS Beijing and GDS Shanghai have 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 Management Company or its designated person(s).

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

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

- the ownership structures of GDS Management Company, GDS Shanghai and GDS Beijing, currently do not, and immediately after giving effect to this offering, will not result in any violation of the applicable PRC laws or regulations currently in effect; and
- the contractual arrangements among GDS Management Company, GDS Shanghai, GDS Beijing, and the shareholders of GDS Shanghai and GDS Beijing, 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 result in any violation of the applicable PRC laws or regulations currently in effect.

However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. In particular, in January 2015, the Ministry of Commerce, or the MOC, published a discussion draft of the proposed Foreign Investment Law for public review and comments. Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of "actual control" in determining whether a company is considered a foreign-invested enterprise, or an FIE. Under the draft Foreign Investment Law, VIEs would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors, and be subject to restrictions on

foreign investments. However, the draft law has not arrived at a position on what actions will be taken with respect to the existing companies with the "variable interest entity" structure, whether or not these companies are controlled by Chinese parties. It is uncertain when the draft may be signed into law, if at all, and whether any final version would have substantial changes from the draft. Accordingly, the PRC regulatory authorities may in the future take a view that is contrary to the above opinion of our PRC counsel. If the PRC government finds that the agreements that establish the structure for providing our IDC services do not comply with PRC government restrictions on foreign investment in IDC services, we could be subject to severe penalties, including being prohibited from continuing operations.



**SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA**

The following consolidated statements of operations data for the years ended December 31, 2014 and 2015 and the selected consolidated balance sheet data as of December 31, 2014 and 2015 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. Our consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The following selected consolidated statement of operations data for the six months ended June 30, 2015 and 2016 and the selected consolidated balance sheet data as of June 30, 2016 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. The unaudited condensed consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and include all adjustments, consisting only of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating result for the periods presented.

On June 30, 2014, we acquired EDC Holding from its shareholders whereby we issued shares to EDC Holding's shareholders in exchange for their shares in EDC Holding. Pursuant to the terms of the agreement, we issued 199,163,164 shares in exchange for approximately 93% of the shares in EDC Holding which we did not already own. Since the date of the acquisition, EDC Holding has been our wholly-owned subsidiary and has been consolidated with our results of operations. See note 8 of our consolidated financial statements included elsewhere in this prospectus.

Our historical results are not necessarily indicative of results to be expected for any future period. The following summary consolidated financial data for the periods and as of the dates indicated are qualified by reference to, and should be read in conjunction with, our consolidated financial statements and related notes and the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations," both of which are included elsewhere in this prospectus.

	Year Ended December 31,			Six Months Ended June 30,		
	2014	2015		2015	2016	
	RMB	RMB	US\$	RMB	RMB	US\$
	(in thousands, except share data and per share data)					
<b>Consolidated Statements of Operations Data:</b>						
Net revenue	468,337	703,636	105,875	304,794	447,135	67,280
Cost of revenue	(388,171)	(514,997)	(77,491)	(221,519)	(332,034)	(49,961)
Gross profit	80,166	188,639	28,384	83,275	115,101	17,319
Operating expenses:						
Selling and marketing expenses	(40,556)	(57,588)	(8,665)	(23,494)	(34,563)	(5,201)
General and administrative expenses	(113,711)	(128,714)	(19,367)	(58,837)	(131,452)	(19,779)
Research and development expenses	(1,597)	(3,554)	(535)	(1,257)	(4,765)	(717)
Loss from operations	(75,698)	(1,217)	(183)	(313)	(55,679)	(8,378)
Net interest expense	(124,973)	(125,546)	(18,891)	(60,440)	(110,292)	(16,595)
Foreign currency exchange (loss) gain, net	(875)	11,107	1,671	4,456	4,101	617
Government grants	4,670	3,915	589	1,030	1,030	155
Gain on remeasurement of equity investment	62,506	—	—	—	—	—
Others, net	(412)	1,174	177	1,362	179	27
Loss before income taxes	(134,582)	(110,567)	(16,637)	(53,905)	(160,661)	(24,174)
Income tax benefits	4,583	11,983	1,803	6,641	6,464	973
Net loss	(129,999)	(98,584)	(14,834)	(47,264)	(154,197)	(23,201)
Net loss available to ordinary shareholders	(309,139)	(216,637)	(32,597)	(106,290)	(215,791)	(32,468)
Net loss per ordinary share—basic and diluted	(1.91)	(0.99)	(0.15)	(0.49)	(0.99)	(0.15)
Weighted average number of ordinary shares outstanding—basic and diluted	162,070,745	217,987,922	217,987,922	217,987,922	217,987,922	217,987,922
Pro forma net loss per ordinary share—basic and diluted <sup>(1)</sup>		(0.17)	(0.03)		(0.26)	(0.04)
Pro forma weighted average number of ordinary share outstanding—basic and diluted <sup>(1)</sup>		587,615,180	587,615,180		587,615,180	587,615,180

(1) Pro forma loss per share available to ordinary shareholders is calculated assuming (i) 349,087,677 preferred shares had been converted into the equivalent number of ordinary shares at the beginning of the period and (ii) assuming an initial offering price of US\$13.00 per ADS, the mid-point of the estimated price range set forth on the cover of this prospectus, 20,539,581 ordinary shares were issued to pay the preference dividends at the beginning of the period. The pro forma effect of the number of ordinary shares whose proceeds were necessary to pay the cash portion of the preference dividends was not material. See "Prospectus Summary—The Offering—Preference Dividend" and "Dividend Policy" for more information on the preference dividends that are to be issued upon completion of this offering.

The following table presents a summary of our consolidated balance sheet data as of December 31, 2014 and 2015 and as of June 30, 2016.

	As of December 31,			As of June 30,	
	2014	2015		2016	
	Actual	Actual	Actual	Actual	Actual
	RMB	RMB	US\$	RMB	US\$
	(in thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash	606,758	924,498	139,108	834,477	125,563
Accounts receivable, net	73,366	111,013	16,704	170,149	25,602
Total current assets	745,831	1,186,699	178,561	1,183,231	178,039
Property and equipment, net	1,694,944	2,512,687	378,081	3,591,456	540,402
Goodwill and intangible assets	1,350,524	1,341,599	201,869	1,442,125	216,995
Total assets	3,854,074	5,128,272	771,645	6,334,066	953,079
Short-term borrowings and current portion of long-term borrowings	426,709	428,218	64,433	699,394	105,237
Obligations under capital leases, current	39,621	48,745	7,335	71,919	10,822
Total current liabilities	897,630	925,049	139,191	1,478,315	222,440
Long-term borrowings, excluding current portion	492,123	958,264	144,189	825,392	124,196
Convertible bonds payable	—	648,515	97,581	994,243	149,602
Obligations under capital leases, non-current	246,996	424,939	63,940	873,972	131,505
Total liabilities	1,706,600	3,073,463	462,460	4,380,909	659,189
Redeemable preferred shares	2,164,039	2,395,314	360,420	2,499,117	376,039
Total shareholders' deficit	(16,565)	(340,505)	(51,235)	(545,960)	(82,149)

#### Key Financial Metrics

We monitor the following key financial metrics to help us evaluate growth trends, establish budgets, measure the effectiveness of our business strategies and assess operational efficiencies:

	Year Ended		Six Months	
	December 31,		Ended June 30,	
	2014	2015	2015	2016
<b>Other Consolidated Financial Data:</b>				
Gross margin <sup>(1)</sup>	17.1%	26.8%	27.3%	25.7%
Operating margin <sup>(2)</sup>	(16.2)%	(0.2)%	(0.1)%	(12.5)%
Net margin <sup>(3)</sup>	(27.8)%	(14.0)%	(15.5)%	(34.5)%

(1) Gross profit as a percentage of net revenue.

(2) Income (loss) from operations as a percentage of net revenue.

(3) Net income (loss) as a percentage of net revenue.

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

	Year Ended December 31,			Six Months Ended June 30,		
	2014	2015		2015	2016	
	RMB	RMB	US\$	RMB	RMB	US\$
(in thousands, except percentages)						
<b>Other Consolidated Financial Data:</b>						
Adjusted EBITDA <sup>(1)</sup>	38,044	164,701	24,782	73,755	100,557	15,131
Adjusted EBITDA margin <sup>(2)</sup>	8.1%	23.4%	23.4%	24.2%	22.5%	22.5%

- (1) Adjusted EBITDA is defined as net income or net loss excluding net interest expenses, income tax benefits, depreciation and amortization, accretion expenses for asset retirement costs, share-based compensation expenses, and gain on remeasurement of equity investment.
- (2) Adjusted EBITDA margin is defined as adjusted EBITDA as a percentage of net revenue.

#### Non-GAAP Measures

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 expenses eliminated in calculating adjusted EBITDA 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.

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 operation and cash flow data prepared in accordance with U.S. GAAP.

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 years 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,		
	2014	2015		2015	2016	
	RMB	RMB	US\$	RMB	RMB	US\$
(in thousands)						
Net loss	(129,999)	(98,584)	(14,834)	(47,264)	(154,197)	(23,201)
Net interest expenses	124,973	125,546	18,891	60,440	110,292	16,595
Income tax benefits	(4,583)	(11,983)	(1,803)	(6,641)	(6,464)	(973)
Depreciation and amortization	82,753	145,406	21,879	63,968	93,469	14,064
Accretion expenses for asset retirement costs	73	255	38	86	270	41
Share-based compensation expenses	27,333	4,061	611	3,166	57,187	8,605
Gain on remeasurement of equity investment	(62,506)	—	—	—	—	—
Adjusted EBITDA	38,044	164,701	24,782	73,755	100,557	15,131

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

*You should read the following discussion and analysis of our financial position and results of operations in conjunction with the section entitled "Selected Consolidated Financial and Operating Data" and our consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.*

**Overview**

We are a leading developer and operator of high-performance data centers in China. Our facilities are strategically located in China's primary economic hubs where demand for high-performance data center services is concentrated. Our data centers have large net floor area, high power capacity, density and efficiency, and multiple redundancy across all critical systems. We are carrier and cloud neutral, which enables our customers to connect to all major PRC telecommunications carriers, and to access a number of the largest PRC cloud service providers, whom we host in our facilities. We offer colocation and managed services, including a unique and innovative managed cloud value proposition. We have a 15-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 September 30, 2016, we had an aggregate net floor area of 48,822 sqm in service, 93.8% of which was committed, and an aggregate net floor area of 37,194 sqm under construction. According to 451 Research, we are the largest service provider in the high-performance carrier-neutral data center services market in China, with 24.9% market share as measured by area committed as of September 30, 2016.

Our portfolio of data centers and secured expansion capacity are strategically located to address this growing demand. We operate our data centers to service our customers predominantly in Shanghai, Beijing, Shenzhen, Guangzhou and Chengdu, the primary financial, commercial, industrial and communications hubs in each region of China. We have also established a presence in Hong Kong which we believe is another important market for our customers.

We currently serve approximately 370 customers, including large Internet companies, a diverse community of approximately 160 financial institutions, telecommunications and IT service providers and large domestic private sector and multinational corporations, many of which are leaders in their respective industries. Within our customer base, we host a number of major cloud service providers, including Aliyun, the cloud computing unit of Alibaba, which is present in several of our data centers. Contracts with our large Internet customers have terms of three to eight years, while contracts with our enterprise customers typically have terms of one to five years. We achieved an average retention rate of over 95% per annum among our Internet and financial institution customers for colocation services in our current data centers over the past two years.

As of September 30, 2016, we operated eight self-developed data centers with an aggregate net floor area of 39,781 sqm in service. We also operated capacity at approximately ten third-party data centers with an aggregate net floor area of 9,041 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 five new self-developed data centers and two phases of an existing data center with an aggregate net floor area of 37,194 sqm under construction. In addition, we had an estimated aggregate developable net floor area of approximately 20,000 sqm held for future development and entered into a memorandum of understanding for a lease of three data center shell buildings that we expect to provide us with additional net floor area of approximately 30,000 sqm.

As part of our business strategy, we held a minority interest in EDC Holding, a data center provider, prior to June 30, 2014. On June 30, 2014, we acquired the remaining equity interest of EDC Holding and

the results of operations of EDC Holding have been consolidated into our results of operations. Prior to the acquisition, EDC Holding's net revenue was primarily derived from GDS Holdings.

We derive net revenue primarily from colocation services and, to a lesser extent, managed services, which include managed hosting services and managed cloud services. We also derive some revenues from (1) consulting services that we provide in connection with our managed services where requested by customers, and (2) the sale of IT equipment that we make to colocation customers who request such equipment in connection with our colocation services.

Our net revenue grew from RMB468.3 million in 2014 to RMB703.6 million (US\$105.9 million) in 2015, representing an increase of 50.2%, and increased from RMB304.8 million in the six months ended June 30, 2015 to RMB447.1 million (US\$67.3 million) in the same period in 2016, representing an increase of 46.7%. Revenues from colocation services grew from RMB342.5 million in 2014 to RMB500.9 million (US\$75.4 million) in 2015, representing 73.1% and 71.2% of total net revenue, respectively, and grew from RMB219.7 million in the six months ending June 30, 2015 to RMB330.8 million (US\$49.8 million) in the same period in 2016, representing 72.1% and 74.0% of total net revenue, respectively. Revenue from managed services grew from RMB100.4 million in 2014 to RMB142.6 million (US\$21.5 million) in 2015, representing 21.5% and 20.3% of total net revenue, respectively, and grew from RMB67.3 million in the six months ending June 30, 2015 to RMB102.1 million (US\$15.4 million) in the same period in 2016, representing 22.0% and 22.8% of total net revenue, respectively. Revenue from consulting services grew from RMB8.0 million in 2014 to RMB 10.1 million (US\$1.5 million) in 2015, representing 1.7% and 1.4% of total net revenue, respectively, and decreased from RMB4.8 million in the six months ending June 30, 2015 to RMB3.5 million (US\$0.5 million) in the same period in 2016, representing 1.6% and 0.8% of total net revenue, respectively. Revenue from IT equipment sales grew from RMB 17.4 million in 2014 to RMB50.0 million (US\$7.5 million) in 2015, representing 3.7% and 7.1% of total net revenue, respectively, and decreased from RMB13.0 million in the six months ending June 30, 2015 to RMB10.7 million (US\$1.6 million) in the same period in June 30, 2016, representing 4.3% and 2.4% of total net revenue, respectively. Our adjusted EBITDA increased from RMB38.0 million in 2014 to RMB164.7 million (US\$24.8 million) in 2015, and increased from RMB73.8 million in the six months ended June 30, 2015 to RMB100.6 million (US\$15.1 million) in the same period in 2016. Our net loss decreased from RMB130.0 million in 2014 to RMB98.6 million (US\$14.8 million) in 2015. Our net loss increased from RMB47.3 million in the six months ended June 30, 2015 to RMB154.2 million (US\$23.2 million) in the same period in 2016. As of December 31, 2015 and June 30, 2016, our accumulated deficit was RMB582.3 million (US\$87.6 million) and RMB736.5 million (US\$110.8 million), respectively.

#### **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. As it typically takes a minimum of twelve to eighteen months to develop a data center together with racks and equipment installed, we must commit to development in advance of realizing a benefit from our investment. 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 identified 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 (1) acquiring or leasing property which we develop for use as data center facilities, whether through constructing on greenfield sites or converting existing industrial buildings, (2) leasing existing data center capacity from third-party wholesale providers, and (3) 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 identify suitable land or facilities 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, 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 for Data Center Services from Our Customers and Minimize Move-in Periods***

Due to the lengthy time period required to build data centers and the long-term nature of these investments, if we overestimate market demand for data center resources, our utilization rates, which is the ratio of area utilized to area in service would be reduced, which would adversely affect our results of operations. Our revenue growth depends on our ability to secure commitments for our data center services. We focus on obtaining these commitments during the construction phase by entering into pre-commitment agreements with customers and endeavor to maximize total area committed. While providing flexibility to customers, we also aim to minimize move-in period so as to provide billable services and to start generating revenue. Accordingly, our results of operations are highly influenced by our ability to maintain a high utilization rate. Our total area committed increased from 20,985 sqm as of December 31, 2014 to 35,918 sqm as of December 31, 2015, and to 58,627 sqm as of September 30, 2016, while area utilized increased from 15,862 sqm to 22,365 sqm and to 34,369 sqm over the same period. Move-in periods, and minimum commitments over the move-in period, vary significantly from customer to customer. We strive to optimize our customer mix to achieve high commitment rates and utilization rates and a high proportion of long-term relationships.

***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 contract, we agree with our customer to either charge them for actual power consumed or we factor it into a fixed price. The majority of our customers select pricing for a fixed amount over the contracts' service period. Accordingly, the customer's actual power usage during the life of the contract 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 net floor area and power capacity. 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, 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.

**Data Center Development and Financing Costs**

Our revenue growth depends 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 identify suitable land or facilities for new data centers or at a cost or terms acceptable to us.

**Key Performance Indicators**

Our net revenue and results of operations are largely determined by the amount of data center area in service, the degree to which data center space 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 net floor area of data centers in service for which one or more modules have been equipped and fitted out ready for utilization by customers.
- **Area under construction:** the net floor area of data centers which are under construction and are not yet ready for service.
- **Area committed:** the net floor area of data centers in service for which agreements from customers remain in effect.
- **Area pre-committed:** the net floor area of data centers under construction for which agreements from customers remain in effect.
- **Total area committed:** the sum of area committed and area pre-committed.
- **Commitment rate:** the ratio of area committed to area in service.
- **Pre-commitment rate:** the ratio of area pre-committed to area under construction.
- **Area utilized:** the net floor area of data centers in service that is also revenue generating pursuant to customer agreements in effect.
- **Utilization rate:** the ratio of area utilized to area in service.

The following table sets forth our key performance indicators as of December 31, 2014 and 2015 and September 30, 2016.

(Sqm, %)	As of December 31,		As of
	2014	2015	September 30, 2016
Area in service	27,512	37,869	48,822
Area under construction	10,056	35,525	37,194
Area committed	20,985	33,140	45,782 <sup>(1)</sup>
Area pre-committed	0	2,778	12,845 <sup>(1)</sup>
Total area committed	20,985	35,918	58,627 <sup>(1)</sup>
Commitment rate	76.3%	87.5%	93.8%
Pre-commitment rate	0%	7.8%	34.5%
Area utilized	15,862	22,365	34,369
Utilization rate	57.7%	59.1%	70.4%

(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.

**Description of Selected Statement of Operations Items**

The following table sets forth our net revenue, cost of revenue and gross profit, 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,					
	2014		2015		2015		2016			
	RMB	% of Net Revenue	RMB	US\$	RMB	% of Net Revenue	RMB	US\$		
	(in thousands, except for percentages)									
Net revenue										
Service revenue	450,940	96.3	653,591	98,345	92.9	291,777	95.7	436,394	65,664	97.6
IT equipment sales	17,397	3.7	50,045	7,530	7.1	13,017	4.3	10,741	1,616	2.4
Total	468,337	100.0	703,636	105,875	100.0	304,794	100.0	447,135	67,280	100.0
Cost of revenue	(388,171)	(82.9)	(514,997)	(77,491)	(73.2)	(221,519)	(72.7)	(332,034)	(49,961)	(74.3)
Gross profit	80,166	17.1	188,639	28,384	26.8	83,275	27.3	115,101	17,319	25.7

**Net Revenue**

We derive net revenue primarily from colocation services and, to a lesser extent, managed services, including managed hosting services 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 hosting service contract arrangement to customers and provide consulting services. Substantially all of our service revenue is recognized on a recurring basis.

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. Colocation services are provided to customers for a fixed amount over the contract service period. Revenue from colocation services is recognized ratably over the term of the contractual service period.

Our managed services include managed hosting services and managed cloud services. Our managed hosting services offering comprises a broad range of value-added services, covering each layer of the data center IT value chain. Our suite of managed hosting services include technical services, network management services, data storage services, system security services, database services and server middleware services. The majority of our managed hosting services revenue is provided to customers for a fixed amount over the contract service period and billed on a monthly or quarterly basis. Revenue from managed hosting services is recognized ratably over the term of the contractual service period. Our managed cloud services deliver virtual computing and storage services to customers. We also offer solutions to assist our customers in managing their hybrid clouds.

We are subject to VAT at a rate of 6% on the IDC services we provide 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.

We consider our customer to be the end user of our data center services. We may enter into contracts directly with the end user customer or through an intermediate contracting party. 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 end user customer that generated 26.8% of our total net revenue in 2014 and two end user customers that generated 20.1% and 10.3% of our total net revenue, respectively, in 2015, and 17.1% and 15.7% of our total net revenue for the six months ended June 30, 2016, respectively. No other end user customer accounted for 10% or more of our total net revenue during the periods. We expect our total net revenue will continue to be highly dependent on a limited number of



end user customers who account for a large percentage of our total area committed. As of September 30, 2016, we had two end user customers who accounted for 26.1% and 20.8%, respectively, of our total area committed. No other end user customer accounted for 10% or more of the total area committed.

**Cost of Revenue**

Our cost of revenue consists primarily of utility costs, depreciation of property and equipment, rental costs, 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 acquired under capital leases, leasehold improvements to data centers and other long-lived assets. Rental costs relate to the data center space we 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 other than utility costs, for which there is a portion that varies proportionally to each customer's power and utility consumption and a fixed portion consisting of a monthly power commitment fee. 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 contracts 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 space will be utilized as possible and also to minimize the time as to when our data center area becomes operational and the customer occupies that area, these timing differences may result in fluctuation of our cost of revenue as a percentage of our net revenue between periods.

**Operating Expenses**

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

	Year Ended December 31,					Six Months Ended June 30,				
	2014		2015			2015		2016		
	RMB	% of Net Revenue	RMB	US\$	% of Net Revenue	RMB	% of Net Revenue	RMB	US\$	% of Net Revenue
	(in thousands, except for percentages)									
Selling and marketing expenses	40,556	8.7	57,588	8,665	8.2	23,494	7.7	34,563	5,201	7.7
General and administrative expenses	113,711	24.3	128,714	19,367	18.3	58,837	19.3	131,452	19,779	29.4
Research and development expenses	1,597	0.3	3,554	535	0.5	1,257	0.4	4,765	717	1.1
Total operating expenses	155,864	33.3	189,856	28,567	27.0	83,588	27.4	170,780	25,697	38.2

**Selling and Marketing Expenses**

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

*General and Administrative Expenses*

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

In addition, upon becoming a public company, we will incur significant legal, accounting and other expenses that we have not incurred thus far as a private company, including costs associated with public company reporting requirements. We will also incur costs in order to comply with the Sarbanes-Oxley Act of 2002 and the related rules and regulations implemented by the SEC and NASDAQ. Although we are unable to estimate these costs with any degree of certainty, 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.

**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,				
	2014		2015			2015		2016		
	RMB	% of Net Revenue	RMB	US\$	% of Net Revenue	RMB	% of Net Revenue	RMB	US\$	% of Net Revenue
	(in thousands, except for percentages)									
Cost of revenue	2,851	0.6	484	73	0.1	467	0.2	1,169	176	0.3
Selling and marketing	1,957	0.4	325	49	0.0	303	0.1	5,159	776	1.2
General and administrative	22,525	4.8	3,252	489	0.5	2,396	0.8	50,859	7,653	11.4
Total share-based compensation expenses	27,333	5.8	4,061	611	0.6	3,166	1.1	57,187	8,605	12.9

We incurred higher share-based compensation expenses in 2014 as compared to 2015 which was due to the granting of vested shares in 2014. In May 2016, we granted 11,084,840 fully vested share options to employees, officers and directors for their past service, which resulted in the increase in share-based compensation expenses for the six months ended June 30, 2016, compared to the same period in 2015. In August 2016, we granted 877,400 restricted shares to 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.

See "—Critical Accounting Policies—Share-based Compensation" in this section for a description of what we account for the compensation cost from share-based payment transactions.

**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 BVI, we are not subject to tax on income or capital gains. In addition, upon payments of dividends by us to our shareholders, no BVI withholding tax will be imposed.

*Hong Kong*

Our subsidiaries in Hong Kong are subject to the Hong Kong Profits Tax rate of 16.5%.

*PRC*

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

Dividends paid by our wholly foreign-owned subsidiaries in China to our intermediary holding companies 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%.

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."

**Critical Accounting Policies**

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

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

**Consolidation of VIEs**

We account for entities qualifying as VIEs in accordance with Financial Accounting Standards Boards, or FASB, Accounting Standards Codification Topic 810, Consolidation, or ASC 810. Our operations are primarily conducted through our VIEs, GDS Beijing 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 GDS Beijing and GDS Shanghai on our behalf. The equity holders of GDS Beijing and GDS Shanghai are William Wei Huang, our chairman and chief executive officer, and Qiuping Huang.

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 our company, GDS Beijing, GDS Shanghai, and the equity holders of GDS Beijing and GDS Shanghai. Through these agreements, the equity holders of GDS Beijing and GDS Shanghai have granted all their legal rights, including voting rights, dividends rights, and disposition rights, of their equity interests in GDS Beijing and GDS Shanghai to us. Accordingly, the equity holders of GDS Beijing and GDS Shanghai do not have (i) rights to make decisions about the activities of GDS Beijing and GDS Shanghai or (ii) rights to receive the expected residual returns of 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 GDS Beijing and GDS Shanghai under the exclusive service agreements when such services are provided; (ii) the right to receive all dividends declared by GDS Beijing and GDS Shanghai and the right to all undistributed earnings of GDS Beijing and GDS Shanghai; (iii) the right to receive the residual benefits of the GDS Beijing and GDS Shanghai through its exclusive option to acquire 100% of the equity interests in GDS Beijing and GDS Shanghai, to the extent permitted under PRC law; and (iv) the right to require the shareholders of GDS Beijing 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 GDS Beijing and GDS Shanghai requiring shareholder approval, disposing of all or part of the shareholder's equity interest in GDS Beijing and GDS Shanghai, and appointing directors and executive officers. During the periods presented, we provided loans to 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 GDS Beijing and GDS Shanghai because we have (i) the power to direct activities of 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 GDS Beijing and GDS Shanghai that could potentially be significant to GDS Beijing and GDS Shanghai.

The significant judgments used and assumptions made in our determination that we are the primary beneficiary of GDS Beijing and GDS Shanghai were the terms of the VIE Agreements and our financial support to GDS Beijing and GDS Shanghai. Accordingly, we have included the financial statements of 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 recognize revenue when delivery of the service or product has occurred, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

These criteria as they relate to each of the following major revenue generating activities are described below.

We derive revenue primarily from the delivery of (i) colocation services; (ii) managed hosting services and; (iii) 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.

Colocation services are services where we provide space, power and cooling to customers for housing and operating their IT system equipment in our data centers. Colocation services are provided to customers for a fixed consideration amount over the contract service period, ranging from one to six years. Revenue from colocation services is recognized on a straight line basis over the term of the contract. We have determined that our performance pattern to be straight line since the customer receives value as the services are rendered continuously during the term of the contract, the earning process is straight-line, and there is no other discernible performance pattern of recognition.

Managed hosting services are services where we provide outsourced services to manage the customers' data center operations, including data migration, IT operations, security and data storage. Managed hosting services are primarily provided to financial institution customers as a business continuity and disaster recovery solution for a fixed amount over the contract service period ranging from one to six years. Revenue from managed hosting services is recognized on a straight line basis over the term of the contract. We have determined that its performance pattern to be straight line since the customer receives value as the services are rendered continuously during the term of the contract, the earning process is straight-line, and there is no other discernible performance pattern of recognition.

In certain colocation and managed hosting service contracts, we agree to charge the customer for actual power consumed. We record the chargeable power consumption as service revenue in the consolidated statements of operations.

Revenue recognized for colocation or managed hosting and cloud services delivered prior to billing is recorded within accounts receivable. We generally bill the customer in equal instalments on a monthly or quarterly basis.

Cash received in advance from customers prior to the delivery of the colocation or managed hosting and cloud services is recorded as deferred revenue.

Managed cloud services are services where we deliver virtual storage and computing services to customers. Managed cloud services are provided to customers for a fixed amount over the subscription period, ranging from one to three years. Revenue from managed cloud services is recognized ratably over the subscription period once all requirements for recognition have been met, including provisioning the service so that it is available to the customers.

The sale of IT equipment is recognized when delivery has occurred and the customer accepts the equipment and we have no performance obligation after the delivery.

In certain managed hosting service contracts, we sell and deliver IT equipment such as servers and computer terminals prior to the delivery of the services. Since the delivered item has value to the customer on a standalone basis and there is no general right of return for the equipment, the equipment is considered a separate unit of accounting. Accordingly, the contract consideration is allocated to the equipment and the managed hosting services based on their relative standalone selling prices. The consideration allocated to the delivered equipment is not contingent on the delivery of the services or meeting other specified performance conditions. That is, payment on the equipment is due upon the delivery of the equipment and is not contingent upon the delivery of the undelivered services.

Consulting services are provided to customers for a fixed consideration amount over the service period, usually less than one year. Our consulting contracts do not specify any interim milestones (other

than for payment based on passage of time), or deliverables. We recognize revenue from consulting services using the proportional performance method based on the pattern of service provided to the customers.

Sales taxes collected from customers and remitted to governmental authorities are excluded from net revenue in the consolidated statements of operations.

#### **Leases**

Leases are classified at the lease inception date as either a capital lease or an operating lease. A lease is a capital lease if any of the following conditions exists: (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. We record 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.

Rental costs on operating leases are 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 are considered in determining the straight-line rent expense to be recorded over the lease term.

Rental costs associated with building operating leases that are incurred during the construction of leasehold improvements and to otherwise ready the property for our intended use are recognized as rental expenses and are not capitalized.

#### **Goodwill**

Goodwill is an asset representing the future economic benefits arising from other assets acquired in the acquisition of EDC Holding 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. Estimating fair value is performed by utilizing various valuation techniques, with a primary technique being a discounted cash flow which requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital.

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 two-step 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 two-step goodwill impairment test is not required. If the two-step goodwill impairment test is required, first, 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 indication of goodwill impairment exists for the reporting unit and we perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of

the reporting unit's goodwill over the implied fair value of that goodwill. 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. Fair value of the reporting unit is determined using a discounted cash flow analysis. We perform our annual impairment review of goodwill at December 31 of each year.

#### **Impairment of Long-Lived Assets**

Long-lived assets, such as property and equipment, intangible assets subject to amortization and prepaid land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

#### **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 total number of shares that may be issued under the 2016 share incentive plan is 56,707,560 ordinary shares.

#### *Options to Director, Officers and Employees*

In July 2014, we granted 12,394,753 share options to employees, officers and directors at an exercise price of US\$0.7792 per option. The options have a contractual term of five to six years.

The options vest in accordance with the vesting schedules set out in the respective share option agreements as follows: (i) 63% on the date of grant,  $\frac{1}{48}$  each month thereafter; (ii) 71% on the date of grant,  $\frac{1}{48}$  each month thereafter; (iii) 75% on the date of grant,  $\frac{1}{48}$  each month thereafter; or (iv) 95% on the date of grant,  $\frac{1}{40}$  each month thereafter.

In May 2016, we granted 11,084,840 share options to employees, officers and directors. These share options were fully vested upon the date of grant for past services and had an exercise price of US\$0.7792 per option. The options have a contractual term of five years.

#### *Options to Non-employee Consultants*

In July 2014, we granted the following share options to external consultants at an exercise price of US\$0.7792 per option. The options have a contractual term of five years.

The services performed or to be performed by these external consultants include marketing, technical consultancy, manage telecommunication relationships, strategic, business, operation, and financial planning services.

- 4,158,315 share options to a group of external consultants. Such options vested immediately on the date of grant for services performed and completed by the consultants.
- 1,275,000 share options to a consultant. 75% of the options (or 956,250 options) vested immediately on the date of grant for services performed and completed while the remaining 318,750 options vest monthly thereafter in eleven equal monthly instalments for future ongoing services. As of December 31, 2014, 185,938 options remained unvested. As of December 31, 2015 and June 30, 2016, all options were vested.
- 400,000 share options to a group of external consultants for future services upon a qualified initial public offering, or QIPO.  $\frac{1}{3}$  of the options vest upon the completion of a QIPO,  $\frac{1}{3}$  vest upon the 2nd anniversary of a QIPO and  $\frac{1}{3}$  vest upon the third anniversary of a QIPO. As of December 31, 2014 and 2015 and June 30, 2016, 400,000 options remained unvested.

In January 2015, we granted 1,000,000 share options to an external consultant at an exercise price of US\$0.7792 per option. The options vest every six months in six equal instalments for future ongoing services. The options have a contractual term of five years. As of December 31, 2015 and June 30, 2016, 666,667 and 500,000 options, respectively, remained unvested.

These consulting service contracts do not contain a performance commitment. Options to non-employees are forfeitable if not vested. We determined that these non-employee options are considered indexed to our own stock and would be equity-classified.

Options that are forfeitable and vest upon the non-employee providing future services are measured at the fair value of the date the performance is completed, which generally coincides with the date on which the options vest and are no longer forfeitable. Such options are treated as unissued for accounting purposes until the future services are performed by the non-employees and received by us (that is, the options are not considered issued until they vest). During reporting periods prior to completion of performance, we measure the cost of the services based on the fair value of the share options at each reporting date using the valuation model applied in previous periods. The portion of the services that the non-employee has rendered is applied to the current measure of fair value to determine the cost to recognize. Changes in our share price from the grant date to the vesting date result in adjustments to the reported costs of services in each period until performance is completed.

A summary of the share option activities is as follows:

	Number of options
Options outstanding at January 1, 2014	—
Granted	17,642,130
Forfeited	(178,923)
Options outstanding at December 31, 2014	17,463,207
Granted	519,271
Forfeited	(788,944)
Options outstanding at December 31, 2015	17,193,534
Granted	11,251,507
Forfeited	(152,241)
Options outstanding at June 30, 2016	<u>28,292,800</u>

As of June 30, 2016, 900,000 forfeitable and unvested non-employee options were treated as unissued for accounting purposes and were not included in the table above.



We estimated the fair value of share options using the binomial option-pricing model with the assistance from an independent valuation firm. The fair value of each option grant up to May 2016 is estimated on the date of grant with the following assumptions.

Grant date:	July 2014	January 2015	May 2016
Risk-free rate of return	2.25%	2.27%	1.98%
Volatility	31.40%	29.80%	28.50%
Expected dividend yield	—	—	—
Exercise multiple	2.20	2.20	2.2
Fair value of underlying ordinary share	US\$0.88	US\$0.90	US\$1.51
Expected term	5-6 years	5 years	5 years
Discount for lack of marketability	10.00%	10.00%	9.00%
Discount rate	13.00%	11.40%	11.40%

Determining the fair value of our ordinary shares required us to make complex and subjective judgments, assumptions and estimates, which involved inherent uncertainty. Had we used different assumptions and estimates, the resulting fair value of our ordinary shares and the resulting share-based compensation expenses could have been different.

The following table sets forth the fair value of our ordinary shares estimated at different times with the assistance from an independent valuation firm.

Date	Fair Value per Ordinary Shares (US\$)	Discount for Lack of Marketability	Discount Rate	Purpose of Valuation
July 2014	0.88	10%	13.0%	Share options grant
January 2015	0.90	10%	11.4%	Share options grant
May 2016	1.51	9%	11.4%	Share options grant

In determining the fair value of our ordinary shares, we applied the income approach / discounted cash flow, or DCF, analysis based on our projected cash flow using management's best estimate as of the valuation date. The determination of the fair value of our ordinary shares requires complex and subjective judgments to be made regarding our projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of valuation.

The major assumptions used in calculating the fair value of ordinary shares include:

- *Weighted average cost of capital, or WACC:* WACCs of 13.0%, 11.4% and 11.4% were used for dates as of July 2014, January 2015 and May 2016, respectively. The WACCs were determined based on a consideration of the factors including risk-free rate, comparative industry risk, equity risk premium, company size and non-systematic risk factors.
- *Comparable companies:* In deriving the WACCs, which are used as the discount rates under the income approach, ten publicly traded companies were selected for reference as our guideline companies. The guideline companies were selected based on the following criteria: (i) operate data centers or providing Internet data center services and (ii) China-based companies that are publicly listed in the United States or United States based and publicly listed companies.
- *Discount for lack of marketability, or DLOM:* DLOM was quantified by the binomial option pricing model. The farther the valuation date is from an expected liquidity event, the higher the put option value and thus the higher the implied DLOM. The lower DLOM is used for the valuation, the higher

is the determined fair value of the ordinary shares. DLOM remained 10% in the period from 2014 to 2015 and decreased to 9% in the six months ended June 30, 2016.

The income approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts. Our net revenue growth rates, as well as major milestones that we have achieved, contributed to the increase in the fair value of our ordinary shares from July 2014 to January 2015 and further to May 2016. However, these fair values are inherently uncertain and highly subjective. The assumptions used in deriving the fair values are consistent with our business plan. These assumptions include: no material changes in the existing political, legal and economic conditions in China; our ability to retain competent management, key personnel and staff to support our ongoing operations; and no material deviation in market conditions from economic forecasts. These assumptions are inherently uncertain. The risk associated with achieving our forecasts were assessed in selecting the appropriate discount rates.

In addition to the above share option grants, in August 2016, we granted 877,400 fully vested restricted shares in lieu of cash to our directors to settle a portion of their remuneration for services provided by the directors in the past. Based on our best estimate, the fair values of the restricted shares and the underlying ordinary shares were approximately US\$1.51 per share and US\$1.56 per share, respectively. Fifty percent (50%) of the restricted shares may not be sold or otherwise disposed of for one year from the grant date. We are evaluating the fair values of the restricted shares. Upon completion of the fair value analysis, we will revise these estimates although we do not expect such revisions to be materially different from the current estimates.

The fair value of the underlying ordinary shares increased from US\$1.51 per share in May 2016 in connection with the valuation of our option grant to US\$1.56 per share in August 2016 in connection with the valuation of our restricted share awards. We determined that this increase was mainly attributable to our acquisition of Guangzhou Weiteng, which gave rise to additional area committed of 6,608 sqm and additional area utilized of 3,777 sqm as of June 30, 2016, and the resulting expansion of our business and network into Guangzhou.

We determined that the further increase in the fair value of the underlying ordinary shares from US\$1.56 per share in August 2016 to the midpoint of the per share price range of US\$1.625 per ordinary shares (adjusted for the 8:1 share-to-ADS ratio) was primarily attributable to the following factors and developments:

- a significant increase of over 5,000 sqm in total area committed of our Chengdu data center in September 2016, increasing commitment rate and pre-commitment rate at that facility significantly;
- an aggregate increase in total area committed of over 7,000 sqm in our Shanghai and Guangzhou data centers in September 2016;
- our entering into a memorandum of understanding on September 30, 2016, with a property development company for the lease of three data center shell buildings to be built-to-suit in phases on a site in the Shanghai Waigaoqiao Free Trade Zone in close proximity to our existing data centers, which once completed are expected to provide us with additional data center net floor area of approximately 30,000 sqm;
- solidifying our business relationships with certain large Internet customers as a result of the new commitments described above in Shanghai, Guangzhou and Chengdu described above;
- our receipt in October 2016 of the Uptime Institute's "Management and Operations Approved Site" awards for multiple data centers, which is expected to increase the marketability of the Company's services and enhance our reputation; and

- the expected increase in marketability of our ordinary shares, in the form of ADSs, as the likelihood of this offering increased.

#### **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. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record interest related to unrecognized tax benefits in interest expense and penalties in general and administrative expenses.

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

If we were to be non-resident for PRC tax purposes, dividends paid to us from profits earned by the PRC subsidiaries after January 1, 2008 would be subject to a withholding tax. The PRC Corporate Income Tax, or CIT 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, 2014 and 2015 and June 30, 2016, 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 ADSs or Class A ordinary shares 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."

#### **Results of Operations**

The following table sets forth a summary of our consolidated results of operations for the years ended December 31, 2014 and 2015 and the six months ended June 30, 2015 and 2016. This information should be read together with our audited consolidated financial statements as of and for the years ended December 31, 2014 and 2015, unaudited condensed consolidated financial statements as of June 30, 2016 and for the six months ended June 30, 2015 and 2016 and related notes included elsewhere in this

prospectus. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	For the Year Ended December 31,					Six Months Ended June 30,				
	2014		2015			2015		2016		
	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
(in thousands, except for percentages)										
<b>Consolidated Statements of Operations Data:</b>										
Net revenue	468,337	100.0	703,636	105,875	100.0	304,794	100.0	447,135	67,280	100.0
Cost of revenue	(388,171)	(82.9)	(514,997)	(77,491)	(73.2)	(221,519)	(72.7)	(332,034)	(49,961)	(74.3)
Gross profit	80,166	17.1	188,639	28,384	26.8	83,275	27.3	115,101	17,319	25.7
Operating expenses										
Selling and marketing expenses	(40,556)	(8.7)	(57,588)	(8,665)	(8.2)	(23,494)	(7.7)	(34,563)	(5,201)	(7.7)
General and administrative expenses	(113,711)	(24.3)	(128,714)	(19,367)	(18.3)	(58,837)	(19.3)	(131,452)	(19,779)	(29.4)
Research and development expenses	(1,597)	(0.3)	(3,554)	(535)	(0.5)	(1,257)	(0.4)	(4,765)	(717)	(1.1)
Loss from operations	(75,698)	(16.2)	(1,217)	(183)	(0.2)	(313)	(0.1)	(55,679)	(8,378)	(12.5)
Other income (expenses)										
Net interest expense	(124,973)	(26.6)	(125,546)	(18,891)	(17.9)	(60,440)	(19.8)	(110,292)	(16,595)	(24.6)
Foreign currency exchange (loss) gain, net	(875)	(0.2)	11,107	1,671	1.6	4,456	1.5	4,101	617	0.9
Government grants	4,870	1.0	3,915	589	0.6	1,030	0.3	1,030	155	0.2
Gain on remeasurement of equity investment	62,506	13.4	—	—	—	—	—	—	—	—
Others, net	(412)	(0.1)	1,174	177	0.2	1,362	0.4	179	27	0.0
Loss before income taxes	(134,582)	(28.7)	(110,567)	(16,637)	(15.7)	(53,905)	(17.7)	(160,661)	(24,174)	(36.0)
Income tax benefits	4,583	0.9	11,983	1,803	1.7	6,641	2.2	6,464	973	1.5
Net loss	(129,999)	(27.8)	(98,584)	(14,834)	(14.0)	(47,264)	(15.5)	(154,197)	(23,201)	(34.5)

**Effect of Acquisition of EDC Holding Limited**

On June 30, 2014, we acquired EDC Holding from its shareholders whereby we issued shares to EDC Holding's shareholders in exchange for their shares in EDC Holding. Pursuant to the terms of the agreement, we issued 199,163,164 shares in exchange for approximately 93% of the shares in EDC Holding which we did not already own. Since the date of the acquisition, EDC Holding has been our wholly-owned subsidiary and has been consolidated with our results of operations. Prior to the acquisition and for the period from January 1, 2014 to June 30, 2014, EDC Holding had a net revenue of RMB67.3 million (including net revenue derived from GDS Holdings of RMB55.9 million), incurred operating expenses of RMB28.2 million and interest expenses of RMB29.9 million, which is not included in our results of operations for the year ended December 31, 2014. EDC Holding had a net revenue of RMB17.9 million (excluding net revenue from GDS Holdings which is eliminated upon consolidation), incurred operating expenses of RMB39.7 million and interest expenses of RMB34.1 million for the period from July 1, 2014 to December 31, 2014, which is included in our results of operations for the year ended December 31, 2014.

**Effect of Acquisition of Guangzhou Weiteng**

On May 19, 2016, we, through GDS Beijing, acquired all of the equity interest in Guangzhou Weiteng from a third party for a cash consideration of RMB129.5 million (US\$19.5 million), subject to adjustment, if

any, pursuant to the terms of conditions of the equity purchase agreement. Cash consideration of RMB25.9 million (US\$3.9 million) is outstanding as of June 30, 2016 which is payable on May 19, 2017. Guangzhou Weiteng is a limited liability company organized and existing under PRC law and owns a data center project in Guangzhou. At the date of acquisition, the data center had just commenced operation. After the acquisition, Guangzhou Weiteng has been consolidated with our results of operations. Guangzhou Weiteng had a net revenue of RMB6.4 million (US\$1.0 million) and a net profit of RMB0.6 million (US\$0.1 million) for the period from May 20, 2016 to June 30, 2016, which is included in our results of operations for the six months ended June 30, 2016.

**Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015**

*Net Revenue*

Our net revenue increased by 46.7% to RMB447.1 million (US\$67.3 million) in the six months ended June 30, 2016 from RMB304.8 million in the same period in 2015. This increase was due to an increase in service revenue of RMB144.6 million (US\$21.7 million), partially offset by a decrease in IT equipment sales of RMB2.3 million (US\$0.3 million). The increase in service revenue consisted of an increase in revenue from colocation services of RMB111.1 million (US\$16.7 million) and an increase in revenue from managed services of RMB34.8 million (US\$5.2 million), which was offset by a decrease in revenue from consulting services of RMB1.3 million (US\$0.2 million). These increases in service revenue were mainly due to (i) an increase in area utilized from 18,640 sqm as of June 30, 2015 to 32,152 sqm as of June 30, 2016 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 three new data centers in Shanghai, Beijing and Shenzhen, in the second half year of 2015 and first half year of 2016, and (iv) the addition of a new data center in Guangzhou through the acquisition of Guangzhou Weiteng.

*Cost of Revenue*

Our cost of revenue increased by 49.9% to RMB332.0 million (US\$50.0 million) in the six months ended June 30, 2016 from RMB221.5 million in the same period in 2015. This increase was primarily due to an increase of 64.8% in utility costs to RMB96.4 million (US\$14.5 million) in the six months ended June 30, 2016 from RMB58.5 million in the same period in 2015, and an increase of 51.0% in depreciation and amortization costs to RMB85.8 million (US\$12.9 million) in the six months ended June 30, 2016 from RMB56.8 million in the same period in 2015. Increases in both utility costs and depreciation and amortization costs were largely a result of new data center facilities. Increase in utility costs was also due to higher power usage by Internet customers in the six months ended June 30, 2016 compared with the same period in 2015. In addition, the increase in cost of revenue was due to (i) an increase in network connectivity and bandwidth costs of RMB9.2 million (US\$1.4 million), (ii) an increase in personnel costs of RMB12.6 million (US\$1.9 million), and (iii) an increase in other maintenance and outsourcing costs of RMB11.3 million (US\$1.7 million) in connection with data centers coming into service in the second half year of 2015 and first half year of 2016. Cost of revenue as percentage of net revenue increased slightly to 74.3% in the six months ended June 30, 2016 from 72.7% in the same period in 2015 due to the fact that the data centers that are newly in service have begun to incur fixed costs while having relatively low utilization rates.

*Operating Expenses*

Our operating expenses increased by 104.3% to RMB170.8 million (US\$25.7 million) in the six months ended June 30, 2016 from RMB83.6 million in the same period in 2015. This increase was primarily due to an increase in share-based compensation expenses of RMB53.3 million (US\$8.0 million) and an increase in

personnel costs and directors' fees of RMB26.4 million (US\$4.0 million). Our operating expenses as a percentage of our net revenue increased to 38.2% in the six months ended June 30, 2016 from 27.4% in the same period in 2015.

*Selling and Marketing Expenses.* Our selling and marketing expenses increased 47.1% to RMB34.6 million (US\$5.2 million) in the six months ended June 30, 2016 from RMB23.5 million in the same period in 2015. This increase was primarily attributable to (i) an increase in share-based compensation expenses of RMB4.9 million (US\$0.7 million), (ii) an increase in personnel costs of RMB3.5 million (US\$0.5 million), related to bonuses paid and the hiring of senior sales personnel, and (iii) an increase in marketing expenses of RMB1.7 million (US\$0.3 million). Our selling and marketing expenses as a percentage of net revenue remained stable at 7.7% in the six months ended June 30, 2016 and 2015.

*General and Administrative Expenses.* Our general and administrative expenses increased by 123.4% to RMB131.5 million (US\$19.8 million) in the six months ended June 30, 2016 from RMB58.8 million in the same period in 2015. This increase was primarily a result of (i) an increase in share-based compensation expenses of RMB48.4 million (US\$7.3 million) related to the fully vested share options granted in May 2016, and, (ii) an increase in personnel costs and directors' fees of RMB19.9 million (US\$3.0 million). The increase in general and administrative expenses was partially offset by a decrease in start-up costs of RMB5.7 million (US\$0.9 million). Our general and administrative expenses as a percentage of net revenue increased to 29.4% in the six months ended June 30, 2016 from 19.3% in the same period in 2015, which was primarily due to higher share-based compensation expenses recognized in the six months ended June 30, 2016.

*Research and Development Expenses.* Our research and development expenses increased by 279.1% to RMB4.8 million (US\$0.7 million) in the six months ended June 30, 2016 from RMB1.3 million in the same period in 2015. This increase was primarily a result of increased payroll and personnel related costs as we hired additional research and development personnel. Our research and development expenses as a percentage of net revenue increased to 1.1% in the six months ended June 30, 2016 from 0.4% in the same period in 2015.

*Other Income (Expenses)*

*Net Interest Expenses.* Our net interest expenses increased by 82.5% to RMB110.3 million (US\$16.6 million) in the six months ended June 30, 2016 from RMB60.4 million in the same period in 2015. The increase was due to interest expenses arising from the convertible bonds we issued in December 2015 and January 2016 and increased balance of loans and borrowings.

*Foreign Currency Exchange Gain, Net.* Changes in currency exchange rates resulted in a gain of RMB4.1 million (US\$0.6 million) in the six months ended June 30, 2016 and a gain of RMB4.5 million in the same period in 2015.

*Government Grants.* Income from government grants was RMB1.0 million (US\$0.2 million) in each of the six months ended June 30, 2016 and 2015.

**Income Tax Benefits.** Income tax benefits was RMB6.5 million (US\$1.0 million) in the six months ended June 30, 2016 and RMB6.6 million in the same period in 2015. Our effective tax rates for the six months ended June 30, 2015 and 2016 were 12.3% and 4.0%, respectively. The difference between the effective tax rate and the statutory tax rate of 25% was primarily due to the tax effect of non-PRC entities not being subject to income tax.

**Net Loss.** As a result of the foregoing, net loss increased to RMB154.2 million (US\$23.2 million) in the six months ended June 30, 2016 from RMB47.3 million in the same period in 2015.

**Year Ended December 31, 2015 Compared to Year Ended December 31, 2014**

**Net Revenue**

Our net revenue increased by 50.2% to RMB703.6 million (US\$105.9 million) in 2015 from RMB468.3 million in 2014. This increase was due to increases in both service revenue and IT equipment sales. Service revenue increased by RMB202.7 million (US\$30.5 million), comprising an increase in revenue from colocation services of RMB158.4 million (US\$23.8 million), an increase in revenue from managed services of RMB42.2 million (US\$6.4 million) and an increase in revenue from consulting services of RMB2.1 million (US\$0.3 million). These increases were mainly due to (i) an increase in area utilized from 15,862 sqm to 22,365 sqm from December 31, 2014 to December 31, 2015 as customers with commitments physically moved into the data center area, (ii) the signing of new service contracts by customers who commenced utilizing services during the period and (iii) the commencement of operations of one of our Shanghai and one of our Beijing data center facilities that we designate as SH2 and BJ1.

IT equipment sales increased by RMB32.6 million (US\$4.9 million) because of sales of equipment to new customers in 2015.

**Cost of Revenue**

Our cost of revenue increased by 32.7% to RMB515.0 million (US\$77.5 million) in 2015 from RMB388.2 million in 2014. This increase was primarily due to an increase of 22.9% in utility costs to RMB140.0 million (US\$21.1 million) from RMB113.6 million in 2014, and an increase of 84.6% in depreciation and amortization costs to RMB131.1 million (US\$19.7 million) in 2015 from RMB71.0 million in 2014. Increases in both utility costs and depreciation and amortization costs were largely a result of increase in new data center facilities. In addition, the increase in cost of revenue was due to (1) an increase of RMB11.7 million (US\$1.8 million) for the cost of equipment sold in 2015 and (2) an increase in personnel costs of RMB15.0 million (US\$2.3 million) in connection with more data centers coming into service in 2015. Cost of revenue as percentage of net revenue decreased to 73.2% in 2015 from 82.9% in 2014. This decrease was primarily due to improved economies of scale and operating leverage arising from a higher utilization rate.

**Operating Expenses**

Our operating expenses increased by 21.8% to RMB189.9 million (US\$28.6 million) in 2015 from RMB155.9 million in 2014. This increase was primarily due to increases in selling and marketing expenses. Our operating expenses as a percentage of our net revenue decreased to 27.0% in 2015 from 33.3% in 2014.

**Selling and Marketing Expenses.** Our selling and marketing expenses increased 42.0% to RMB57.6 million (US\$8.7 million) in 2015 from RMB40.6 million in 2014. This increase was primarily attributable to increased sales and marketing costs mainly due to increased personnel costs for bonuses paid for successful sales and the hiring of two senior sales personnel. Our selling and marketing expenses as a percentage of net revenue decreased slightly to 8.2% in 2015 from 8.7% in 2014.

**General and Administrative Expenses.** Our general and administrative expenses increased by 13.2% to RMB128.7 million (US\$19.4 million) in 2015 from RMB113.7 million in 2014. This increase was primarily due to an increase in personnel costs of RMB6.6 million (US\$1.0 million), an increase in start-up costs of

RMB9.5 million (US\$1.4 million), or from RMB16.2 million in 2014 to RMB25.7 million (US\$3.9 million) in 2015, which were incurred prior to the commencement of operation of new data centers, and during the development of new data centers, as well as an increase in depreciation and amortization of office-related property and equipment, office, travel and miscellaneous expenses associated with the continued growth of our operations of RMB18.2 million (US\$2.7 million). The increase in general and administrative expenses were partially offset by a decrease of RMB19.3 million (US\$2.9 million) in share-based compensation expenses related to our 2014 share incentive plan, which was due to the grant of vested shares in 2014 in compensation for past services. Our general and administrative expenses as a percentage of net revenue decreased to 18.3% in 2015 from 24.3% in 2014, which was primarily due to higher share-based compensation expenses in 2014.

*Research and Development Expenses.* Our research and development expenses increased by 122.5% to RMB3.6 million (US\$0.5 million) in 2015 from RMB1.6 million in 2014. This increase was primarily a result of increased payroll and related personnel costs. Our research and development expenses as a percentage of net revenue increased slightly to 0.5% in 2015 from 0.3% in 2014.

*Other Income (Expenses)*

*Interest Income.* Our interest income decreased by 80.5% to RMB1.4 million (US\$0.2 million) in 2015 from RMB6.9 million in 2014. The decrease was primarily a result of a lower average cash balance in 2015 as compared with 2014.

*Interest Expenses.* Our interest expenses decreased by 3.8% to RMB126.9 million (US\$19.1 million) in 2015 from RMB131.9 million in 2014. In 2014, interest expenses included a charge of RMB34.1 million related to the debt discount of our bonds due June 10, 2015 issued to an investor. Excluding this charge, our interest expenses incurred increased from RMB97.8 million in 2014 to RMB126.9 million as a result of an increase in our bank borrowings and capital lease obligations.

*Foreign Currency Exchange (Loss) Gain, net.* Changes in currency rates resulted in a gain of RMB11.1 million (US\$1.7 million) in 2015 as compare to a loss of RMB0.9 million in 2014, primarily due to the appreciation of the U.S. dollar relative to Renminbi in 2015.

*Government Grants.* Income from government grants decreased by 19.6% to RMB3.9 million (US\$0.6 million) in 2015 from RMB4.9 million in 2014.

*Gain on Remeasurement of Equity Investment.* Gain on remeasurement of equity investment was nil in 2015 and RMB62.5 million in 2014, reflecting the gain arising from the remeasurement of our pre-acquisition equity interests in EDC Holding to fair value.

*Income Tax Benefits.* Income tax benefits increased to RMB12.0 million (US\$1.8 million) in 2015 from RMB4.6 million in 2014. This increase was primarily due to a decrease in the valuation allowance on deferred tax asset provided in 2015 compared to 2014.

*Net Loss.* As a result of the foregoing, net loss decreased to RMB98.6 million (US\$14.8 million) in 2015 from RMB130.0 million in 2014.

**Selected Unaudited Quarterly Results of Operations**

The following table presents our unaudited consolidated results of operations for the three-month periods ended on the dates indicated. You should read the following table in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2014 and 2015 and unaudited condensed consolidated financial statements as of June 30, 2016 and for the six months ended June 30, 2015 and 2016 and related notes included elsewhere in this prospectus. We have prepared the unaudited consolidated quarterly financial information on the same basis as our audited consolidated financial statements. This unaudited consolidated financial information includes all adjustments, consisting



only of normal and recurring adjustments, that we consider necessary for a fair representation of our financial position and operating results for the quarters presented.

	For the Three Months Ended,					
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016
	RMB	RMB	RMB	RMB	RMB	RMB
	(in thousands)					
<b>Consolidated Statements of Operations Data:</b>						
Service revenue	144,462	147,315	168,441	193,373	202,384	234,010
IT equipment sales	5,061	7,956	21,309	15,719	8,715	2,026
Net revenue	149,523	155,271	189,750	209,092	211,099	236,036
Cost of revenue	(107,854)	(113,665)	(138,911)	(154,567)	(156,896)	(175,138)
Gross profit	41,669	41,606	50,839	54,525	54,203	60,898
<b>Operating expenses</b>						
Selling and marketing expenses	(10,133)	(13,361)	(15,550)	(18,544)	(13,734)	(20,829)
General and administrative expenses <sup>(1)</sup>	(28,397)	(30,440)	(37,301)	(32,576)	(28,489)	(102,963)
Research and development expenses	(599)	(658)	(801)	(1,496)	(1,987)	(2,778)
Income (loss) from operations	2,540	(2,853)	(2,813)	1,909	9,993	(65,672)
<b>Other income (expenses)</b>						
Net interest expense	(30,516)	(29,924)	(29,620)	(35,486)	(52,963)	(57,329)
Foreign currency exchange (loss) gain, net	3,137	1,319	5,258	1,393	(1,391)	5,492
Government grants	515	515	1,182	1,703	515	515
Others, net	1,140	222	(13)	(175)	147	32
Loss before income taxes	(23,184)	(30,721)	(26,006)	(30,656)	(43,699)	(116,962)
Income tax benefits	2,954	3,687	2,861	2,481	4,921	1,543
Net loss	(20,230)	(27,034)	(23,145)	(28,175)	(38,778)	(115,419)

(1) General and administrative expenses include start-up costs incurred prior to commencement of operations of a new data center, including rental costs incurred pursuant to operating leases of buildings during the construction of leasehold improvements and other miscellaneous costs. These start-up costs amounted to RMB5.6 million, RMB6.0 million, RMB11.1 million, RMB3.0 million, RMB3.2 million and RMB2.8 million in the three months ended March 31, 2015, June 30, 2015, September 30, 2015, December 31, 2015, March 31, 2016 and June 30, 2016, respectively.

**Key Financial Metrics**

We monitor the following key financial metrics to help us evaluate growth trends, establish budgets, measure the effectiveness of our business strategies and assess operational efficiencies:

	For the Three Months Ended,					
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016
<b>Other Consolidated Financial Data:</b>						
Gross margin <sup>(1)</sup>	27.9%	26.8%	26.8%	26.1%	25.7%	25.8%
Operating margin <sup>(2)</sup>	1.7%	(1.8)%	(1.5)%	0.9%	4.7%	(27.8)%
Net margin <sup>(3)</sup>	(13.5)%	(17.4)%	(12.2)%	(13.5)%	(18.4)%	(48.9)%

(1) Gross profit as a percentage of net revenue.

(2) Income (loss) from operations as a percentage of net revenue.

(3) Net income (loss) as a percentage of net revenue.

We have experienced consistent growth in our quarterly net revenues for the six quarters in the period from January 1, 2015 to June 30, 2016. The growth in our quarterly net revenues was attributable to increases in net revenues from our colocation services as well as managed services. The growth in our quarterly net revenues was primarily due to the increases in colocation services with the increase in area utilized as we began generating revenue from customers with existing commitments, and the growth in the sales to our existing customers driven by increased demand for our managed services.

With the launch of new data centers located in Shanghai and Beijing during the third quarter in 2015, gross margin decreased slightly in the following quarters due to the high fixed costs with low utilization rate for those new data centers.

Other factors, however, have caused, and in the future may continue to cause, our quarterly operating results to fluctuate. For example, we recorded operating loss of RMB65.7 million (US\$9.9 million) for the three months ended June 30, 2016 primarily due to the relatively higher share-based compensation expenses recorded during this period.

We may experience fluctuations in our quarterly results of operations after this offering, for the reasons given above or other reasons, which may be significant. See "Risk Factors—Risks Related to Our Business and Industry—Our operating results may fluctuate, which could make our future results difficult to predict and could cause our operating results to fall below investor or analyst expectations."

#### **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:

	For the Three Months Ended,					
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016
	RMB	RMB	RMB	RMB	RMB	RMB
	(in thousands, except for percentages)					
<b>Other Consolidated Financial Data:</b>						
Adjusted EBITDA <sup>(1)</sup>	38,958	34,797	42,684	48,262	53,350	47,207
Adjusted EBITDA margin <sup>(2)</sup>	26.1%	22.4%	22.5%	23.1%	25.3%	20.0%

(1) Adjusted EBITDA is defined as net income or net loss excluding interest expense (net of interest income), incomes taxes, depreciation and amortization, accretion of asset retirement obligations and share-based compensation expenses.

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

#### **Non-GAAP Measures**

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. For more information concerning our management's use of these measures, please see "Prospectus Summary—Summary Consolidated Financial and Operating Data—Non-GAAP Measures" elsewhere in this prospectus.

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:

	For the Three Months Ended,					
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016
	RMB	RMB	RMB	RMB	RMB	RMB
	(in thousands, except for percentages)					
Net loss	(20,230)	(27,034)	(23,145)	(28,175)	(38,778)	(115,419)
Net interest expense	30,516	29,924	29,620	35,486	52,963	57,329
Income tax benefit	(2,954)	(3,687)	(2,861)	(2,481)	(4,921)	(1,543)
Depreciation and amortization	30,411	33,557	38,806	42,632	43,951	49,518
Accretion expenses for asset retirement costs	39	47	77	92	135	135
Share-based compensation expenses	1,176	1,990	187	708	—	57,187
Adjusted EBITDA	38,958	34,797	42,684	48,262	53,350	47,207
Adjusted EBITDA margin	26.1%	22.4%	22.5%	23.1%	25.3%	20.0%

#### Key Performance Indicators

Our net revenue and results of operations are largely determined by the amount of data center area in service, the degree to which data center space is committed or pre-committed as well as its utilization.

(Sqm, %)	As of March 31, 2015	As of June 30, 2015	As of September 30, 2015	As of December 31, 2015	As of March 31, 2016	As of June 30, 2016	As of September 30, 2016
Area in service	27,589	27,589	37,645	37,869	37,869	48,548	48,822
Area under construction	14,364	14,364	13,163	35,525	35,525	31,794	37,194
Area committed	21,942	22,599	31,794	33,140	33,629	44,062	45,782(1)
Area pre-committed	2,344	9,346	2,778	2,778	3,330(1)	552(1)	12,845(1)
Total area committed	24,286	31,945	34,572	35,918	36,959(1)	44,614(1)	58,627(1)
Commitment rate	79.5%	81.9%	84.5%	87.5%	88.8%	90.8%	93.8%
Pre-commitment rate	16.3%	65.1%	21.1%	7.8%	9.4%	1.7%	34.5%
Area utilized	16,735	18,640	21,083	22,365	23,957	32,152	34,369
Utilization rate	60.7%	67.6%	56.0%	59.1%	63.3%	66.2%	70.4%

(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.

#### Liquidity and Capital Resources

Our primary sources of liquidity have been cash flow from short- and long-term borrowings, including borrowings from related parties, and issuance of equity securities and convertible bonds, which have historically been sufficient to meet our working capital and substantially all of our capital expenditure requirements. We have also historically financed capital expenditures through capital leases. As of June 30, 2016, we had cash of approximately RMB834.5 million (US\$125.6 million). In addition, as of June 30, 2016, we also had short-term borrowings and current portion of long-term borrowings and long-term borrowings (excluding current portion) of RMB699.4 million (US\$105.2 million) and RMB825.4 million (US\$124.2 million), respectively.

Based on our current level of operations and available cash, we believe our available cash, cash flows from operations, committed funding from the issuance of convertible bonds due 2019 will provide sufficient liquidity to fund our current obligations, projected working capital requirements, debt service requirements

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

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

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

As of June 30, 2016, our cash and restricted cash were deposited in major financial institutions located in PRC, Hong Kong, and the Cayman Islands. 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 subsidiary 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 December 31, 2015, we had restricted assets of RMB1,323.1 million (US\$199.1 million), all of which consisted of registered capital. The statutory reserve of our PRC subsidiaries was nil as of December 31, 2015. Our PRC subsidiaries did not have any retained earnings available for distribution in the form of dividends as of December 31, 2015.

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

	For the Year Ended December 31,			For the Six Months Ended June 30,		
	2014	2015		2015	2016	
	RMB	RMB	US\$	RMB	RMB	US\$
	(in thousands)					
Net cash provided by (used in) operating activities	27,937	(80,298)	(12,082)	(13,599)	(22,069)	(3,321)
Net cash used in investing activities	(523,749)	(731,905)	(110,129)	(274,425)	(476,918)	(71,761)
Net cash provided by (used in) financing activities	1,056,287	1,127,685	169,681	(18,300)	395,346	59,487
Effect of exchange rate changes on cash	(2,328)	2,258	340	1,457	13,620	2,050
Net increase (decrease) in cash	558,147	317,740	47,810	(304,867)	(90,021)	(13,545)
Cash at beginning of year/period	48,611	606,758	91,298	606,758	924,498	139,108
Cash at end of year/period	606,758	924,498	139,108	301,891	834,477	125,563

#### Operating Activities

Cash flow used in operating activities was RMB22.1 million (US\$3.3 million) in the six months ended June 30, 2016, primarily due to a net loss of RMB154.2 million (US\$23.2 million), adjusted for (i) depreciation and amortization of RMB93.5 million (US\$14.1 million), primarily relating to our data center property and equipment; (ii) share-based compensation expenses of RMB57.2 million (US\$8.6 million) mainly related to the share options granted in May 2016, (iii) deferred tax benefits of RMB9.6 million (US\$1.4 million), and (iv) changes in working capital. Adjustments for changes in working capital primarily consisted of (i) an increase of accounts receivable of RMB52.8 million (US\$8.0 million) due to increased sales, and (ii) an increase of VAT recoverable of RMB22.0 million (US\$3.3 million) as a result of the expansion of our business, partially offset by (i) an increase in accounts payable of RMB47.8 million (US\$7.2 million) due to increase in purchases, (ii) an increase in accrued expenses and other payables of RMB15.2 million (US\$2.3 million) due to an increase in accrued interests and other professional fees, and (iii) a decrease in prepaid expenses of RMB10.3 million (US\$1.6 million) due to receipt of services.

Cash flow used in operating activities was RMB80.3 million (US\$12.1 million) in 2015, primarily due to a net loss of RMB98.6 million (US\$14.8 million), adjusted for (i) depreciation and amortization of RMB145.4 million (US\$21.9 million), primarily relating to our data center property and equipment; (ii) deferred tax benefits of RMB10.6 million (US\$1.6 million), (iii) stock compensation expenses of RMB4.1 million (US\$0.6 million) mainly as a result of increases in personnel as our operations expanded, and (iv) changes in working capital. Adjustments for changes in working capital primarily consisted of (i) an increase of VAT recoverable of RMB41.4 million (US\$6.2 million) due to an increase in payment of VAT as a result of the expansion of our business; (ii) an increase of accounts receivable of RMB37.6 million (US\$5.7 million) due to increased sales; (iii) an increase in non-current assets of RMB22.8 million (US\$3.4 million) due to more rental deposits paid for newly rented data centers; (iv) an increase in prepaid expense of RMB15.0 million (US\$2.3 million) due to increased prepayments for utility and network expenses; and (v) an increase of other current assets of RMB12.3 million (US\$1.9 million) due to an increase of purchased IT equipment awaiting sale, partially offset by an increase in other long-term liabilities of RMB15.3 million (US\$2.3 million) due to the increase in accrued interests.

Cash flow provided by operating activities was RMB27.9 million in 2014, primarily due to a net loss of RMB130.0 million, adjusted for (i) depreciation and amortization of RMB82.8 million; (ii) gain on re-measurement of equity investment of RMB62.5 million for our previously held equity investment in EDC Holdings; (iii) amortization of debt issuance costs and debt discount of RMB33.9 million related to the debt discount of our bonds due 2015; (iv) stock compensation expenses of RMB27.3 million as a result of the grant of stock options in July 2014; (v) deferred tax benefits of RMB5.0 million; and (vi) changes in working capital. Adjustments for changes in working capital primarily consisted of a decrease in other current assets of RMB81.3 million, primarily due to the receipt of services from EDC Holdings amounting to RMB59.2 million prior to the date of our acquisition of EDC Holdings.

#### **Investing Activities**

Net cash used in investing activities was RMB476.9 million (US\$71.8 million) in the six months ended June 30, 2016, which was primarily due to payments for purchase of property and equipment of RMB317.5 million (US\$47.8 million) in the development of our data centers, payments for acquisition of Guangzhou Weiteng of RMB102.4 million (US\$15.4 million), loans to Guangzhou Weiteng before the acquisition of RMB42.0 million (US\$6.3 million) and the payment of a deposit of RMB15.0 million (US\$2.3 million) related to a potential acquisition of a data center.

Net cash used in investing activities was RMB731.9 million (US\$110.1 million) in 2015, which was primarily due to payments for purchase of property and equipment of RMB733.0 million (US\$110.3 million) in the development of our data centers, partially offset by the release of restricted cash related to purchase of property and equipment of RMB1.0 million (US\$0.2 million).

Net cash used in investing activities was RMB523.7 million in 2014 and was due primarily to payments for purchase of property and equipment of RMB248.3 million, loans of RMB307.0 million loan made to EDC Holding prior to the acquisition, payments for an acquisition made by EDC Holding of RMB13.6 million, offset by cash received from the acquisition of EDC Holding of RMB41.0 million and the release of restricted cash related to purchase of property and equipment of RMB4.1 million.

#### **Financing Activities**

Net cash provided by financing activities was RMB395.3 million (US\$59.5 million) in the six months ended June 30, 2016, which was primarily due to proceeds from short-term borrowing of RMB204.0 million (US\$30.7 million), proceeds from long-term borrowing of RMB121.6 million (US\$18.3 million) and proceeds from issuance of convertible bonds payable of RMB262.1 million (US\$39.4 million), which was partially offset by repayment of short-term borrowings of RMB147.0 million (US\$22.1 million), repayment of long-term borrowings of RMB42.8 million (US\$6.4 million), and payment under capital lease obligations of RMB2.6 million (US\$0.4 million).

Net cash provided by financing activities was RMB1,127.7 million (US\$169.7 million) in 2015, which was primarily due to proceeds from short-term borrowing of RMB333.0 million (US\$50.1 million), proceeds from long-term borrowing of RMB584.5 million (US\$87.9 million), proceeds from issuance of bonds payable of RMB649.0 million (US\$97.7 million) and proceeds from a related party loan of RMB64.9 million (US\$9.8 million), which was partially offset by repayment of short-term borrowings of RMB289.0 million (US\$43.5 million), repayment of long-term borrowings of RMB137.7 million (US\$20.7 million), payment of issuance cost of borrowing of RMB24.3 million (US\$3.7 million), repayment of bonds payable of RMB14.3 million (US\$2.2 million) and repurchase of redeemable preferred shares of RMB23.3 million (US\$3.5 million) and payment under capital lease obligations of RMB17.9 million (US\$2.7 million).

Net cash provided by financing activities was RMB1,056.3 million in 2014, which was primarily due to proceeds from short-term borrowing of RMB298.3 million, proceeds from long-term borrowing of RMB200.0 million and proceeds from bonds payable of RMB115.0 million and proceeds from the issuance of redeemable preferred shares of RMB1,521.3 million, which was partially offset by repayment of short-term borrowings of RMB357.3 million, repayment of long-term borrowings of RMB115.9 million, payments of issuance costs of redeemable preferred shares of RMB20.1 million, repurchase of ordinary shares of RMB119.7 million, repurchase of redeemable preferred shares of RMB455.4 million and payment under capital lease obligations of RMB9.1 million.

#### **Statutory Reserves**

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

As of December 31, 2014 and 2015 and June 30, 2016, we had nil, nil and nil respectively, in our statutory reserves.

#### **Capital Expenditures**

We had capital expenditures of RMB248.3 million, RMB733.0 million (US\$110.3 million) and RMB317.5 million (US\$47.8 million) in 2014, 2015 and the six months ended June 30, 2016, 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. In the second half of 2016 and 2017, we expect to incur further capital expenditure in connection with the development of data centers under construction and data center resources held for future development that move into the construction phase.

**Contractual Obligations**

The following table sets forth our contractual obligations as of June 30, 2016:

	Payment due by period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
	(in thousands of RMB)				
Short-term borrowings and interests <sup>(1)</sup>	400,692	400,692	—	—	—
Long-term borrowings and interests <sup>(1)</sup>	1,371,075	424,847	467,014	427,322	51,892
Convertible bonds and interests <sup>(2)</sup>	1,390,342	73,542	99,468	1,217,332	—
Capital lease obligations <sup>(3)</sup>	1,794,488	75,716	214,047	327,302	1,177,423
Operating lease commitments <sup>(3)</sup>	836,651	121,761	163,247	109,007	442,636
Lease commitment but not commenced <sup>(4)</sup>	387,900	—	32,797	35,300	319,803
Capital commitments <sup>(5)</sup>	733,262	590,327	142,935	—	—
<b>Total</b>	<b>6,914,410</b>	<b>1,686,885</b>	<b>1,119,508</b>	<b>2,116,263</b>	<b>1,991,754</b>

- (1) The interests are calculated using the effective interest rate as of June 30, 2016 for each loan.
- (2) Includes cash interest and assumes through 2019 no conversion into ordinary shares of our convertible bonds due 2019.
- (3) Represent minimum lease payments.
- (4) Lease commitment but not commenced represents the total minimum lease payments upon the completion of the construction of the property.
- (5) Capital commitments primarily consist of purchases of equipment and maintenance services.

**Long-term borrowings**

Certain of our long-term borrowings contain financial covenants. An outstanding loan of RMB7.3 million, RMB2.8 million (US\$0.4 million) and RMB0.4 million (US\$0.1 million) as of December 31, 2014 and 2015 and June 30, 2016, respectively, borrowed by a subsidiary of ours contains a financial covenant that requires the subsidiary to keep a minimum cash of RMB1.3 million (US\$0.2 million) at the bank at all times. The loan agreement also requires that both the subsidiary and we, as a guarantor, maintain minimum quarterly revenues thresholds as specified in the loan agreement. As of December 31, 2014 and 2015 and June 30, 2016, we were in compliance with such covenants.

A subsidiary of ours borrowed an outstanding entrust loan of RMB200.0 million, RMB199.8 million (US\$30.1 million) and RMB199.7 million (US\$30.0 million) as of December 31, 2014 and 2015 and June 30, 2016, respectively, through a third party bank that contains financial covenants. The covenants require that the subsidiary's outstanding loans (exclusive of this entrust loan and any other entrust loans) should be within a range of RMB130.0 million (US\$19.6 million) and RMB240.0 million (US\$36.1 million), or the borrowing range, and the total pledged assets cannot exceed RMB20.0 million (US\$3.0 million). On March 31, 2015, the subsidiary's outstanding loans exceeded RMB240.0 million (US\$36.1 million) and total pledged assets exceeded RMB20.0 million (US\$3.0 million). On June 10, 2015, the subsidiary obtained a waiver letter from the creditor that waived the covenant violations. The creditor and the subsidiary also agreed to revise the acceptable outstanding borrowings in a range of RMB130.0 million (US\$19.6 million) and RMB360.0 million (US\$54.2 million). As of December 31, 2014 and 2015 and June 30, 2016, we were in compliance with such covenants.

As of June 30, 2016, we had total working capital and project financing credit facility of RMB2,920.7 million (US\$439.5 million) from various banks, of which the unused amount was RMB1,375.4 million (US\$206.9 million). The withdrawal from the credit facility is at the discretion of the banks and is subject to the terms and conditions of each agreement.



### **Convertible Bonds**

On December 30, 2015 and January 29, 2016, we issued and sold convertible and redeemable bonds due 2019 in an initial aggregate principal amount of US\$150.0 million, which bonds were subscribed by Ping An Insurance and STT GDC, as to US\$100.0 million and US\$50.0 million, respectively. We may, at our option, require STT GDC to subscribe for an additional amount of these bonds as to US\$50.0 million, and thereafter, Ping An Insurance to subscribe for an additional amount as to US\$50.0 million, at any time until September 30, 2016. Under the terms of the bonds, Ping An Insurance is entitled to appoint one observer to attend meetings of our board of directors.

The bonds are repayable four years from the date of issue, or i.e. on December 30, 2019, and may be converted at a set conversion price of US\$1.675262 per share (subject to adjustments arising from any share consolidation, sub-division or distributions by way of shares) at any time between the date on which this offering is completed and December 30, 2019. Any share issued pursuant to the conversion of these bonds by a holder who is not our existing shareholder so converted within twelve months after the closing of this offering will be subject to a lock-up period expiring on the first anniversary of this offering's closing date. We also may mandate each of Ping An Insurance and STT GDC to convert their bonds into shares if the average per-ordinary-share-equivalent closing trading price of our ADSs in any period of ten (10) consecutive trading days following this offering is at least 125% of US\$1.675262. The bonds bear two types of interest on the principal amount, (i) interest payable in cash semi-annually at a rate of 5% per annum, and (ii) interest accruing semi-annually at a rate of 5% per annum. Such accrued interest is (i) in the case of redeemed bonds, either payable in cash on December 30, 2019 upon redemption of the bonds, or and (ii) in the case of converted bonds, capitalized and paid in shares upon conversion of the bonds. As security for the bonds, we pledged our entire equity interest in the registered capital of EDC China Holdings Limited, a limited company incorporated in Hong Kong, which is wholly owned by EDC Holding.

If Ping An Insurance and STT GDC elect to convert, or if we cause them to convert, their bonds (including interests accrued) under the conditions described above, at least 91,681,348 Class A ordinary shares will be issued.

### **Beijing and Shenzhen Loan Facilities**

On September 17, 2015, our subsidiary Shenzhen Yungang EDC Technology Co., Ltd., entered into a term loan facility agreement with United Overseas Bank (China) Limited, Shenzhen Branch and Credit Agricole Corporate and Investment Bank (China) Limited for a principal amount of RMB430.0 million (US\$64.7 million) for the subsidiary's Shenzhen data centers SZ1 and SZ2 and respectively, and an amendment agreement dated August 5, 2016 to extend an additional term loan facility with principal loan amount of RMB100.0 million (US\$15.0 million) for financing the borrower's Shenzhen data center SZ3. The interest rate agreed under the term loan facility agreements is 1.2x or 1.3x of PBOC's base rate for loans, as applicable, with a tenor of five years from respective facility utilization date, which is to be no later than September 18, 2020. The securities for the loan include, among others, guarantee from ultimate parent company of borrower, GDS Holdings Limited, corporate guarantee provided by GDS Beijing, pledge of all equity interests of the borrower, all the issued shares of EDS (HK) Limited and the receivables under the service contracts with customers with respect to our Shenzhen data centers SZ1, SZ2 and SZ3, mortgage of all movable assets of the borrower and assignment of all insurance interests over such mortgaged assets, assignment of the borrower's rights under the building lease of Shenzhen data centers SZ1, SZ2 and SZ3, among other terms. The effective interest rate on the loan as of the date of this prospectus was 6.18% per annum. The maturity date of the loan is September 18, 2020. The proceeds from the loan are being used for the construction, renovation and fitting-out of, as well as equipment for, the premises of data centers SZ1, SZ2 and SZ3.

October 28, 2015, our subsidiary Beijing Hengpu'an Data Technology Development Co., Ltd. entered into a term loan facility agreement with United Overseas Bank Limited for a principal amount of RMB120.0 million (US\$18.1 million) for financing borrower's Beijing data center (BJ1). The interest rate agreed under said term loan facility agreement is a fixed rate of 6.5625% per annum or 1.25x of PBOC's base rate (as applicable based on the tranches of facilities utilized under the agreement) with a tenor of

five years from the first utilization date of said facility (which, however, is to be no later than December 21, 2020). The securities for the loan include, among others, guarantee from ultimate parent, GDS Holdings Limited, corporate guarantee provided by GDS Beijing, pledge of all the equity interests of the borrower, all the issued shares of EDB II (HK) Limited and the receivables under the service contracts with customers under Beijing data center phase 1, BJ1, mortgage of all movable assets of the borrowers and assignment of all insurance interests over such mortgaged assets, assignment of the borrower's rights under the building lease of Beijing data center phase 1, BJ1, among other terms. The effective interest rate on the loan as of the date of this prospectus was 6.56% per annum. The maturity date of the loan is December 21, 2020. The proceeds from the loan are being used for the construction, renovation and fitting-out of, as well as equipment for, the premises of data center BJ1.

The terms of the loans of Shenzhen Yungang EDC Technology Co., Ltd. and Beijing Hengpu'an Data Technology Development Co., Ltd. limited capital expenditures that can be incurred for the construction of the data centers. Our outstanding long-term loans under the facilities amounted to RMB537.2 million (US\$80.8 million) as of the date of this prospectus. The loans are required to be repaid in full prior to the maturity date in the event (i) ST Telemedia, the parent company of STT GDC, ceases to own and control, directly or indirectly, at least 40% of our equity interest prior to an initial public offering or 30% of our equity interest after an IPO, or ceases to be our single largest shareholder, (ii) we cease to own and control, directly or indirectly, 100% of the equity interest of the borrowing subsidiaries, (iii) there are changes in the shareholding structure of a principal operating subsidiary, as defined in the loan agreements or (iv) William Wei Huang, our founder, chairman and chief executive officer, ceases to own and control, directly or indirectly, at least 99.96% of the equity interest of GDS Beijing. The loan facilities include a cross-default provision which would be triggered if we fail to repay any financial indebtedness of RMB30.0 million or more when due or within any originally applicable grace period. In addition, under the terms of the loans, upon the completion of our initial public offering, we are required to repay RMB139.2 million (US\$21.0 million) of the outstanding loan principal amount based on the principal amount outstanding as at the date of this prospectus.

#### **Shanghai Loan Facilities**

On September 29, 2016, our subsidiaries EDC Shanghai Waigaoqiao and EDC Shanghai Yungang jointly entered into a term loan facility agreement with Credit Agricole Corporate and Investment Bank (China) Limited Shanghai Branch, United Overseas Bank (China) Limited, Shanghai Pilot Free Trade Zone Sub-branch, DBS Bank (China) Ltd, Shanghai Branch, Shanghai HuaRui Bank Co., LTD and Australia and New Zealand Bank (China) Company Limited, Shanghai Branch, pursuant to which the banks agreed to make available to the subsidiaries (i) four term loan facilities in a total amount of RMB1,135.0 million (US\$170.8 million) and (ii) subject to the term and conditions otherwise agreed between the relevant parties, an additional facility in the amount of RMB340.0 million (US\$51.2 million) for the purpose of (i) replacing an existing term loan facility agreement entered into on June 30, 2016 between the subsidiaries, Credit Agricole Corporate and Investment Bank (China) Limited Shanghai Branch and United Overseas Bank (China) Limited, Shanghai Pilot Free Trade Zone Sub-branch, and (ii) financing the subsidiaries' Shanghai data center projects and working capital requirements. The interest rate agreed under the term loan facility agreement is 1.2x or 1.3x of PBOC's base rate for loans, as applicable, with a term of up to five years from respective facility utilization date. The securities for the loan include, among others, guarantee from ultimate parent company of borrowers, GDS Holdings Limited, pledge of all equity interests of the borrowers and the receivables under the service contracts with customers with respect to borrowers' data centers, mortgage of all movable assets of the borrowers and assignment of all insurance interests over such mortgaged assets, assignments of the borrowers' rights under the building lease of borrowers' data centers, among other terms. The loans are required to be repaid in full prior to the maturity date in the event (i) STT Communications Ltd. ceases to, directly or indirectly, own at least 50.1% of equity interests of STT GDC, (ii) STT GDC ceases to own and control, directly or indirectly, at least 40% of our equity interest prior to an initial public offering or 30% of our equity interest after an IPO, or ceases to be our single largest shareholder, (iii) we cease to, directly or indirectly, own or control 100% of our borrowing subsidiaries, (iv) there are changes in the shareholding structure of a principal operating subsidiary, as defined in the facility agreements or, (v) William Huang ceases to, directly or indirectly, own at least 99.9% of the equity interests of

GDS Beijing. In addition, the loan facilities include a cross default provision which would be triggered if we fail to repay any financial indebtedness in an aggregate amount of RMB50.0 million (US\$7.5 million) or more when due or within any originally applicable grace period. As of the date of this prospectus, the outstanding loans under such term loan facilities were RMB752.6 million (US\$113.2 million) with a weighted average effective interest rate of 6.17% per annum. The outstanding loans of RMB8.1 million (US\$1.2 million), RMB626.6 million (US\$94.3 million) and RMB117.8 million (US\$17.7 million) mature on September 30, 2017, July 12, 2021 and September 30, 2021, respectively. The proceeds from the loan are being used for repayment of the loans under an existing term loan facility agreement entered into on June 30, 2016 and the construction, renovation and fitting-out of, as well as equipment for, the premises of the Shanghai data center projects and working capital purposes.

#### **Weiteng Loan Facilities**

On September 22, 2016, our subsidiary Guangzhou Weiteng entered into a facility agreement with DBS Bank (China) Limited Shanghai Branch, pursuant to which the bank agrees to make available to the subsidiary loan facilities in the total amount of RMB220.0 million (US\$33.1 million). The interest rate agreed under the facility agreement is 1.25x or 1.35x of PBOC's base rate for loans, as applicable, with a term of up to five years from respective facility utilization date. The securities for the loan include, among others, guarantee from ultimate parent company of borrower, GDS Holdings Limited, pledge of all equity interests of the borrower and the receivables under the service contracts with customers with respect to the borrower's data center, mortgage of all movable assets of the borrower and assignment of all insurance interests over such mortgaged assets, assignments of the borrower's rights under the building lease of the borrower's data center, among other terms. The loans are required to be repaid in full prior to the maturity date in the event (i) STT Communications Ltd. ceases to, directly or indirectly, own at least 50.1% of equity interests of STT GDC, (ii) STT GDC ceases to own and control, directly or indirectly, at least 40% of our equity interests prior to an initial public offering or 30% of our equity interests after an IPO, or ceases to be our single largest shareholder, (iii) we cease to, directly or indirectly, own or control 100% of our borrowing subsidiary, (iv) there are changes in the shareholding structure of a principal operating subsidiary, as defined in the loan agreements or (v) William Huang ceases to, directly or indirectly, own at least 99.9% of the equity interests of GDS Beijing. In addition, the loan facility includes a cross default provision which would be triggered if we fail to repay any financial indebtedness in an aggregate amount of RMB50.0 million (US\$7.5 million) or more when due or within any originally applicable grace period. As of the date of this prospectus, the outstanding loans under such facilities were RMB80.6 million (US\$12.1 million) with a weighted average effective interest rate of 6.39% per annum. The outstanding loans of RMB3.9 million (US\$0.6 million) and RMB76.7 million (US\$11.5 million) mature on September 22, 2017 and September 21, 2021, respectively. The proceeds from the loan are being used for the construction, renovation and fitting-out of, as well as equipment for, the premises of the Guangzhou data center project and working capital purposes.

#### **Off-Balance Sheet Commitments and Arrangements**

Other than the obligations set forth in the table above, 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.

## Quantitative and Qualitative Disclosure 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 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, nor do we anticipate being exposed to, material risks due to changes in market interest rates. However, our future interest income and interest expenses may fluctuate due to changes in market interest rates.

### **Foreign Exchange Risk**

All of our revenue and substantially all of our expenses are denominated in Renminbi. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although in general our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the exchange rate between the U.S. dollar and the Renminbi because the value of our business is effectively denominated in Renminbi, while 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. 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 PRC government has allowed the Renminbi to appreciate slowly against the U.S. dollar, though there have been periods when the Renminbi has depreciated against the U.S. dollar. In particular, on August 11, 2015, the PBOC allowed the Renminbi to depreciate by approximately 2% against the U.S. dollar. It is difficult to predict how long the current situation may last and when and how the relationship between the Renminbi and the U.S. dollar may change again.

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

We estimate that we will receive net proceeds of approximately US\$226.7 million from this offering, after deducting underwriting discounts and commissions and the estimated offering expenses payable by us and assuming no exercise by the underwriters of their over-allotment option, based on the initial offering price of US\$13.00 per ADS, the mid-point of the estimated offering price set forth on the cover of the prospectus. Assuming that we convert the full amount of the net proceeds from this offering into Renminbi, a 10% appreciation or depreciation of the Renminbi against the U.S. dollar, from a rate of RMB6.6459 to US\$1.00 to a rate of RMB5.9813 to US\$1.00 or RMB7.3105 to US\$1.00, respectively, will result in a decrease or increase, respectively, of RMB150.7 million of the net proceeds from this offering.

### **Inflation**

Since our inception, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2013, December 2014 and December 2015 were increases of 2.5%, 1.5% and 1.6%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

## INDUSTRY OVERVIEW

### Introduction

A data center is a specialized facility designed to house server, storage and networking equipment which is used to deliver mission-critical business applications, data and content. Data centers are strategically located near significant power and network resources to support the computing equipment it houses. Due to the mission-critical nature of the customer equipment it houses, a data center must maintain continuous operations, monitoring and a high level of security. This continuity is achieved using redundant power infrastructure (batteries and generators), specialized cooling equipment (computer room air-conditioning units), environmental control systems and security systems. These critical infrastructure and systems components require significant investment and contribute to the high capital requirement associated with building a data center.

Data centers can be owned and operated in-house by companies or can be outsourced to third-party colocation providers. Companies may choose to own their data center infrastructure for a wide range of reasons such as regulatory considerations, IT being core competency, or an ability to achieve cost efficiency. Companies may choose to outsource their data center infrastructure to third-party colocation providers to avoid the capital cost associated with building their own facility or to gain access to higher quality infrastructure and service levels that colocation providers may offer. Colocation data centers can be designed and configured to serve a wide range of customers, with different space, power and configuration requirements within the same facility. With this flexibility, colocation providers are able to achieve economies of scale and provide customers with a more capital efficient solution than owning their own data centers. Colocation service offerings typically include core data center services such as space and power in a managed environment or may also offer additional value-added services such as remote hands, cross-connects to other tenants of the facility, and managed services such as business continuity and disaster recovery, network management services, among others.

Globally and in China, there are many drivers encouraging companies to increasingly outsource their data center requirements to third party colocation providers, including the significant capital investment required to build a data center, the costs and complexity of operating data centers, regulatory requirements, and the need for disaster recovery space, among others. Unlike in the United States, where there are numerous colocation options available, China is still a developing market where there are relatively few high-quality colocation data center facilities. In 2015, the estimated total data center area in service in China (including in-house enterprise facilities) was 7.4 million sqm. The estimated total colocation area in service reached 1.2 million sqm (16% of total data center area in service), as compared with an estimated 3.4 million sqm in the United States. China continues to be under-served in terms of data center space and in particular, high-quality colocation data centers. According to 451 Research, as of December 31, 2015, when comparing the ratio of square meters of colocation area in service to GDP, the U.S. had a ratio of 207 sqm per US\$1 billion in GDP, while China only had a ratio of 107.

### Evolution and Structure of China's Data Center Industry

Similar to the United States, the colocation data center market in China emerged when the incumbent telecommunications carriers built their own data centers to support their network businesses. In 2002, the MIIT started to encourage private investment into VATS and began allowing private companies to resell bandwidth and colocation space within telecommunications carrier data centers, launching the private colocation data center market in China. As the market developed over the following years, some of these resellers began to build their own data center facilities and expand their VATS offerings, creating a more diverse marketplace for data center services in China.

Today, colocation data centers in China can generally be classified as telecommunications carrier data centers or carrier-neutral data centers.

- **Telecommunications carrier data centers.** Since the telecommunications reform in 2008, China has had three major telecom carriers: China Telecom, China Unicom and China Mobile. Each of these carriers has a nationwide telecommunications business license and operates nationwide networks that serve as common platforms for mobile, fixed-line telephone, broadband and data services. The three telecommunications carriers were encouraged by the government policies to build data center facilities. Due to their focus on network services, these carriers' data centers often relied on their own networks for connectivity and lacked options for customers to connect to other carriers' networks.
- **Carrier-neutral data centers.** Carrier-neutral data centers offer connectivity from multiple telecommunications carriers in their facilities, providing customers the option to choose which carrier to use based on cost and/or network and application requirements. Carrier-neutral providers tend to focus on data center services and may offer more rapid response times, better data center uptime and other value-added services. As the data center industry further develops, carrier-neutral data centers are expected to grow more rapidly than carrier data centers as enterprises prioritize data center connectivity and uptime for mission-critical applications.

The Chinese government has taken multiple actions to improve the transparency and promote the healthy growth of the data center industry, including changing the regulations and guidelines regarding license requirements. Since 2010, the market has grown at an accelerated pace, particularly the high-performance carrier-neutral segment, due to the combination of the rapid increase in Internet penetration, mobile Internet, increasing enterprise outsourcing and the emergence of cloud computing, as well as several favorable government measures. These measures include the economic stimulus plan in 2009 and revised MIIT guidelines in 2009 which encouraged private investment in data centers. According to 451 Research, the colocation data center area in service in China grew from 591,482 sqm in 2010 to 1.2 million sqm in 2015 at a CAGR of 14.7%, and is expected to grow to 1.7 million sqm in 2018 at a CAGR of 13.4%. The average power density for data centers built since 2011 in China is around 1.0 kW/m<sup>2</sup>, according to 451 Research. Colocation data center market revenue in China has grown from US\$1.2 billion in 2010 to US\$3.1 billion in 2015, and is expected to reach US\$4.2 billion in 2018. In addition, in terms of revenue, carrier-neutral data centers comprised 29% of the market in China in 2015, an increase from 18% in 2010, and their market share is expected to further increase to 33% in 2018.

#### High-Performance Data Centers in China

High-performance data centers, relative to standard data centers, offer customers a higher level of power density, availability and power efficiency. According to 451 Research, high-performance data centers are designed and constructed to achieve high levels of infrastructure availability. Such design categorization is generally adopted in the Chinese market among carrier-neutral data center providers, although most data centers are not certified by a third party. The market in developed countries and regions such as the United States and Europe generally considers data centers that are at or above Tier III (as specified by the Uptime Institute, owned by the 451 Group along with 451 Research LLC) as high-performance data centers. In China, given the maturity of the market, high-performance data centers are considered to consist of data centers that are designed to local five-star and A-level standards as well as to Tier III or higher standards. Due to the growing importance of maintaining uptime for mission-critical computing equipment and applications, high-performance data centers have become more valuable to customers.

#### Growth Drivers of High-Performance Data Centers in China

- **Rising Internet penetration, e-commerce transactions, and consumption of online content.** Internet penetration continues to rise in China. The Statistical Report on Internet Development in China (January 2016) by the CNNIC (China Internet Network Information Center) notes that Internet penetration in China was 50% in 2015, increased by 2.4 percentage points from 2014, with

approximately 40 million users added in 2015, compared to the United States which has an Internet penetration rate of 88% and an estimated 5 million users added in 2015. In addition, the Cisco Visual Networking Index estimates that China's Internet traffic will grow at a CAGR of 26% from 2015 to 2020, largely driven by online video, which is particularly network intensive. This combination of user penetration and Internet traffic is driving data traffic demand for network and colocation services as data mounts and must be stored. In addition, the growth of e-commerce is driving the requirement for high-performance data centers, as any offline time causes e-commerce websites to forego sales and lose revenue opportunities, so highly available data centers are therefore preferred. The e-commerce market in China measured by gross merchandise value, or GMV, was RMB3,877 billion (US\$583 billion) in 2015, according to the National Bureau of Statistics in China, compared to US\$342 billion in the United States, according to the United States Census Bureau.

- **The growth of cloud computing.** The rapid adoption of public, private and hybrid cloud services by enterprises and government agencies in China is driving demand for high-performance data centers that can provide the reliability and availability to support high-density computing environments. The rapidly growing public cloud market in China has been predominantly served by local public cloud services providers, including Aliyun, Tencent QCloud, UCloud, Kingsoft Cloud, Baidu Cloud and Huawei Cloud, among others. These local cloud providers have generally leased data center space from third party colocation providers to house their cloud computing environments, due to license requirements, infrastructure availability and design requirements and capital deployment considerations. In addition to these local providers, international or non-Chinese cloud providers are required to work with Chinese colocation partners and cannot build or operate in-country data centers.
- **Increasing trends of enterprises toward outsource data center services.** Several recent trends have led enterprises to outsource some or all of their data center requirements to third party colocation providers. Primary drivers for this trend include the rising capital and operating costs of owning data centers, regulatory requirements around the protection and availability of data, the difficulty of finding suitable sites to build data centers, and enterprises' need to focus on their core IT operations for business-specific initiatives rather than operating data center infrastructure.
- **Increasing compliance and regulatory requirements on data security.** Enterprises in regulated industries, such as financial services, often have very specific regulatory requirements for their data and data centers. These can include specifications as to distance from other data centers for disaster recovery purposes, security at the data centers, operating procedures that must be audited, and other specific requirements around data center siting, construction and operations. High-performance data centers are able to satisfy many of these requirements and save enterprises financial and operational resources necessary to adhere to data security requirements.
- **Trend towards higher density.** Servers and other computing equipment require high levels of electricity and cooling to operate and these levels have been growing with advances in server technology and performance levels. A combination of physical size reduction and performance have allowed a larger number of servers to be housed in the same amount of space, which increases the power and cooling required for that space. In addition, virtualization technology has increased server computing performance and density, allowing greater workloads to run on each server. Cloud service providers in particular, as well as firms running data analytics programs, generally require higher than average density.

## Major Customer Verticals Driving the Growth of High-Performance Data Centers in China

Demand for high-performance data centers has been growing steadily in China, with cloud and IT services providers, financial institutions, large enterprises and public entities among the top customer verticals.

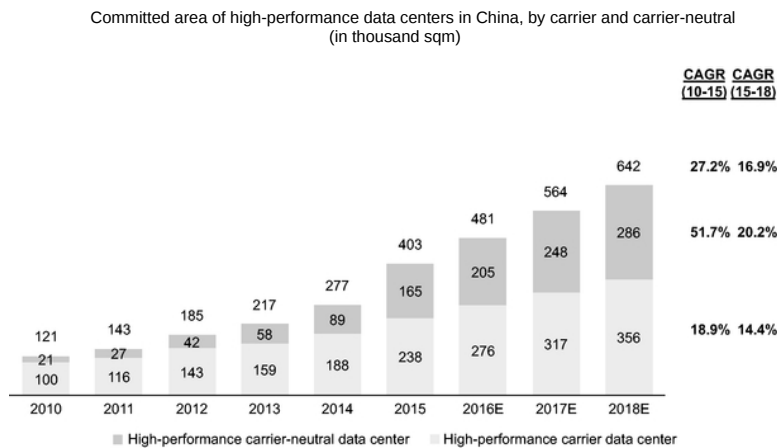
- **Cloud and IT services providers.** Similar to more developed markets, cloud and IT services providers are increasingly consuming more third-party colocation space. With the rapidly expanding Internet and mobile penetration in China, the IT and cloud industry have grown significantly in the past few years, forming the biggest, and one of the fastest growing, user group of data centers. These large companies require high availability for their systems in order to differentiate their services and improve customer satisfaction. Flexibility of deployment, time-to-market and greater efficiency are the main drivers for IT companies to use high-performance data centers.
- **Financial institutions.** Banks, securities and insurance companies are typical users of high-performance data centers globally and in China. Financial institutions are required by the government to store their IT systems and data in secured data centers, whether self-built or outsourced. Outsourced data center operators must meet stringent design and operational compliance requirements in order to host the IT systems of financial institutions. Beyond regulations, financial institutions also prefer to use high-performance data centers to ensure uptime of their systems and applications.
- **Large enterprise and public services.** Many businesses in China are transforming to become more Internet-and IT-driven. Reliable operations of IT systems and storage of data are becoming critical to firms. Large enterprises are becoming national and global and the amount of data generated by day-to-day operations can no longer be stored in one data center at headquarters. Companies with nationally or globally distributed employees and customers increasingly need to store and process data near those employees and customers, creating strong demand for more data center facilities. In addition, the e-government initiatives by Chinese government increase public sector demand for data center space.

According to 451 Research, the high-performance data center market in China began a period of high growth in 2010. The high-performance data center market in terms of area in service has been growing consistently from 183,393 sqm in 2010, of which 29% was carrier-neutral, to 504,399 sqm in 2015, of which 43% was carrier-neutral, at a CAGR of 22.4%, and is expected to further grow to 926,869 sqm in 2018, of which 47% will be carrier-neutral, at a CAGR of 22.5%. However, China's high performance data center market is still underserved, as compared to data center capacity of approximately 3.4 million sqm in terms of colocation area in service in the United States in 2015, of which the majority was high performance, according to 451 Research. Meanwhile, commitment rates increased from 66% in 2010 to 80% in 2015 and are expected to average 70% to 80% through 2018. The average price for committed area ranges from US\$900 to US\$1,200 per rack per month in 2015 and is expected to remain largely stable from 2015 to 2018.

The revenue of the high-performance data center market in China has grown from US\$446 million in 2010 to US\$1,514 million in 2015, and is expected to reach US\$2,396 million in 2018. Benefiting from the favorable trends, the high-performance data center market as a percentage of the overall outsourced data center market, in terms of revenue, increased from 36% in 2010, to 49% in 2015 and is expected to further increase to 57% in 2018.



The following chart sets forth the historical and expected market size of China's high-performance data center market in terms of committed areas for the periods indicated.



In China, due to the economic difference and telecom network infrastructure difference between various geographical regions and major cities, telecommunications hubs were built in selected cities only, creating the first data center clusters. These primary economic hubs have competitive advantages as data center markets, with more transparent telecommunications markets, skilled labor and infrastructure support to operate data centers, as well as large populations of potential customers. According to 451 Research, the major Chinese data center markets are Beijing, Shanghai, Shenzhen, Guangzhou, and, to a lesser degree, Chengdu. While most major cities in China have a small data center market to fulfill local demand, the majority of the high-performance data center market is centered in these primary economic hubs. These five major markets accounted for approximately 90% of the total high-performance data center market of China in terms of revenue in 2015.

**Barriers to entry**

Data centers are difficult to develop and there are several barriers to entry for potential competitors, particularly in China, including:

- **Limited supply of suitable sites and development execution complexity.** Finding suitable sites for data center development is difficult, as data centers require large amounts of power, access to network fiber, and particular types of buildings—ideally with high ceilings, strong floors and large floor plates are not always available in these strategic locations. In addition, many customers prefer facilities that are in secure locations, for example, a certain distance from highways, railroad tracks, chemical plants and other potential sources of hazards and outside of flight paths. In the key economic hubs in China, it is increasingly difficult to find suitable sites for high-performance data centers and the execution complexity proves to be challenging for many companies.
- **Significant capital and technical expertise required.** Once a site is developed, a data center is complicated to operate, requiring staff with particular skills that can be difficult to find. According to surveys by 451 Research and the Uptime Institute, most of the outages of data centers are due to

human error. Therefore, operators with a strong operating track record are preferred by customers seeking high-performance facilities.

- **Stringent licensing requirements by regulations.** In China, data center service providers must obtain licenses from the MIIT and fulfill evolving requirements. Once a suitable site is identified, developers also need to obtain the necessary permits from local authorities to develop and operate the property.
- **Customer stickiness and high switching costs.** Once customer equipment is installed in a data center facility, it is difficult and expensive to move it. Therefore customer churn is generally low unless there are extensive outages or poor service. If customers need additional space, they typically seek to stay in the same data center facility or with the same provider.

## BUSINESS

### Overview

We are a leading developer and operator of high-performance data centers in China. Our facilities are strategically located in China's primary economic hubs where demand for high-performance data center services is concentrated. Our data centers have large net floor area, high power capacity, density and efficiency, and multiple redundancy across all critical systems. We are carrier and cloud neutral, which enables our customers to connect to all major PRC telecommunications carriers, and to access a number of the largest PRC cloud service providers, whom we host in our facilities. We offer colocation and managed services, including a unique and innovative managed cloud value proposition. We have a 15-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. Our base of approximately 370 customers consists predominantly of large Internet companies, financial institutions, telecommunications and IT service providers, and large domestic private sector and multinational corporations. As of September 30, 2016, we had an aggregate net floor area of 48,822 sqm in service, 93.8% of which was committed, and an aggregate net floor area of 37,194 sqm under construction. According to 451 Research, we are the largest service provider in the high-performance carrier-neutral data center services market in China, with 24.9% market share as measured by area committed as of September 30, 2016.

The market for high-performance data center services in China is experiencing strong growth. According to 451 Research, the market is expected to increase from US\$1.5 billion in 2015 to US\$2.4 billion in 2018, representing a CAGR of 16.6%. Over the same period, the high-performance carrier-neutral data center services market in China is expected to grow with a higher CAGR of 20.5%. Demand is driven by the confluence of several secular economic and industry trends, including: rapid growth of the Internet, e-commerce and big data; rising adoption of cloud computing and server virtualization, which requires data centers with higher power capacity, density and efficiency; increasing criticality of information technology and data in the enterprise environment which requires data centers with higher reliability; and growing reliance by enterprises on outsourcing as a solution to the increasing complexity and cost of managing mission-critical IT infrastructure. We believe that, as a result of this strong demand and the challenges of sourcing, developing and operating new facilities that meet the required standard, there is a relative scarcity of high-performance data center capacity in China. According to 451 Research, as of December 31, 2015, when comparing the ratio of square meters of colocation area in service to GDP, the U.S. had a ratio of 207 sqm per US\$1 billion in GDP, while China only had a ratio of 107.

Our portfolio of data centers and secured expansion capacity are strategically located to address this growing demand. We operate our data centers to service our customers predominantly in Shanghai, Beijing, Shenzhen, Guangzhou and Chengdu, the primary financial, commercial, industrial and communications hubs in each region of China. According to 451 Research, approximately 90% of the market in terms of revenue for high-performance data center services in China was concentrated in these markets in 2015. We have also established a presence in Hong Kong which we believe is another important market for our customers. Our data centers are located in close proximity to the corporate headquarters and key operation centers of many large enterprises, providing convenient access for our customers. 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.

Our data centers are large-scale, 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 and optimize power usage efficiency, which enables our customers to deploy their IT infrastructure 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.

We currently serve approximately 370 customers, including large Internet companies, a diverse community of approximately 160 financial institutions, telecommunications and IT service providers and large domestic private sector and multinational corporations, many of which are leaders in their respective industries. Within our customer base, we host a number of major cloud service providers, including Aliyun, the cloud computing unit of Alibaba, which is present in several of our data centers. Contracts with our large Internet customers have terms of three to eight years, while contracts with our enterprise customers typically have terms of one to five years. We achieved an average retention rate of over 95% per annum among our Internet and financial institution customers for colocation services in our current data centers over the past two years.

As of September 30, 2016, we operated eight self-developed data centers with an aggregate net floor area of 39,781 sqm in service. We also operated capacity at approximately ten third-party data centers with an aggregate net floor area of 9,041 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 five new self-developed data centers and two phases of an existing data center with an aggregate net floor area of 37,194 sqm under construction. In addition, we had an estimated aggregate developable net floor area of approximately 20,000 sqm held for future development and entered into a memorandum of understanding for a lease of three data center shell buildings that we expect to provide us with additional net floor area of approximately 30,000 sqm. Our net revenue and results of operations are largely determined by the degree to which data center space is committed or pre-committed as well as its utilization. We had commitment rates of 76.3%, 87.5% and 93.8% as of December 31, 2014 and 2015 and September 30, 2016, respectively. We had utilization rates of 57.7%, 59.1% and 70.4% as of December 31, 2014 and 2015 and September 30, 2016, respectively. The difference between commitment rate and utilization rate is primarily attributable to customers who have entered into agreements but have not yet started to use revenue generating services.

Our net revenue grew from RMB468.3 million in 2014 to RMB703.6 million (US\$105.9 million) in 2015, representing an increase of 50.2%, and increased from RMB304.8 million in the six months ended June 30, 2015 to RMB447.1 million (US\$67.3 million) in the same period in 2016, representing an increase of 46.7%. Our adjusted EBITDA increased from RMB38.0 million in 2014 to RMB164.7 million (US\$24.8 million) in 2015, and increased from RMB73.8 million in the six months ended June 30, 2015 to RMB100.6 million (US\$15.1 million) in the same period in 2016. Our net loss decreased from RMB130.0 million in 2014 to RMB98.6 million (US\$14.8 million) in 2015. Our net loss increased from RMB47.3 million in the six months ended June 30, 2015 to RMB154.2 million (US\$23.2 million) in the same period in 2016. As of December 31, 2015 and June 30, 2016, our accumulated deficit was RMB582.3 million (US\$87.6 million) and RMB736.5 million (US\$110.8 million), respectively.

## **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 high-performance data center services.

### ***Large-Scale, High-Performance Data Centers Strategically Located in China's Key Markets***

We plan, design and build our data centers to cater to a range of customer requirements with regards to capacity, power density and usage efficiency, redundancy, and numerous other technical specifications. Many of our customers require: large contiguous net floor area and the ability to expand their presence at the same location; high power capacity, density, and efficiency in order to deploy their IT infrastructure in the most cost effective manner; and high service availability for their mission-critical IT infrastructure, backed up by demanding service level commitments across multiple operating parameters.

We have built our data centers to large-scale. The average net floor area of our self-developed data centers portfolio is approximately 6,000 square meters. In addition, within each market, we have, to the extent possible, strategically grouped our data centers within campuses or clusters so that we are able to provide our customers with conveniently located expansion capacity.

Our self-developed data centers in service and under construction have an average power density of approximately 2.0 kW/m<sup>2</sup>, compared with an average of around 1.0 kW/m<sup>2</sup> for data centers in China built since 2011, according to 451 Research. Our self-developed data centers are mostly designed to achieve 1.5 times power usage effectiveness, or PUE, in stabilized operation, compared with an average of 1.7 times for data centers built from 2011 to mid-2013 in China and a PUE of more than 2.0 times for some older data centers, according to the MIIT. As a result of our advanced data center design, high technical specifications and robust operating procedures, we are able to provide our customers with service level commitments related to service availability and other key metrics up to their required standards.

A large part of the demand for high-performance data center services in China is location-sensitive. Our facilities are strategically located in key markets with the greatest demand from existing and prospective customers. All of our self-developed capacity in service and under construction are located in Shanghai, Beijing, Shenzhen, Guangzhou, and Chengdu where approximately 90% of the market in terms of revenue for high-performance data center services in China was concentrated in 2015, according to 451 Research. Our remaining capacity is mostly located in Hong Kong where we have established a presence through capacity leased from third-parties. Our self-developed data centers are interconnected, which strengthens our value proposition for customers who increasingly seek a multi-market data center footprint from a single service provider.

***First-Mover with a Proven Track Record and Reputation for Operational Excellence***

We were a first-mover in the data center industry in China, having provided data center services since 2001, and have established a 15-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 been involved in providing technically demanding data center-based IT managed services from our inception. We focused initially on providing business continuity and disaster recovery, or BCDR, solutions for financial institutions in response to new regulatory requirements. We have been and continue to be involved in advising various PRC government agencies in setting, and customers in attaining, required standards relating to outsourced data center solutions and services.

The track record and customer relationships which we established as a provider of IT managed services positioned us to expand to data center development. Over time, we have developed expertise across the full spectrum of data center design, construction, commissioning, and operation. We have also continued to expand our managed service offerings to include, more recently, unique and innovative services for managing enterprise hybrid clouds. Our processes, protocols and standards enable us to meet or exceed the demanding performance and quality levels specified in our service level agreements, or SLAs, with the most sophisticated high-end customers. We have been certified ISO9001, ISO20000 and ISO27001 for almost ten years. We are the only data center service provider in China that has obtained the Uptime Institute's "Management and Operations Approved Site" awards for multiple data centers. The award recognizes data center service providers that have maximized service uptime potential, achieved operational efficiency and reduced risk of errors.

***Well-Established and Rapidly Expanding Relationships with Large and Fast Growing Customers***

We focus on serving customers who require high-performance data center capacity in China's primary economic hubs, such as large Internet companies, financial institutions, telecommunications and IT service providers and large domestic private sector and multinational corporations. Our customers include some of the largest and most demanding users of data centers in China with respect to capacity, power density and usage efficiency, service availability and SLAs, and numerous other technical specifications.

Our Internet customers include some of China's leading Internet companies. As of September 30, 2016, we had approximately 30,000 sqm net floor area in aggregate committed to the top three Internet companies in China and/or their affiliates across ten of our data centers, including third-party data centers. We believe that large Internet companies house in our data centers the location-sensitive, mission-critical IT infrastructure which supports some of their high growth business activities, such as e-commerce, cloud services, online financial services and online payment services.

We serve a diverse community of approximately 160 PRC and foreign financial institutions across the banking, insurance, asset management, brokerage, digital payment, and financial information verticals. We believe that our 15-year track record of serving financial institutions and deep domain knowledge of their IT operating and compliance requirements have made us the leading outsourced data center provider to the financial services sector.

We have long-standing relationships with all the major PRC telecommunications carriers who are both partners providing network services to our customers and intermediate contracting parties for the sale of colocation services to our customers. We also serve a number of foreign telecommunications and IT service providers.

We believe that our data centers are well-suited for the hosting of cloud platforms due to their large-scale, high power capacity and density, high reliability, extensive network connectivity and strategic location in primary economic hubs. These features enable cloud service providers to deploy their IT infrastructure more efficiently, optimize their IT infrastructure and network performance, and reduce their operating and capital costs. We have succeeded in attracting a number of major cloud service providers to colocate their cloud service platforms in our data centers, including those operated by Aliyun, the cloud computing unit of Alibaba, and by certain of our other large Internet, telecommunications and IT service provider customers. We believe that this established presence in our data centers will attract other cloud service providers, as well as enterprise customers, to colocate in our data centers.

#### **Large Secured Expansion Capacity and Proven Ability to Source and Develop Additional Data Centers**

There are inherent challenges in China to successfully sourcing and developing large-scale high-performance data centers, including zoning laws, a scarcity of appropriate and sufficiently large sites, access to adequate redundant power supply and high-quality telecommunications connectivity, and the knowledge and know-how associated with designing, building, fitting out and commissioning high-performance facilities.

We have a proven set of skills and procedures 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 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. 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.

Over the past five years, we have brought eight self-developed data centers into service with an aggregate net floor area of 39,781 sqm and achieved a 95.2% commitment rate for these facilities as of September 30, 2016. Our growth prospects and ability to service our customers are secured by a strong pipeline of expansion capacity in China's primary economic hubs. As of September 30, 2016, we had five new self-developed data centers and one phase of an existing data center with an aggregate net floor area of 37,194 sqm under construction. In addition, we had entered into leases and development agreements and secured land which could potentially be developed into data centers with an estimated aggregate developable net floor area of approximately 20,000 sqm and entered into a memorandum of understanding

for a lease of three data center shell buildings that we expect to provide us with additional net floor area of approximately 30,000 sqm.

***Unique Value Proposition in Managed Cloud Services that Complements Our Core Colocation 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 a number of major cloud service providers to colocate their cloud service platforms in our data centers, including those operated by Aliyun, and by certain of our other large Internet, telecommunications and IT service provider customers.

The presence in our data centers of major cloud service providers enables us to offer our enterprise customers efficient and reliable access to the high capacity cloud resources of their choosing. On a reciprocal basis, we are able to assist our cloud service provider customers to access the enterprise customers which are present in our data centers. We believe that this established presence in our data centers creates a network effect which will attract other cloud service providers, as well as additional enterprise customers, to colocate in our data centers.

Large enterprises are increasingly deploying a combination of multiple private, hosted, or public cloud services, a configuration known as hybrid cloud. We expect that hybrid clouds will become increasingly prevalent in China. 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 in the management of their hybrid clouds. Our platform, which we refer to as CloudMix, provides a robust management interface enabling enterprises to integrate and control every aspect of their hybrid cloud computing environment across their private servers and one or more public cloud service providers. We also architect cloud-based solutions tailored to the unique requirements of each customer.

We believe that the established presence in our data centers of many high-end enterprise customers and a number of the leading cloud service providers in China, together with the innovative managed cloud services which we offer, is a unique value proposition in the China market.

***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 15 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.

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 Pte. Ltd., or STT GDC, a wholly owned subsidiary of Singapore Technologies Telemedia Pte Ltd, or ST Telemedia, is an experienced and strategic data center player that owns a portfolio of data centers in Singapore, 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 provides us with competitive advantages in our industry.

## Our Strategies

We aim to capitalize on the attractive growth opportunities in the data center services market in China and strengthen our leadership position in the high-performance segment. We intend to achieve our goal by pursuing the following strategies:

### ***Expand Our Unique Portfolio of Strategically Located High-Performance Data Centers***

We will continue to expand our unique portfolio of high-performance data centers in the key markets of Shanghai, Beijing, Shenzhen, Guangzhou and Chengdu so as to address the strong growth in demand. We will continue to grow our presence in Hong Kong by relying initially on capacity at third-party data centers. Where sufficient customer demand exists and contracts can be secured in advance, we may develop data centers in other markets in China. Our approach will take into consideration prevailing demand and utilization trends in each market.

In each of our key markets, our objective is to be in a position to deliver a continuous supply of capacity aligned with the expansion requirements of our existing and prospective customers. We also intend to pursue a strategy of having capacity at two complimentary sites in each key market, so as to better satisfy the location preferences of major customer segments and to offer a dual-site configuration for those customers who require in-market redundancy. In order to enhance our overall portfolio, we intend to upgrade our inter-data center network connectivity so as to strengthen our value proposition for the increasing number of customers who seek a multi-market data center footprint from a single service provider.

We believe that the combination of continuous supply at one or more sites in all of China's key markets, consistent quality standard of facilities and operations across the entire portfolio, and high quality inter-data center connectivity will give us a sustainable competitive advantage.

### ***Pursue Balanced Sourcing Strategy to Maintain Continuous Competitive Supply***

In order to maintain a strong pipeline of expansion capacity, we will leverage our expertise and experience in identifying, sourcing and securing sites in key markets with access to adequate power supply and network connectivity. We will continue to grow our portfolio mainly through the addition of self-developed data centers, and we will use a flexible and varied approach.

Where appropriate greenfield sites can be secured, we may acquire the land and invest in the entire data center real estate ourselves. Alternatively, in order to reduce our capital intensity, we may partner with selected developers for construction of build-to-suit data center shell and core which we will then lease on a long term basis, equip and fit out. Furthermore, given the scarcity of high-quality sites, zoning and other restrictions on development, we will also lease and convert existing industrial buildings into data centers. We carefully select such buildings based on their suitability for use as data centers and have gained significant experience in undertaking conversions in a manner which satisfies our high technical standards. We may also use third-party data centers as a way to enter new markets, as we have done in Hong Kong. We believe our diversified sourcing approach will enable us to maintain a strong supply of data center capacity to meet fast growing customer demand, while ensuring the consistent high-performance level of our facilities and efficient capital allocation.

To further supplement the growth of our business, we intend to prudently pursue acquisitions, investments, alliances or partnerships to secure critical resources, supplement our existing sourcing approach and capture opportunities that are strategically complementary to our operations. We will evaluate potential acquisition opportunities in key data center markets by assessing various factors including geographic location, facility condition, cost, power supply, telecommunications network availability, and compatibility with the needs of our customers.



***Increase Market Share by Attracting New Customers and Leveraging Customer Relationships***

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 intend to leverage this insight to increase our share of the rapidly growing market for high-performance data center services in China. We plan to execute this strategy by attracting new customers, increasing our share of spend by upselling more managed services, capturing demand for large-scale capacity from major customers, and creating a network effect around the enterprises and cloud service providers which we host. We will continue to focus relentlessly on operational excellence and superior customer service to sustain our high customer retention rate.

We will expand our customer base by focusing on new customers in fast growing segments, such as online-to-offline, mobile Internet, cloud and IT services, and healthcare, and by providing colocation services and managed services to fit their specific requirements. We will increase our upsell to existing customers by enhancing our managed service offerings, in particular our solutions for accessing cloud resource and managing enterprise hybrid clouds. We will align our resource development plan to capture a high proportion of the growing demand from existing and new customers, including those which require large-scale capacity.

***Capitalize on Rising Adoption of Cloud Computing in China***

We intend to capitalize on the growth of cloud computing in China by attracting cloud service providers as hosting customers and by further developing our managed cloud service offerings with the objective of transforming our data centers into key hubs for accessing cloud resources and hybrid cloud management solutions.

We have constructed our data centers with high power capacity, density and efficiency, and other features which support the deployment of large-scale cloud platforms. We continue to enhance our design and technical specifications for this purpose. We have already succeeded in attracting a number of the largest cloud service providers in China to colocate in our data centers. We aim to attract more cloud service providers by providing an optimal carrier and cloud neutral operating environment and by leveraging the network effect of a growing enterprise end-user and cloud service provider ecosystem. We intend to partner with and support our cloud service provider customers to access the enterprise customers which are present in our data centers. We have established such a partnership with Aliyun, the cloud computing unit of Alibaba, and are pursuing similar partnerships with other existing and prospective cloud service provider customers.

We also intend to become the preferred provider of cloud-related managed services to our enterprise customers. We believe that our track record and expertise as a provider of IT managed services positions us well to capture significant opportunities as our enterprise customers transition from private to outsourced cloud solutions. We will continue to work with our enterprise customers to facilitate this transition by providing cloud-based solutions tailored to their specific requirements. We will also continue to develop our innovative CloudMix service platform to assist our 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.

***Continue to Focus Relentlessly on Operational Excellence and Capital Efficiency***

We will remain at the forefront of the data center industry in China by continuing to set benchmarks for operational excellence. We closely monitor and emphasize measurable operational excellence and remain committed to high SLA fulfillment. We will continue to maintain a high level of customer satisfaction by adopting and automating best-in-class business processes, including further improving our proprietary Data Center Operation Management Platform to provide real-time monitoring and to streamline our data center management processes. We will tailor key performance measures and incentives for our team in order to further enhance productivity and focus on the attainment of our operational goals. We also intend

to attract additional highly skilled employees across various business functions to strengthen our resource acquisition and operations management capabilities to support our business growth.

We adopt a modular approach to the construction of our data centers, fitting out and equipping each data center in phases and making available a range of customized options with regards to redundancy, power density, cooling, rack configuration and other technical specifications. This enables us to tailor our product offering to suit the requirements of individual customers, optimize resource utilization, and maximize capital efficiency. Within each market, we have, to the extent possible, strategically grouped our data centers within campuses or clusters, further allowing for capital-efficient phased expansion. We believe this expansion approach combined with our strong development experience will enable us to better manage the timing and scale of our capital expenditure obligations while reducing risk and improving our return on capital.

#### **Our Business Model and the Data Center Lifecycle**

Our core business operations entail the planning and sourcing of new data center sites, developing such sites, securing customer commitments, providing our colocation services 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, high power capacity, density, and efficiency, and multiple redundancy across all critical systems.

Our strong customer and industry relationships afford us insight into the size, timing, and location of future demand which is reflected in our data center resource development plan. We source new data center resources by: (1) acquiring or leasing property which we develop for use as data center facilities, whether through constructing on greenfield sites or converting existing industrial buildings; (2) leasing existing data center capacity from third-party wholesale providers; and, (3) acquiring high performance data centers from other companies. Regardless of the source of our data center resource, we ensure that the facilities meet the high-performance standards required by our target customers. After procuring greenfield sites or existing buildings for conversion, we design and, through cooperation with developers, contractors, and suppliers, build out the facility to our advanced design and high technical specifications.

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 resource in accordance with proven sales demand or contractual delivery commitments to customers.

We commence marketing new data center facilities several quarters prior to completion of construction. We aim to secure pre-commitments from customers for a portion of the area under construction, typically from anchor customers who require large-scale capacity. Through securing such pre-commitments, we are able to reduce investment risk and optimize resource planning. Our contracts provide flexibility to our customers with regard to utilization and the commencement of billing. Anchor customers with large-scale commitments usually move in over 12 to 24 months, whereas enterprise customers usually move in over a period of three to six months. During the period when customers are moving into our data centers, we bill our customers for services based on a fixed amount which is the higher of actual utilization and minimum contractual customer commitments. See "—Contracts Terms and Pricing."

Once data center resource becomes billable, customers are charged a fixed price over the life of the contract for colocation services and managed services. In certain contracts, the customer are also charged for actual power consumed. Area committed is included in area utilized when we commence generating revenue from the customer under the terms of the contract.

For our in-service data centers, we aim to maintain high levels of long-term utilization. As of September 30, 2016, our commitment rate was 93.8% of aggregate net floor area in service, while our utilization rate was 70.4%. The difference between commitment rate and utilization rate reflects the contracts which were still in the process of moving into our data centers. If we secure pre-commitments from customers, particularly large-scale capacity commitments from anchor customers, we expect that our utilization rate will continue to lag our commitment rate due to the longer time taken to move in associated with these types of contracts.

Our business model provides us with high levels of revenue visibility due to the long-term nature of our customer contracts and substantial backlog. We endeavor to provide high levels of customer service, support, and satisfaction so as to maintain long-term customer relationships and high rates of contract renewals for our services. We achieved an average retention rate of over 95% per annum among our Internet and financial institution customers for colocation services in our current data centers over the past two years.

#### Our Data Centers

Our data centers are large-scale, 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 power usage efficiency, enabling our customers to deploy their IT infrastructure more efficiently and reduce their operating and capital costs. Our data centers are located in close proximity to the corporate headquarters and key operations centers of many large enterprises, providing convenient access for our customers, as well as in areas where there are extensive telecommunications networks enabling our customers to enhance the performance and lower the cost of connectivity to our data centers. Our data centers are strategically located in Shanghai, Beijing, Shenzhen, Guangzhou and Chengdu, which are the primary financial, commercial, industrial and communications hubs in each region of China, and where demand is concentrated. We continue to source and secure additional data center resources in China's primary economic hubs.

The following table presents certain information relating to our data center portfolio as of September 30, 2016:

<b>(Sqm, %)</b>	<b>Area</b>	<b>Area under</b>	<b>Area held for</b>
<b>Location</b>	<b>in service</b>	<b>construction</b>	<b>development</b>
Shanghai	21,013	16,121	4,800
Shenzhen	9,936	7,946	5,268
Guangzhou	6,608	2,300	—
Beijing	8,781	6,177	8,970
Hong Kong	930	—	—
Chengdu	1,555	4,650	0
<b>Total</b>	<b>48,822</b>	<b>37,194</b>	<b>19,038</b>
<b>Type</b>			
Self-developed	39,781	34,894	19,038
Third party	9,041	2,300	—
<b>Total</b>	<b>48,822</b>	<b>37,194</b>	<b>19,038</b>

As of September 30, 2016, our total area committed was 58,627 sqm, of which 45,782 sqm and 12,845 sqm related to data centers in service and data centers under construction, respectively.

### **Self-developed Data Centers**

As of September 30, 2016, we operated eight self-developed data centers with an aggregate net floor area of 39,781 sqm in service. We also operated capacity at approximately ten third-party data centers with an aggregate net floor area of 9,041 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 five new self-developed data centers and two phases of an existing data center with an aggregate net floor area of 37,194 sqm under construction. In addition, we had entered into leases and development agreements and secured land which could potentially be developed into data centers with an estimated aggregate developable net floor area of approximately 20,000 sqm and entered into a memorandum of understanding for a lease of three data center shell buildings that we expect to provide us with additional net floor area of approximately 30,000 sqm.

*High-Performance Features.* Our self-developed data centers generally feature:

- *High Availability.* Our data centers are equipped with redundant delivery paths for power, cooling and other critical systems, sufficient to satisfy or exceed the Tier III standard as defined by the Uptime Institute. High availability data centers are suitable for housing mission-critical IT infrastructure. We operate our facilities so as to deliver the levels of service availability required by the most demanding customers.
- *High Power Density.* Our self-developed data centers in service and under construction have an average power density of approximately 2.0 kW/m<sup>2</sup>, compared with an average of around 1.0 kW/m<sup>2</sup> for data centers in China built since 2011, according to 451 Research. High power density enables customers to deploy their IT infrastructure more efficiently and to optimize their IT infrastructure performance.
- *High Power Efficiency.* Our self-developed data centers are designed to achieve high power efficiency, which is expressed coveresly by a low PUE ratio. Our self-developed data centers had around 1.5 times PUE in stabilized operation, compared with an average of 1.7 times for data centers built from 2011 to mid-2013 in China and a PUE of more than 2.0 times for some older data centers, according to the MIT. High power efficiency reduces operating costs, for the benefit of our customers and ourselves.

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.

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 data centers into the following two 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 facilities represent approximately 57.6% by aggregate net floor area of our self-developed data centers in service and under construction as of September 30, 2016.
- *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 42.4% by aggregate net floor area of our self-developed data centers in service and under construction as of September 30, 2016.

**Data Center Tenure.** We hold our data centers either through direct ownership or lease. In China, land cannot be owned outright, but is secured through land use rights. For self-developed data centers that we own, we have rights to use the underlying land for up to 45 years, which is close to the longest permissible period, plus ownership of the buildings and other fixed assets comprising the data center. For self-developed data centers that we lease, we enter into long-term leases with the owners of the building for periods of ten to twenty years, which is the longest permitted lease period under PRC law. For third-party data centers where we lease capacity on a wholesale basis, we typically enter into leases for fixed terms of three to ten years.

**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, and one or more modules have been equipped and fitted out ready for utilization by customers. Once this stage has been reached, we categorize the net floor area of the data center as area in service, including the net floor area 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. Where 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 consist of the estimated data center net floor area that we expect to be able to develop on land which we have secured, at buildings which we have constructed or leased and pursuant to development or lease agreements we have entered into, but which, in each case, are not under construction. The developable net floor area estimates are subject to a number of contingencies and uncertainties.

**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 September 30, 2016:

	Shanghai			Shenzhen		Guangzhou	Beijing	Chengdu
	KS1	SH1	SH2	SZ1	SZ2	GZ1	BJ1	CD1 (Phase 1) <sup>(3)</sup>
Date ready for service (HHYY)	2H10	2H11	2H15	2H14	1H16	1H16	2H15	1H11
Type	Purpose-built	Purpose-built	Purpose-built	Converted	Converted	Converted	Converted	Purpose-built
Tenure	Owned	Leased	Leased	Leased	Leased	Leased	Leased	Owned
Area in service	6,546	6,432	7,712	4,281	4,308	6,608	2,344	1,550
Area committed	6,516	6,188	7,255	4,271	3,446	6,608	2,306	1,286
Commitment rate <sup>(1)</sup>	100%	96%	94%	100%	80%	100%	98%	83%
Area utilized	5,867	5,601	3,908	4,234	1,807	3,777	1,179	387
Utilization rate <sup>(2)</sup>	90%	87%	51%	99%	42%	57%	50%	25%

(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 CD1 data center in phases. The categorization of data centers by stage of development is applied to each phase of CD1 development.

As of September 30, 2016, we had invested an aggregate RMB2,433.6 million (US\$366.2 million) in our data centers in service and expect to invest approximately an additional RMB107.0 million (US\$16.1 million) to achieve full ramp-up in these data centers.

*Self-Developed Data Centers Under Construction.* The following data table presents certain information relating to our self-developed data centers under construction as of September 30, 2016:

	Shanghai		Shenzhen		Beijing	Chengdu
	SH3	SH4	SZ3	SZ4 (Phase 1) <sup>(2)</sup>	BJ2	CD1 (Phases 2 and 3) <sup>(2)</sup>
Estimated date ready for service (HHYY)	2H16	2H17	2H16	1H17	1H17	2H16 for Phase 2 1H17 for Phase 3
Type	Purpose-built	Purpose-built	Converted	Converted	Converted	Purpose-built
Tenure	Leased	Leased	Leased	Leased	Leased	Owned
Area under construction	7,911	8,210	2,678	5,268	6,177	4,650
Area pre-committed	5,343	0	552	0	0	4,650
Pre-commitment rate <sup>(1)</sup>	68%	0%	21%	0%	0%	100%

(1) The ratio of area pre-committed divided by the area under construction.

(2) We are developing our SZ4 and CD1 data centers in phases. The categorization of data centers by stage of development is applied to each phase of SZ4 and CD1 development.

As of September 30, 2016, we had invested RMB472.3 million (US\$71.1 million) in our data centers under construction and expect to invest approximately an additional RMB1,700.5 million (US\$255.9 million) to complete construction and ramp-up in these data centers.

*Self-Developed Data Center Resources Held for Future Development.* We have also secured data center resources that we classify as held for future development. We have entered into leases and development agreements or secured land which could potentially be developed into data centers with an estimated aggregate developable net floor area of approximately 20,000 sqm and entered into a memorandum of understanding for a lease of three data center shell buildings that we expect to provide us with an additional approximately 30,000 sqm of net floor area. We are developing the SZ4 data center in phases. The categorization of data centers by stage of development is applied to each phase of SZ4 development. Self-developed data center resources held for future development include: (1) SZ4 (Phase 2), a building in Shenzhen which we have leased and which we are developing in two phases; (2) a site in Beijing for a purpose-built facility that is subject to the local power bureau relocating overhead power supply lines which affect the use of the site; and (3) a site in Kunshan for which we have secured land use rights.

On September 30, 2016, we entered into a memorandum of understanding with a property development company for the lease of three data center shell buildings to be built-to-suit in phases on a site in the Shanghai Waigaoqiao Free Trade Zone in close proximity to our existing data centers. Once the built-to-suit lease agreements are finalized, we expect these buildings to provide us with additional data center net floor area of approximately 30,000 sqm.

In April 2016, we entered into a memorandum of understanding with a third party in respect of a potential acquisition of a data center and paid a deposit of RMB15.0 million (US\$2.3 million) to the third party. The final purchase price and other major terms of the acquisition have not yet been agreed, as negotiations are at an early stage and due diligence has not been completed. If the acquisition is not consummated within 12 months of the date of the memorandum of understanding, RMB5.0 million (US\$0.8 million) of the deposit amount will be refunded to us and the remainder will be forfeited.

### **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. As of September 30, 2016, we operated capacity at approximately ten third-party data centers with an aggregate net floor area of 9,041 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 specification. 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 space 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.

### **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, a 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—Risk Factors Relating to Our Business and Industry—Our failure to comply with regulations applicable to our leased data centers 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.

### **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.

## **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.

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 contract.

*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 a number of major cloud service providers to colocate their cloud service platforms in our data centers, including those operated by Aliyun, the cloud computing unit of Alibaba, and by certain of our other large Internet, telecommunications and IT service provider customers.

The presence in our data centers of major cloud service providers enables us to offer our enterprise customers efficient and reliable access to the high capacity cloud resources of their choosing. On a reciprocal basis, we are able to assist our cloud service provider customers to access the enterprise customers which are present in our data centers. We believe that this established presence in our data centers creates a network effect which will attract other cloud service providers, as well as additional enterprise customers, to colocate in our data centers.

Large enterprises are increasingly deploying a combination of multiple private, hosted, or public cloud services, a configuration known as hybrid cloud. We expect that hybrid clouds will become increasingly prevalent in China. 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 in the management of their hybrid clouds. Our platform, which we refer to as CloudMix, provides a robust management interface enabling enterprises to integrate and control every aspect of their hybrid cloud computing environment across their private servers and one or more public cloud service providers. We also architect cloud-based solutions tailored to the unique requirements of each customer. In addition, as part of our managed cloud services we also 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.

## **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 each of the key markets. Our in-house team begins sourcing potential sites up to three or more 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 square meters 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 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 ensuring the project is completed on time, within budget and to the required quality standard.
- *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, or RFS. This involves: (1) obtaining necessary operating permits and approvals; (2) equipping and fitting out the critical facilities area for utilization by customers; and, (3) 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.

## 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 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 all activities which have a direct bearing on customers, including support for set up of 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 also have 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 almost 10 years. 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.

## Our Customers

We consider our customer to be the end user of our data center services. We may enter into contracts directly with our end user customer or through an intermediate contracting party. We have long-standing relationships with all the major PRC telecommunications carriers who are both partners providing network services to our customers as well as intermediate contracting parties for the sale of colocation services to our customers. Because we negotiate with, maintain and support each of the end users of our services, even where the actual data center contract is made with the telecommunications carrier, we consider the end user to be our end customer. The end user customer generally has separate decision-making authority and a services procurement budget that is distinct from that of the telecommunications carriers with whom we contract.

We currently serve approximately 370 customers, including large Internet companies, a diverse community of approximately 160 PRC and foreign financial institutions as well as telecommunications and IT service providers and large domestic private sector and multinational corporations, many of which are leaders in their respective industry verticals. Within our customer base, we host a number of major cloud service providers, including Aliyun, the cloud computing unit of Alibaba, which is present in several of our data centers.

Our Internet and financial institution end user customers accounted for 70.8% and 15.1% of our total area committed as of September 30, 2016. Our two largest end user customers accounted for 26.1% and 20.8%, respectively, of our total area committed as of September 30, 2016. No other end user customer accounted for 10% or more of our total area committed as of that date.

The following table presents the total area committed of our top five end user customers, all of which are Internet companies, as of September 30, 2016:

<u>End User Customer</u>	<u>Total area committed (sqm)<sup>(1)</sup></u>	<u>Total area committed (%)</u>
Customer 1	15,324	26.1%
Customer 2	12,202	20.8%
Customer 3	5,727	9.8%
Customer 4	2,300	3.9%
Customer 5	2,189	3.7%

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

We endeavor to establish strategic relationships with key customers, particularly large Internet companies and cloud service providers who have large data center capacity requirements and who can help enhance the value of our data center ecosystem.

## Contract Terms and Pricing

Pricing in our contracts is for a fixed amount which usually includes a stated amount of space, power commitment and other bundled services. Power commitment means the right to use a stated amount of power. Pricing is generally flat over the contract term but subject to adjustments when power tariffs change. Where power tariffs change, we adjust the pricing to reflect the change in power cost going forward. For some customers, we charge for actual power consumed.

A substantial majority of our customer contracts are multi-year contracts. Contracts for our large Internet customers have terms of three to eight years, while contracts with our enterprise customers are for between one to five years. Our typical service contract provides a notice period of one to six months for early termination, and 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.


### **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 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 contracts 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 contract 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 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.

### **Technology and Intellectual Property**

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. We derive most our revenues in China and use , our figure trademark, in a majority of our services. We have registered or are in the process of registering the figure trademark in China in several categories that cover our service areas. 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 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—Risk Factors Relating to Our Business and Industry—We may be subject to third-party claims of intellectual property infringement."

**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 face competition from the state-owned telecommunications carriers, namely China Telecom, China Unicom and China Mobile. As of December 31, 2015, these carriers had a 59% share in aggregate of the high performance data center services market in China based on area committed according to 451 Research. One of the main purposes for which these carriers develop data centers is in order to facilitate the sale of related telecommunications 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. We compete on the basis of our data center quality, operating track record and differentiated managed and cloud service capabilities. 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.

We also 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 or all of our markets, such as Sinnet, Dr. Peng and 21Vianet. 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.
- *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 NTTCom, each of which has a presence in Shanghai and/or Beijing and primarily serve their 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.

**Employees and Training**

We had 461, 617 and 573 employees as of December 31, 2014 and 2015 and September 30, 2016, respectively. The following table sets forth the number of our employees by function as of September 30, 2016:

	<b>Number of Employees</b>	<b>% of Total</b>
Colocation services	309	53.9%
Managed services	81	14.1%
Sales and marketing	67	11.7%
Management, finance and administration	116	20.3%
<b>Total</b>	<b>573</b>	<b>100.0%</b>

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.

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 plan to provide some of our employees with stock option 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, to reputable third-party service providers. As of September 30, 2016, we used the services of approximately 250 such personnel.

#### **Facilities**

Our headquarters are located at 2/F, Tower 2, Youyou Century Place, 428 South Yanggao Road, Pudong, Shanghai 200127, People's Republic of China. We have additional offices in Beijing, Suzhou, Shenzhen and Chengdu.

Our offices are located on leased premises totaling approximately 2,900 sqm across China. We lease our office premises from unrelated third parties.

#### **Insurance**

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 four categories: business interruption for lost profits, property and casualty, public liability, and commercial employee insurance.

#### **Legal Proceedings**

We may become subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time. 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, is likely to have a material adverse effect on our business, financial condition or results of operation.

## REGULATIONS

This section sets forth 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 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—Risk Relating to Doing Business in the People's Republic of China."

### 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 Ministry of Commerce and the National Development and Reform Commission. The Catalog divides industries into three categories: encouraged, restricted and prohibited. Industries not listed in the Catalog 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.

According to the *Administrative Regulations on Foreign-Invested Telecommunications Enterprises* issued by the PRC 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.

In July 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 of 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 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.

In light of the above restrictions and requirements, we conduct our value-added telecommunications businesses through our consolidated VIEs.

## Regulations Related to Value-Added Telecommunications Business

Among all of the applicable laws and regulations, the *Telecommunications Regulations of the People's Republic of China*, or the Telecom Regulations, promulgated by the PRC State Council in September 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 distinguish "basic telecommunications services" from "VATS." VATS are defined as telecommunications and information services provided through public networks.

The Telecom Catalogue, was issued as an attachment to the Telecom Regulations to categorize telecommunications services as either basic or value-added. In February 2003 and December 2015, the Catalogue was updated respectively, categorizing online data and transaction processing, on-demand voice and image communications, domestic Internet virtual private networks, Internet data centers, message storage and forwarding (including voice mailbox, e-mail and online fax services), call centers, Internet access and online information and data search and etc. as VATS. The "internet data center" business is categorized as a value-added telecommunications business and is defined under the 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 (which took effect from March 1, 2016), 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".

On March 1, 2009, the MIIT promulgated the *Administrative Measures for Telecommunications Business Operating License*, or the Telecom License Measures, which took effect on April 10, 2009. The 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 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 Telecom License Measures, cross-regional VATS licenses shall be approved and issued by the MIIT with five-year terms.

On December 1, 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 Telecom Research. 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.

To comply with the above restrictions and requirements, GDS Beijing has obtained cross-regional value added telecommunications license which permits it to provide data center services across six cities in China: Beijing, Chengdu, Shanghai, Shenzhen, Suzhou and Guangzhou, and GDS Shanghai has obtained cross-regional telecommunications license which permits it to provide data center services across five cities in China: Beijing, Chengdu, Shanghai, Shenzhen and Suzhou.

#### **Regulations Related to Information Technology Outsourcing Services Provided to Banking Financial Institutions**

On June 4, 2010, China Banking Regulatory Commission, or the CBRC, 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 CBRC 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 CBRC 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 CBRC or the local CBRC office 20 business days before entering into an outsourcing contract, and the CBRC or the local CBRC 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) fails to make rectification within prescribed time period for identified defects or insufficiency in service, (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 CBRC, the CBRC may prohibit the banking 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 CBRC 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 CBRC 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, and accept the supervision and review as conducted by the CBRC. Outsourcing service providers can voluntarily apply to CBRC to



incorporate their services into the supervision and evaluation scope of CBRC and such service providers, if they pass the inspection of CBRC, 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) failure to make rectification within the prescribed time period for identified defects or insufficiency in services, (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 CBRC, 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 CBRC, and CBRC 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 used for business purposes, such as commercial, tourism, entertainment and commodity residential properties) may be granted by way of agreement. The local land bureau and the intended user will negotiate the land premium which shall not be lower than the minimum price approved by the relevant government and enter into the grant contract. Upon signing of the contract for the grant of land use rights, the grantee is required to pay the land premium 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. 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 premium shall be paid.

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 putting up for bidding. Furthermore, according to the *Rules Regarding the Grant of State-owned Land Use Rights by Way of Tender, Auction and Listing-for-Sale*, or the Land Use Grant Rules, which are effective from July 1, 2002, 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.

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.

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, the Land Registration Measures promulgated by MLR on December 30, 2007 and effective on February 1, 2008, 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 issued by the Standing Committee of the National People's Congress on August 30, 2007 and amended on August 27, 2009, 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.

On July 21, 2014, General Office of the People's Government of Beijing Municipality, or the GOPGB, issued the *Beijing Municipality's Catalogue for the Prohibition and Restriction of Newly Increased Industries (2014 Edition)*, or the 2014 Catalogue, according to which new construction or expansion of data centers is prohibited within Beijing's municipal boundaries, except for cloud computing data centers with PUE lower than 1.5.

On August 17, 2015, the GOPGB issued the *Beijing Municipality's Catalogue for the Prohibition and Restriction of Newly Increased Industries (2015 Edition)*, or the 2015 Catalogue, which is a revised edition of the 2014 Catalogue and provides comparatively stricter prohibition on the new construction or expansion of data centers. According to the 2015 Catalogue, new construction or expansion of data centers remains prohibited within Beijing's municipal boundaries, except for cloud computing data centers with PUE lower than 1.5. In addition, within the boundaries of Beijing's Dongcheng District, Xicheng District, Chaoyang District, Haidian District, Fengtai District and Shijingshan District, new construction or expansion of cloud computing data centers with PUE lower than 1.5 is also prohibited.

#### **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 effective from 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 the *Administrative Measures for Leasing of Commodity Housing*, the landlords and tenants are required to enter into lease contracts which must 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 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.

On March 1, 2009, the MIIT promulgated the *Administrative Measures on Software Products*, or the Software Measures, which replaced the original *Administrative Measures on Software Measures* promulgated by MIIT in October 2000, to regulate software products and promote the development of the software industry in China. Pursuant to the Software Measures, software products which are developed in China and registered with the local provincial government authorities in charge of the information industry and filed with MIIT may enjoy the relevant encouragement policies. Software developers or producers may sell or license their registered software products independently or through agents. Upon registration, the software products will be granted registration certificates. Each registration certificate is valid for five years and may be renewed upon expiration.

The *PRC Trademark Law*, adopted in 1982 and revised in 1993, 2001 and 2013 respectively, with its implementation rules adopted in 2002 and revised in 2014, protects registered trademarks. The PRC Trademark Office of the State Administration for Industry and Commerce, or the SAIC, handles trademark registrations and grants a protection term of ten years to registered trademarks.

The MIIT amended its *Administrative Measures on China Internet Domain Names* in 2004. 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.

## Regulations Related to Employment

On June 29, 2007, the Standing Committee of the National People's Congress, or SCNPC, adopted the *Labor Contract Law*, or LCL, which became effective as of January 1, 2008 and was revised in 2012. 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.

According to the *Social Insurance Law* promulgated by SCNPC and effective from July 1, 2011, the *Regulation of Insurance for Work-Related Injury*, the *Provisional Measures on Insurance for Maternity of Employees*, *Regulation of Unemployment Insurance*, the *Decision of the State Council on Setting Up Basic Medical Insurance System for Staff Members and Workers in Cities and Towns*, the *Interim Regulation on the Collection and Payment of Social Insurance Premiums and the Interim Provisions on Registration of Social Insurance*, 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, an employer is required to make contributions to a housing fund for its employees.

## 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*, as amended in August 2008. Under this regulation, the Renminbi is freely convertible for current account items, including the trade and service-related foreign exchange transactions and other current exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments 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 People's Bank of China, 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.

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.

In November 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. 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, 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.

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 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 has 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.

On June 19, 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.

#### **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 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.

#### **Share Option Rules**

Under the *Administration Measures on Individual Foreign Exchange Control* issued by the PBOC on December 25, 2006, 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 distribution of dividends of foreign holding companies include the *Foreign Investment Enterprise Law*, issued in 1986 and amended in 2000, and the *Implementation Rules under the Foreign Investment Enterprise Law*, issued in 1990 and amended in 2001 and 2014 respectively. Under these regulations, foreign investment enterprises in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign investment enterprises in the PRC are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends. A PRC company is not permitted to distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

#### **Regulations Related to Taxation**

##### **Enterprise Income Tax**

Prior to January 1, 2008, 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.

In March 2007, the National People's Congress enacted the Enterprise Income Tax Law, and in December 2007, the State Council promulgated the *Implementing Rules of the Enterprise Income Tax Law*, or the *Implementing Rules*, 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, dividends 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 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, the State Administration of Taxation promulgated the *Notice on the Interpretation and Recognition of Beneficial Owners in Tax Treaties* in October 2009, which stipulates that non-resident enterprises that cannot provide valid supporting documents as "beneficial owners" may not be approved to enjoy tax treaty benefits. Specifically, it expressly excludes an agent or a "conduit company" from being considered as a "beneficial owner" and a "beneficial owner" analysis shall be conducted on a case-by-case basis following the "substance-over-the-form" principle.

#### **Value-Added Tax and Business Tax**

Pursuant to applicable PRC tax regulations, 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 and importation of goods into China is generally required to pay a value-added tax, or VAT, for revenues generated from sales of products, while qualified input VAT paid on taxable purchase can be offset against such output VAT.

In November 2011, the Ministry of Finance and the State Administration of Taxation promulgated the *Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax*. In March 2016, the Ministry of Finance and the State Administration of Taxation 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.

#### **Regulations Related to M&A and Overseas Listings**

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, the State-owned Assets Supervision and Administration Commission, the SAT, the SAIC, the China Securities Regulatory Commission, or 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.

## MANAGEMENT

## Directors, Executive Officers and Senior Management

The following table sets forth certain information relating to our directors, executive officers and senior management upon closing of this offering.

Name	Age	Position/Title
William Wei Huang‡	48	Chairman and chief executive officer
Daniel Newman	55	Chief financial officer
Sio Tat Hiang†	69	Vice-chairman
Erik Ho Ping Siao‡	66	Independent director
Peter Ping Hua‡	53	Director
Hua Chen*	50	Director
Satoshi Okada‡	57	Director
Bruno Lopez†	51	Director
Lee Choong Kwong†	59	Director
Lim Ah Doo‡	67	Independent director
Bin Yu***	46	Independent director nominee
Zulkifli Baharudin**	57	Independent director nominee
Jonathan King	40	Member of the executive committee
Xu Wei	44	Senior vice president, sales
Yilin Chen	46	Senior vice president, hosting service
Liang Chen	41	Senior vice president, strategy
Yan Liang	41	Senior vice president, operation and delivery

† Expected to be designated as an STT GDC appointee upon completion of this offering.

‡ Expected to be designated as a Class B director nominee and subject to Class B 20-vote-per-share voting upon the completion of this offering.

\*\*\* Expected to be designated as a director subject to Class B 20-vote-per-share voting upon the completion of this offering.

\* Will resign from our board of directors and cease to be one of our directors immediately prior to the effectiveness of the registration statement on Form F-1, of which this prospectus forms a part.

\*\* Has accepted appointment as our director or independent director, effective upon the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part.

**Mr. William Wei Huang** is our founder, chairman of our board of directors and, since 2002, has served as our chief executive officer. Since 2004, 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, as a vice president of Ego Electronic Commerce Co., Ltd., and as general manager of Shanghai Huayang Computer Co., Ltd.

**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.

**Mr. Sio Tat Hiang** is vice-chairman of the board of directors of our company and has been a director since 2014. Mr. Sio is the Executive Director of ST Telemedia. In this role, he provides strategic direction and overall leadership of ST Telemedia. Under his guidance, ST Telemedia has redefined and broadened its business focus into strategic areas that better position ST Telemedia's portfolio for continued growth and long-term success in the digital economy. Mr. Sio currently also sits on the Board of Asia Mobile Holdings Pte. Ltd., StarHub Ltd, TeleChoice International Limited and U Mobile Sdn Bhd. Prior to ST Telemedia, Mr. Sio served as Vice President of Corporate Finance at Singapore Technologies Pte. Ltd., or ST, where he oversaw ST's treasury and investment management functions. His role was later expanded to include Director of Strategic Investment and Group Treasurer. 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 Management Programme.

**Mr. Erik Ho Ping Siao** has been a director of our company since 2007. Between 2002 and 2007, Mr. Siao worked as an investment consultant. For more than ten years prior to 2002, Mr. Siao served as the senior vice president and director of China Operation at Ecoban Finance Limited in New York, which was a member of SK Group of South Korea. Prior to 1987, Mr. Siao served as the vice president of ContiTrade Services Corp. in New York (also known as Merban Corp.), which was a member of Continental Grain Company. Mr. Siao received a master's degree in international management with distinction from The American Graduate School of International Management, also known as Thunderbird, in 1982.

**Dr. Peter Ping Hua** has been a director of our company since 2007. Dr. Hua is currently a managing partner of SBCVC. Starting from 2000, he has led the investment into many high-tech companies in IT, healthcare, and cleaner technologies sectors, including Dian Diagnostics, BGI, Edan, Navinfo, Shenwu, Longxin, GDS Holdings and PPTV. Prior to joining SBCVC, he was with McKinsey & Company and Siemens (USA). Dr. Hua holds a bachelor's degree from Shanghai Jiao Tong University, a MBA from the Kellogg School of Management, Northwestern University, and a Ph.D. from the University of Wisconsin.

**Ms. Hua Chen** has been a director of our company since May 2016. Ms. Chen will resign from our board of directors and cease to be one of our directors immediately prior to the effectiveness of the registration statement on Form F-1, of which this prospectus forms a part. Ms. Chen has been the chief financial officer and operating partner of SBCVC since 2010. Ms. Chen currently serves as a director at various entities, including serving as an independent director of Technovator International Limited, director of Xi'an Kanghong New Material Technology Co. Ltd., director of Zhangjiagang Glory Biomaterial Co., Ltd., director of Zhangjiagang Meijingrong Chemical Co., Ltd., and director of Tianjin Century Dragon Pharmaceutical Co., Ltd. Prior to join SBCVC, Ms. Chen was a director and chief financial officer in the asset management division of Credit Suisse. She was a Tax Consulting Manager of Arthur Andersen LLP and Ernst & Young LLP. Ms. Chen holds bachelor's degrees in accounting and finance from New York University Stern Business School, and a master's degree in taxation from Fordham University. Ms. Chen is a certified public accountant in the United States.

**Mr. Satoshi Okada** has been a director of our company since 2014. Mr. Okada previously served as executive vice president of SOFTBANK Group's e-commerce business planning in Japan since April 2000. Prior to that, he held various management positions within the SOFTBANK Group. He also previously held directorship in Ariba Japan and Deecorp Limited, companies engaging in the businesses of technology and software, respectively. Mr Okada also represented SoftBank as a director on the board of Alibaba.com while it was a public company in Hong Kong. Before joining the SOFTBANK Group, Mr. Okada was chief executive officer and president of NetIQ KK, the Japanese subsidiary of NetIQ Corporation, a provider of e-business infrastructure management software. Mr. Okada is also renowned in the storage management industry for

his success in establishing Cheyenne Software KK and Computer Associates Japan as industry leaders in the Japanese market.

**Mr. Bruno Lopez** has been a director of our company since 2014. Mr. Lopez is the chief executive officer and executive director of ST Telemedia's data center business—STT Global Data Centres. Over the past two years, Mr. Lopez has led ST Telemedia in its strategy to build a portfolio of integrated data centers across a global platform in Singapore, UK and also in China through GDS Holdings. Prior to joining ST Telemedia, Mr. Lopez held several senior operational and management positions in the telecommunications arm of Singapore-listed conglomerate, Keppel T&T from 1995 to April 2014. In his last position in Keppel T&T, as the executive director and chief executive officer of Keppel Data Centres, Mr. Lopez was responsible for developing Keppel's data center business in Asia and Europe across key first tier cities servicing some of the largest blue chip customers. In 2010, Mr. Lopez set up Securus Data Property Fund, a data centre-specific investment fund focused on the acquisition of high quality data center assets in Asia-Pacific and Europe. Prior to his departure from Keppel T&T, Mr. Lopez also played a key role in preparing the business of Keppel Data Centres for a REIT listing on the Singapore Exchange after establishing a data center development platform for future growth. He holds a bachelor's degree with honors from the National University of Singapore and a master's degree in human resource from Rutgers University.

**Mr. Lee Choong Kwong** has been a director of our company since 2014. Mr. Lee is ST Telemedia's executive vice president for China. He is responsible for China investments and business development. Mr. Lee brings with him more than 15 years of China business experience. He played a key role in ST Telemedia's investments in the Chinese market with China Unicom and China Huaneng. Prior to joining ST Telemedia, Mr. Lee led ST Electronics & Engineering's research and development team, and held various senior managerial positions in project management and operations with ST Ventures. Mr. Lee holds a bachelor's degree in electrical and electronic engineering from the National University of Singapore, and a UCLA-NUS Executive MBA.

**Mr. Lim Ah Doo** has been a director of our company since 2014. Mr. Lim is currently the chairman and independent non-executive director of Singapore Technologies Marine Ltd, as well as an independent non-executive director of ARA-CWT Trust Management (Cache) Limited, GP Industries Limited, SM Investments Corporation, Sembcorp Marine Ltd, U Mobile Sdn Bhd, Bracell Limited (formerly known as Sateri Holdings Limited), Singapore Technologies Engineering Ltd and STT GDC. He also chairs the audit committees of ARA-CWT Trust Management (Cache), GP Industries and U Mobile, and is also a member of the audit committee of Singapore Technologies Engineering, Sembcorp Marine and SM Investments Corporation. He is also a member of the Ethics Sub-Committee, Public Accountants Oversight Committee, Singapore. During his 18-year distinguished banking career in Morgan Grenfell, Mr. Lim held several key positions including chairing Morgan Grenfell (Asia). He also chaired the Singapore Investment Banking Association in 1994. From 2003 to 2008, he was president and then vice chairman of the RGM group, a leading global resource-based group. Mr. Lim holds a bachelor's degree in engineering with honors from the Queen Mary College, University of London, and a MBA from the Cranfield School of Management.

**Ms. Bin Yu** will serve as our independent director immediately upon the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part. She currently serves as a financial advisor to Innolight Technology Corp, a company engaged in the development and manufacturing of optical modules used in mega data centers. Ms. Yu has served as an independent director of Baozun Inc., a Nasdaq-listed brand e-commerce solutions provider based in China, and an independent director of Tian Ge Interactive Holdings Limited, a live social video platform in China listed on the Hong Kong Stock Exchange. From 2015 to May 2016, 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, a member of American Institute of Certified Public Accountants and a member of Chartered Global Management Accountant.

**Mr. Zulkifli Baharudin** will serve as our independent director immediately upon the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part. He is currently the executive chairman of Indo-Trans Corporation, a logistics and supply chain company. He also serves as a managing director of Global Business Integrators Pte Ltd. Mr. Zulkifli is currently the Non-Executive Independent Director and Nominating Committee Chairman at Singapore Post Limited and the Non-Executive Independent Director at Ascott Residence Trust Management Limited. Mr. Zulkifli also serves as a director on the Board of Ang Mo Kio Thye Hua Kwan Hospital Ltd., Thye Hua Kwan Moral Charities Limited, Singapore Management University, GB Vietnam Investments Pte. Ltd., Indo-Trans (Vietnam) Logistics Co. Pte. Ltd., GBI Capital Pte. Ltd. and Global Business Integrators Pte. Ltd. Mr. Zulkifli also serves as a Trustee of the Singapore Management University and is Singapore's Non-Resident Ambassador to Kazakhstan and Uzbekistan. He was also the independent director of Mentor Media Ltd, which has extensive operations in China, from 1993-2014. From 1998 to 2004, Mr. Zulkifli was vice president of Asia of Eagle Global Logistics/Circle International. From 1995 to 1998, he served as Deputy Managing Director of Concord Express Logistics Pte Ltd. From 1991 to 1998, he was general manager of Scandinavia Warehouse Pte Ltd. From 1984 to 1991, he held various positions in the Singapore Government Service. 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. 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 of ST Telemedia's data center business—STT Global Data Centres. 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. From 2009 to 2014, Mr. King was an associate director with Macquarie Bank's real estate group. He holds 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.

**Mr. Xu Wei** joined GDS 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 promotions 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 GDS in 2008 and now serves as our senior vice president for our hosting service business unit. Prior to joining us, Ms. Chen held various roles in consulting, business planning and analysis, product and operations. Ms. Chen worked at HP China for 12 years, 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 us in 2015 with responsibility for product strategy management and the delivery of data center projects, design and construction. 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, Ms. Chen spent seven years at the East China Architectural Design and Research Institute. Ms. Chen holds 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** has served as our senior vice president of operation and delivery since 2010 with responsibility for establishing the operation governance system and management platform for data centers. Ms. Liang currently also serves on 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, 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. Prior to COSCO, Ms. Liang was a distinguished lecturer at HP Management School. Ms. Liang received a bachelor's degree from Shanghai Tie Dao University and a MBA from Fudan University.

#### **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;
- 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 will be 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. Upon completion of this offering, the Class I directors will initially consist of Erik Ho Ping Siao, Satoshi Okada and Bruno Lopez; the Class II directors will initially consist of Peter Ping Hua, Lee Chong Kwong and Lim Ah Doo; and the Class III directors will initially consist of William Wei Huang, Sio Tat Hiang, Bin Yu and Zulkifli Baharudin. Class I directors will initially retire from office by rotation and be up for re-election one year after the completion of this offering. Class II directors will initially retire from office by rotation and be up for re-election two years after the

completion of this offering. Class III directors will initially retire from office by rotation and be up for re-election three years after the completion of this offering.

Upon the completion of this offering, our board will consist of ten (10) 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 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, 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 directors, who shall be determined by STT, or failing which shall be the directors 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, of the simple majority of directors with respect to which Class B ordinary shares will be entitled to 20 votes per share: (i) the Class B shareholders shall nominate all but one 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 cease 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**

Our board of directors has established an audit committee, a compensation committee, a nominating and corporate governance committee and an executive committee. As a foreign private issuer, we are permitted to follow home country corporate governance practices under NASDAQ Stock Market Rules.

**Audit Committee**

Our audit committee will initially consist of Lim Ah Doo, Bin Yu and Erik Ho Ping Siao. Lim Ah Doo will be the chairman of our audit committee. Each of Lim Ah Doo and Bin Yu satisfies 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 will meet the criteria for independence set forth in Rule 10A-3 of the United States Securities Exchange Act of 1934, as amended, or the Exchange Act. Our audit committee will consist 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;
- setting clear hiring policies for employees and former employees of the independent auditors;
- reviewing with the independent auditor any audit problems or difficulties and management's response;
- reviewing and, if material, approving all related party transactions on an ongoing basis, including transactions with EDC Holding or any of its subsidiaries;
- reviewing and discussing the annual audited financial statements with management and the independent auditor;
- reviewing and discussing with management and the independent auditors 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;
- 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;
- meeting separately, periodically, with management, internal auditors and the independent auditor; and
- reporting regularly to the full board of directors.

#### **Compensation Committee**

Our compensation committee will initially consist of Sio Tat Hiang, William Wei Huang and Zulkifli Baharudin. Sio Tat Hiang is the chairman of our compensation committee. Zulkifli Baharudin satisfies the requirements for an "independent director" within the meaning of NASDAQ Stock Market Rules. Peter Ping Hua will serve as an observer on our compensation committee.

Our compensation committee is responsible for, among other things:

- reviewing, evaluating and, if necessary, revising our overall compensation policies;
- reviewing and evaluating the performance of our directors and senior officers and determining the compensation of our senior officers;
- reviewing and approving our senior officers' employment agreements with us;
- setting performance targets for our senior officers 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 remuneration committee by our board of directors from time to time.

#### **Nominating and Corporate Governance Committee**

Our nominating and corporate governance committee will initially consist of William Wei Huang, Sio Tat Hiang and Zulkifli Baharudin. William Wei Huang is the chairman of our nominating and corporate governance committee. Zulkifli Baharudin satisfies the requirements for an "independent director" within the meaning of NASDAQ Stock Market Rules.

The nominating and corporate governance committee is generally responsible for reviewing, evaluating and, if necessary, revising our corporate governance guidelines, reviewing and evaluating any instance of deviation from our corporate governance guidelines, as well as 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 holders, 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 "—Appointment, Nomination and Terms of Directors" and "Description of Share Capital—Ordinary Shares—Voting Rights".

#### **Executive Committee**

Our executive committee will initially consist of Bruno Lopez, William Wei Huang, Peter Ping Hua and Jonathan King. 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 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 senior officers of any of our group companies reporting directly to the chief executive officer;
- entry into or agreeing to any transaction between any of our group companies and any shareholder, director, officer or affiliate of us or of any affiliate thereof;
- 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.

#### **Corporate Governance**

Our board of directors has adopted a code of ethics, which is applicable to our senior executive and financial officers. In addition, our board of directors has adopted a code of conduct, which is applicable to all of our directors, officers and employees. We will make our code of ethics and our code of conduct publicly available on our web site.

In addition, our board of directors has adopted a set of corporate governance guidelines. The guidelines reflect certain guiding principles with respect to our board's structure, procedures and committees. The guidelines are not intended to change or interpret any law, or our amended and restated memorandum and articles of association.

#### **Remuneration and Borrowing**

The directors may determine remuneration to be paid to the directors. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors. The directors may exercise all the powers of our company to borrow money, mortgage or charge its undertaking, property and uncalled capital and issue debentures or other securities whether outright or as security for any debt obligations of our company or of any third party.

#### **Qualification**

There is no requirement for our directors to own any shares in our company in order for them to qualify as a director.



## **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.

## **Compensation of Directors and Executive Officers**

In 2015, we and our subsidiaries paid aggregate cash compensation of approximately US\$1,842,349 to our directors and executive officers as a group. We did not pay any other cash compensation or benefits in kind to our directors and executive officers. We set aside an aggregate of US\$69,318 for pensions, retirement or other benefits for our directors and executive officers in 2015.

For information regarding options granted to our directors and executive officers, see "—Share Incentive Plans."

## **Share Incentive Plans**

### ***2014 Share Incentive Plan***

Our equity incentive plan adopted in 2014, the 2014 share incentive plan, provides for the grant of options, share appreciation rights or other share-based awards, which we refer to collectively as equity awards. Up to 29,240,000 ordinary shares upon exercise of equity awards may be granted under the 2014 share incentive plan. We believe that the plan will aid us in recruiting, retaining and motivating key employees, directors and consultants of outstanding ability through the granting of equity awards.

#### *Administration*

The 2014 share incentive plan is administered by our board of directors (only with respect to options to be granted on the date of the completion of this offering), the remuneration committee, or any subcommittee thereof to whom the board or the remuneration committee shall delegate the authority to grant or amend equity awards. The plan administrator is authorized to interpret the plan, to establish, amend and rescind any rules and regulations relating to the plan, and to make any other determinations that it deems necessary or desirable for the administration of the plan, as well as determine the provisions, terms and conditions of each award consistent with the provisions of the plan.

#### *Change in Control*

In the event of a change in control, any outstanding awards that are unexercisable or otherwise unvested or subject to lapse restrictions, as determined by the plan administrator, will automatically be

deemed exercisable or otherwise vested or no longer subject to lapse restrictions, as the case may be, immediately prior to such change in control. The plan administrator may also, in its sole discretion, decide to cancel such awards for fair value, provide for the issuance of substitute awards that will substantially preserve the otherwise applicable terms of any affected awards previously granted or provide that affected options will be exercisable for a period of at least 15 days prior to the change in control but not thereafter. A "change in control" under the 2014 share incentive plan is defined as (1) the sale of all or substantially all of our assets, (2) any person or group (other than certain permitted holders) becomes the beneficial owner of more than 50% of the total voting power of our voting stock or (3) a majority of our board of directors cease to be continuing directors during any period of two consecutive years.

*Term*

Unless terminated earlier, the 2014 share incentive plan will continue in effect for a term of five years from the date of its adoption.

*Vesting Schedule*

In general, the plan administrator determines, or the award agreement specifies, the vesting schedule.

*Amendment and Termination of Plan*

Our board of directors may at any time amend, alter or discontinue the 2014 share incentive plan, subject to certain exceptions.

*Granted Options*

The total number of shares that may be issued under the 2014 share incentive plan is 29,240,000. As of the date of this prospectus, options to purchase 29,189,800 ordinary shares had been granted out of which 28,289,800 share options were fully vested and outstanding, and 900,000 share options were not vested.

The table below summarizes, as of the date of this prospectus, the options we have granted to our directors and executive officers.

Name	Position	Number of Securities underlying unexercised options exercisable <sup>(1)</sup>	Option Exercise Price	Grant Date	Option Expiration Date
William Wei Huang	Chairman and chief executive officer	4,186,253	US\$ 0.7792	July 1, 2014	July 1, 2019
		7,114,840	US\$ 0.7792	May 1, 2016	May 1, 2021
Daniel Newman	Chief financial officer	*	US\$ 0.7792	July 1, 2014	July 1, 2020
Satoshi Okada	Director	*	US\$ 0.7792	July 1, 2014	July 1, 2019
Xu Wei	Senior vice president, sales	*	US\$ 0.7792	May 1, 2016	May 1, 2021
Yilin Chen	Senior vice president, hosting service	*	US\$ 0.7792	July 1, 2014	July 1, 2019
Yan Liang	Senior vice president, operation and delivery	*	US\$ 0.7792	July 1, 2014	July 1, 2019
			US\$ 0.7792	May 1, 2016	May 1, 2021

\* Less than 1% of our outstanding shares assuming conversion of all convertible redeemable preferred shares into Class A ordinary shares.

(1) Note: Fully vested.

As of the date of this prospectus, individuals other than our directors and executive officers as a group hold options to purchase a total of 12,551,707 ordinary shares of our company, with an exercise price of US\$0.7792 per ordinary share.

#### **2016 Share Incentive Plan**

Our second equity incentive plan adopted in 2016, or the 2016 share incentive plan, provides for the grant of share options, share appreciation rights, restricted share units, restricted shares or other share-based awards, which we refer to collectively as equity awards. Up to 56,707,560 ordinary shares may be granted pursuant to equity awards under the 2016 share incentive plan. We believe that the 2016 share incentive plan will aid us in recruiting, retaining and motivating key employees and directors of outstanding ability through the granting of equity awards.

#### **Administration**

The 2016 share incentive plan is administered by our board of directors (only with respect to equity awards to be granted on the date of the completion of this offering), the remuneration committee, or any subcommittee thereof to whom the board or the remuneration committee shall delegate the authority to grant or amend equity awards. The plan administrator is authorized to interpret the plan, to establish, amend and rescind any rules and regulations relating to the plan, and to make any other determinations that it deems necessary or desirable for the administration of the plan, as well as determine the provisions, terms and conditions of each award consistent with the provisions of the plan.

#### **Change in Control**

In the event of a change in control (as defined below), if determined by the plan administrator in an award agreement or otherwise, any outstanding equity awards that are unexercisable or otherwise unvested or subject to lapse restrictions, will automatically be deemed exercisable or otherwise vested or no longer subject to lapse restrictions, as the case may be, immediately prior to such change in control. The plan administrator may also, in its sole discretion, decide to cancel such equity awards for fair value, provide for the issuance of substitute awards that will substantially preserve the otherwise applicable terms of any affected awards previously granted or provide that affected share options or share appreciation rights will be exercisable for a period of at least 15 days prior to the change in control and terminated upon the change in control if not previously exercised. A "change in control" under the 2016 share incentive plan is generally defined as (1) the sale of all or substantially all of our assets to any person or group (other than certain permitted holders), unless the primary purpose of the sale is to create a holding entity for us that will be directly or indirectly owned in substantially the same proportions by the same persons that held our shares immediately prior to the consummation of such sale, or (2) one or more related transactions whereby any person or group (other than certain permitted holders) becomes the beneficial owner of more than 50% of the total voting power of our voting shares and controls the composition of a majority of our board of directors, unless the primary purpose of such transaction or transactions, as applicable, is to create a holding entity for us that will be directly or indirectly owned in substantially the same proportions by the same persons that held our shares immediately prior to the consummation of such transaction.

#### **Term**

Unless terminated earlier, the 2016 share incentive plan will continue in effect for a term of ten years from the date of its adoption.

*Award Agreements*

Generally, equity awards granted under the 2016 share incentive plan are evidenced by an award agreement providing for the number of ordinary shares subject to the award, and the terms and conditions of the award, which must be consistent with the 2016 share incentive plan.

*Vesting Schedule*

The plan administrator determines the vesting schedule of each equity award granted under the 2016 share incentive plan, which vesting schedule will be set forth in the award agreement for such equity award.

*Amendment and Termination of Plan*

Our board of directors may at any time amend, alter or discontinue the 2016 share incentive plan, subject to certain exceptions.

*Granted Restricted Shares*

The total number of shares that may be issued under the 2016 share incentive plan is 56,707,560. In August 2016, we granted 877,400 restricted shares to directors pursuant to equity awards under the 2016 share incentive plan. These restricted shares were fully vested upon the date of grant in lieu of cash to our directors to settle a portion of their remuneration for services provided by the directors in the past. Based on our best estimate, the fair value of the restricted shares and the underlying ordinary shares was approximately US\$1.51 and US\$1.56 per share, respectively. Fifty percent (50%) of the restricted shares may not be sold or otherwise disposed of for one year from the grant date. We are evaluating the fair values of the restricted shares. Upon completion of the fair value analysis, we will revise these estimates although we do not expect such revisions to be materially different from the current estimates.

**PRINCIPAL SHAREHOLDERS**

The following table sets forth information as of the date of this prospectus with respect to the beneficial ownership of our ordinary shares by:

- each of our directors and executive officers; and
- each person known to us to own beneficially 5.0% or more of our ordinary shares.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to, or the power to receive the economic benefit of ownership of, the securities. 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, including through the exercise of any option or other right or the conversion of any other security.

The total number of ordinary shares outstanding as of the date of this prospectus is 567,075,599, assuming conversion of all convertible redeemable preferred shares into ordinary shares.

The total number of ordinary shares outstanding after completion of this offering will be 745,298,802, comprising 677,708,466 Class A ordinary shares and 67,590,336 Class B ordinary shares, which is based upon (i) 217,987,922 ordinary shares outstanding as of the date of this prospectus; (ii) the automatic conversion of preferred shares into 349,087,677 Class A ordinary shares immediately upon the completion of this offering; (iii) the issuance of 24,223,203 Class A ordinary shares immediately upon the completion of this offering in connection with the preference dividends to be paid to holders of our preferred shares, assuming an initial offering price of US\$13.00 per ADS, the mid-point of the estimated price range set forth on the cover of this prospectus; and (iv) 154,000,000 Class A ordinary shares issued in connection with this offering (assuming the underwriters do not exercise their option to purchase additional ADSs), but excludes 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. The underwriters may choose to exercise the over-allotment option in full, in part or not at all.

	Ordinary Shares Beneficially Owned After This Offering							
	Ordinary Shares Beneficially Owned Prior to This Offering		Class A		Class B		% of Aggregate Voting Power with Class A and Class B Ordinary Shares Voting on a 1:20 Basis***	% of Aggregate Voting Power with Class A and Class B Ordinary Shares Voting on a 1:1 Basis
	Number	Percent	Number	Percent	Number	Percent		
<b>Directors and Executive Officers**:</b>								
William Wei Huang <sup>(1)</sup>	78,891,429	13.6%	—	—	78,891,429	100.0%	70.0%	10.4%
Daniel Newman <sup>(2)</sup>	9,072,000	1.6%	9,072,000	1.3%	—	—	*	1.2%
Sio Tat Hiang	*	*	*	*	—	—	*	*
Erik Ho Ping Siao	*	*	*	*	—	—	*	*
Peter Ping Hua	*	*	*	*	—	—	*	*
Hua Chen	*	*	*	*	—	—	*	*
Satoshi Okada	*	*	*	*	—	—	*	*
Bruno Lopez	*	*	*	*	—	—	*	*
Lee Choong Kwong	*	*	*	*	—	—	*	*
Lim Ah Doo	*	*	*	*	—	—	*	*
Bin Yu	—	—	—	—	—	—	—	—
Zulkifli Baharudin	—	—	—	—	—	—	—	—
Jonathan King	—	—	—	—	—	—	—	—
Xu Wei	*	*	*	*	—	—	*	*
Yilin Chen	*	*	*	*	—	—	*	*
Liang Chen	—	—	—	—	—	—	—	—
Yan Liang	*	*	*	*	—	—	*	*

	Ordinary Shares Beneficially Owned Prior to This Offering		Ordinary Shares Beneficially Owned After This Offering				% of Aggregate Voting Power with Class A and Class B Ordinary Shares Voting on a 1:20 Basis***	% of Aggregate Voting Power with Class A and Class B Ordinary Shares Voting on a 1:1 Basis
			Class A		Class B			
	Number	Percent	Number	Percent	Number	Percent		
Directors and Executive Officers as a Group <sup>(3)</sup>	92,943,476	15.9%	14,052,047	2.0%	78,891,429	100%	70.4%	12.2%
<b>Principal Shareholders:</b>								
STT GDC <sup>(4)</sup>	269,520,563	45.1%	289,803,954	40.9%	—	—	14.1%	37.3%
SBCVC Holdings Limited (SBCVC) <sup>(5)</sup>	102,770,490	18.1%	106,710,302	15.7%	—	—	5.3%	14.3%
Global Data Solutions Limited <sup>(6)</sup>	87,951,565	15.5%	87,951,565	13.0%	—	—	4.3%	11.8%
Ping An Insurance <sup>(7)</sup>	62,237,362	9.9%	62,237,362	8.4%	—	—	3.0%	7.7%
EDC Group Limited <sup>(8)</sup>	42,975,884	7.6%	—	—	42,975,884	63.6%	42.4%	5.8%

\* Beneficially owns less than 1% of our outstanding shares.

\*\* The business address for our directors and executive officers is at 2/F, Tower 2, Youyou Century Place, 428 South Yanggao Road, Pudong, Shanghai 200127, People's Republic of China.

\*\*\* 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 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, where 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, and accordingly, percentages of total voting power on such matters correspond to the percentages in the adjacent column, "% of Aggregate Voting Power with Class A and Class B Ordinary Shares Voting on a 1:1 Basis". Class B ordinary shares are convertible into Class A ordinary shares. See "Description of Share Capital."

- (1) Represents (i) 3,286,144 of the ordinary shares held by Solution Leisure Investment Limited, a limited liability company established in the British Virgin Islands, (ii) 42,975,884 of the ordinary shares held by EDC Group Limited, a limited liability company established in the British Virgin Islands, (iii) 21,328,308 of the ordinary shares held by GDS Enterprises Limited, a limited liability company established in the British Virgin Islands, and (iv) 11,301,093 of ordinary shares underlying share options exercisable within 60 days after the date of this prospectus held by Treasure Luck Investment Corporation, a limited liability company established in the British Virgin Islands. Solution Leisure Investment Limited is indirectly wholly owned by a trust of which Mr. Huang's family is the beneficiary. Each of EDC Group Limited and Treasure Luck Investment Corporation 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. EDC Group Limited is further described in footnote 8 below.
- (2) Represents (i) 6,000,000 of the ordinary shares held by Ofira Capital Limited, a limited liability company established in the British Virgin Islands, and (ii) 3,072,000 of ordinary shares underlying share options exercisable within 60 days after the date of this prospectus held by Mr. Newman. Mr. Newman is the sole beneficial owner of Ofira Capital Limited.
- (3) Represents ordinary shares beneficially held by all of our directors and executive officers as a group and ordinary shares issuable upon exercise of options within 60 days after the date of this prospectus held by all of our directors and executive officers as a group.
- (4) Represents (i) 238,526,241 ordinary shares upon conversion of 238,526,241 Series C preferred shares, (ii) convertible bonds issued on January 29, 2016 in a principal amount of US\$50.0 million up to 100% of which (in multiples of US\$10.0 million), together with interest accrued as of November 1, 2016 at a simple rate of five per cent (5%) per annum calculated daily on a 180/360 day basis, are convertible into 30,994,322 ordinary shares at a set conversion price of US\$1.675262 per share (subject to adjustments arising from any share consolidation, sub-division or distributions by way of shares) at any time between the date on which this offering is completed and December 30, 2019, and (iii) 20,283,391 Class A ordinary shares that will be issued in connection with the preference dividend to be paid by the company and which the holders of the series C preferred shares have elected to receive in the form of shares, assuming an initial public offering price of US\$13.00 per ADS, the mid-point of the estimated price range set forth on the cover of this prospectus, that are beneficially owned by STT GDC, a limited liability

company established in Singapore and wholly owned subsidiary of ST Telemedia. The registered address of STT GDC is 1 Temasek Avenue, #33-01, Millenia Tower, Singapore 039192.

- (5) Represents 21,844,099 ordinary shares upon conversion of 21,844,099 Series A preferred shares held by SBCVC Fund II, L.P., 6,916,645 ordinary shares upon conversion of 6,916,645 Series A\* preferred shares held by SBCVC Company Limited, 2,576,483 ordinary shares upon conversion of 2,576,483 Series B preferred shares held by SBCVC Fund II-Annex, L.P., 5,763,871 ordinary shares upon conversion of 5,763,871 Series B1 preferred shares held by SBCVC Company Limited, 5,763,871 ordinary shares upon conversion of 5,763,871 Series B1 preferred shares held by SBCVC Venture Capital, 10,435,639 ordinary shares upon conversion of 10,435,639 Series B2 preferred shares held by SBCVC Company Limited, 14,076,620 ordinary shares upon conversion of 14,076,620 Series B4 preferred shares held by SBCVC Fund III L.P., 35,393,262 ordinary shares upon conversion of 35,393,262 Series B5 preferred shares held by SBCVC Fund III L.P. and represents 3,939,812 Class A ordinary shares that will be issued in connection with the preference dividend to be paid by the company and which the holders of the series B4 and B5 preferred shares have elected to receive in the form of shares, assuming an initial public offering price of US\$13.00 per ADS, the mid-point of the estimated price range set forth on the cover of this prospectus. We collectively refer to SBCVC Fund II, L.P., SBCVC Company Limited, SBCVC Fund II-Annex, L.P., SBCVC Venture Capital and SBCVC Fund III L.P. as SBCVC Holdings Limited (SBCVC). The registered address of SBCVC is OMC Chambers, Wickham Cay 1, Road Town, Tortola, British Virgin Islands.
- (6) Global Data Solutions Limited is a limited liability company established in the Cayman Islands and is owned by its respective shareholders. Voting and investment power of the shares held by Global Data Solutions Limited is exercised by its board of directors, which consists of William Wei Huang, Alan Song, Erik Ho Ping Siao, Qihang Chen and Xu Zhang. The registered address of Global Data Solutions Limited is Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman KY1-1111.
- (7) Represents convertible bonds issued on December 30, 2015 in a principal amount of US\$100.0 million up to 100% of which (in multiples of US\$10.0 million), together with interest accrued as of November 1, 2016 at a simple rate of five per cent (5%) per annum calculated daily on a 180/360 day basis, are convertible into 62,237,362 ordinary shares at a set conversion price of US\$1.675262 per share (subject to adjustments arising from any share consolidation, sub-division or distributions by way of shares) at any time between the date on which this offering is completed and December 30, 2019, that are beneficially owned by Perfect Success Limited, a company incorporated under the laws of the Cayman Islands, which is indirectly owned by Ping An Insurance, a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange. The registered address of Ping An Insurance is 15th, 16th, 17th and 18th Floors, Galaxy Development Center, Fuhua No. 3 Road, Futian District, Shenzhen, Guang Dong, China.
- (8) EDC Group Limited is a limited liability company established in the British Virgin Islands wholly owned by Solution Leisure Investment Limited, a limited liability company established in the British Virgin Islands 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, British Virgin Islands.

As of the date of this prospectus, none of our outstanding ordinary shares or preferred shares are held by record holders in the United States. Except as stated in the footnotes to the table above, we are not aware of any of our shareholders being affiliated with a registered broker-dealer or being in the business of underwriting securities.

None of our existing shareholders has voting rights that will differ from the voting rights of other shareholders after the completion of this offering. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

We have outstanding convertible bonds in the aggregate principal amount of US\$150.0 million due December 30, 2019. We may, at our option, require the original subscribers, STT GDC to subscribe for an additional amount of these bonds as to US\$50.0 million, and thereafter, Ping An Insurance to subscribe for an additional amount as to US\$50.0 million, at any time until September 30, 2016. In addition, following this offering, we may require the conversion of the bonds assuming the average per-Class-A-ordinary-share-equivalent closing trading price of our ADSs in any period of ten (10) consecutive trading days following this offering is at least 125% of US\$1.675262 and we exercise our right to cause STT GDC and Ping An Insurance to convert the bonds. If the bondholders elect to convert, or we cause the bondholders to convert, their bonds (including interests accrued), at least 91,681,348 Class A ordinary shares will be issued. The conversion of the bonds would result in substantial dilution of our ADSs and Class A ordinary shares and a decline in their market price. There can be no certainty as to whether the bondholders will elect to convert, or if we will be entitled to cause the bondholders to convert, their bonds at the time of or after the completion of this offering.

#### Historical Changes in Our Shareholding

See "Description of Share Capital—History of Securities Issuances" for historical changes in our shareholding.

## RELATED PARTY TRANSACTIONS

### Transactions with Certain Directors, Shareholders, Affiliates and Key Management Personnel

In December 2013, we made a prepayment of RMB320.0 million to EDC Holding under a service agreement where we were a customer of EDC Holding. The prepayment covered a two-year service period from 2014 to 2015. During the six-month period ended June 30, 2014, EDC Holding provided services to us amounting to RMB55.9 million.

During the six-month period ended June 30, 2014, the Company provided loans to EDC Holding amounting to RMB307.0 million. Interest income on the loans amounted to RMB4.3 million.

In January 2013, EDC Holding provided a loan of US\$8.0 million to the Company. During the six-month period ended June 30, 2014, interest expenses on the loan amounted to RMB0.2 million.

At the acquisition date, such balances were effectively settled and eliminated upon consolidation.

Short-term loans of RMB259.0 million, RMB247.0 million (US\$37.2 million) and RMB264.0 million (US\$39.7 million) as of December 31, 2014 and 2015 and June 30, 2016 were guaranteed by Mr. William Wei Huang.

Long-term loans of RMB15.0 million, RMB195.0 million (US\$29.3 million) and RMB194.0 million (US\$29.2 million) as of December 31, 2014 and 2015 and June 30, 2016 were guaranteed by Mr. William Wei Huang.

### Transactions with Our Shareholders

In August 2014, we repurchased 13,905,901 Series A preferred shares, 4,403,119 Series A\* preferred shares, 1,640,183 Series B preferred shares, 7,338,532 Series B1 preferred shares, 6,643,303 Series B2 preferred shares and 8,961,143 Series B4 preferred shares at US\$1.0365 per share, for a cash consideration of US\$44.5 million, from SBCVC Company Limited, SBCVC Fund II-Annex, L.P., SBCVC Venture Capital, SBCVC Fund II, L.P., and SBCVC Fund III, L.P. As of December 31, 2014, outstanding consideration payable to certain of these SBCVC entities amounted to RMB23.3 million (US\$3.5 million), which was fully settled in 2015.

During the year ended December 31, 2015, we borrowed a loan of US\$10.0 million from STT GDC. The interest expenses on the loan amounted to US\$0.4 million. As of December 31, 2015, the amount due to STT GDC comprised an outstanding short-term loan balance of US\$10.0 million and accrued loan interest of US\$0.4 million.

On January 29, 2016, we received the second tranche of US\$50.0 million from STT GDC to subscribe for convertible and redeemable bonds due 2019, of which US\$10.5 million was used to settle the outstanding short-term loan of US\$10.0 million and related interest payable of US\$0.5 million.

### Contractual Arrangements with Our Consolidated VIEs and their Shareholders

See "Our History and Corporate Structure—Variable Interest Entity Contractual Arrangements."

### Private Placement

See "Description of Share Capital—History of Securities Issuances."

### Members (Shareholders) Agreements

See "Description of Share Capital—Members (Shareholders) Agreement and Voting Agreement."

### Employment Agreements

See "Management—Qualification—Employment Agreements."

### Share Options

See "Management—Share Incentive Plans."



## DESCRIPTION OF SHARE CAPITAL

We are a Cayman Islands exempted company with limited liability and our affairs are governed by our memorandum and articles of association, the Companies Law (2013 Revision), as amended, of the Cayman Islands, which is referred to as the Companies Law below, and the common law of the Cayman Islands.

As of the date of this prospectus, our authorized share capital was US\$51,310 divided into 675,636,564 ordinary shares of nominal or par value of US\$0.00005 each, 29,635,045 Series A preferred shares of nominal or par value of US\$0.00005 each, 6,916,645 Series A\* preferred shares of nominal or par value of US\$0.00005 each, 2,576,483 Series B preferred shares of nominal or par value of US\$0.00005 each, 11,527,742 Series B1 preferred shares of nominal or par value of US\$0.00005 each, 10,435,639 Series B2 preferred shares of nominal or par value of US\$0.00005 each, 14,076,620 Series B4 preferred shares of nominal or par value of US\$0.00005 each, 35,395,262 Series B5 preferred shares of nominal or par value of US\$0.00005 each, and 240,000,000 Series C preferred shares of a nominal or par value of US\$0.00005 each. As of the date of this prospectus, there were 217,987,922 ordinary shares and 349,087,677 preferred shares issued and outstanding in accordance with our register of members. Upon the completion of this offering, we will have 745,298,802 ordinary shares issued and outstanding (or 768,398,802 ordinary shares if the underwriters exercise in full the over-allotment option), comprising 677,708,466 Class A ordinary shares and 67,590,336 Class B ordinary shares, which is based upon (i) 217,987,922 ordinary shares outstanding as of the date of this prospectus; (ii) the automatic conversion of preferred shares into 349,087,677 Class A ordinary shares immediately upon the completion of this offering; (iii) the issuance of 24,223,203 Class A ordinary shares immediately upon the completion of this offering in connection with the preference dividends to be paid to holders of our preferred shares; and (iv) 154,000,000 Class A ordinary shares issued in connection with this offering (or 177,100,000 Class A ordinary shares if the underwriters exercise in full the over-allotment option), but excluding ordinary shares issuable upon the exercise of outstanding options under our share incentive plans vested but not yet issued restricted shares and ordinary shares reserved for future issuance under our share incentive plans. All of our ordinary shares issued and outstanding prior to the completion of the offering are and will be fully paid, and all of our shares to be issued in the offering will be issued as fully paid. Our authorized share capital post-offering will be US\$100,100 divided into 2,002,000,000 ordinary shares, comprising 1,800,000,000 Class A ordinary shares, 200,000,000 Class B ordinary shares and 2,000,000 preferred shares, with a par value of US\$0.00005 each.

Our memorandum and articles of association will become effective upon completion of this offering. The following are summaries of material provisions of our memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our ordinary shares.

### Ordinary Shares

#### General

All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their ordinary shares.

#### Dividends

The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law and to the articles of association.

#### Voting Rights

Our share capital is currently divided into two classes of shares, namely, ordinary shares and preferred shares. Upon completion of this offering, our outstanding share capital will consist of 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 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. 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. 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 Class B shareholders acquire will be converted into Class B ordinary shares. See "Description of Share Capital—Ordinary Shares—Conversion."

Voting at any meeting of shareholders is by way of a poll, unless the chairman allows a vote by show of hands on a resolution which relates purely to a procedural or administrative matter. Procedural and administrative matters are those that are not on the agenda of the general meeting and relate to the chairman's duties to maintain the orderly conduct of the meeting or allow the business of the meeting to be properly and effectively dealt with, while affording all shareholders a reasonable opportunity to express their views.

Pursuant to our amended articles of association the following matters will be subject to ordinary resolution of the shareholders, with Class A ordinary shares and Class B ordinary shares each being entitled to one vote per share: (i) the election of two independent directors nominated by our nominating and corporate governance committee; (ii) any allotment or issuance of any of our shares or securities (in any 12-month period, whether in a single transaction or a series of transactions) equal to 10% or more of our share capital, or 10% or more of our voting power, prior to such allotment or issuance (without regard to any exemption from shareholder approval available under the NASDAQ Stock Market Rules); and (iii) any disposition of all, or 10% or more, of our undertakings or assets, as defined in our amended articles of association.

Subject to the abovementioned matters at general meetings of shareholders with respect to which Class B ordinary shares are entitled to 20 votes per share, an ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of votes attached to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than 75% of votes cast attached to the ordinary shares. A special resolution will be required for important matters such as a change of name or making changes to our memorandum and articles of association.

#### **Conversion**

Class B ordinary shares are convertible into Class A ordinary shares. All Class B ordinary shares are subject to automatic conversion into Class A ordinary shares on the same business day as the first to occur of the following: (i) Mr. William Wei Huang, our founder, chairman and chief executive officer, collectively ceasing to have beneficial ownership (as such term is interpreted pursuant to applicable U.S. securities laws and rules, regulations and forms promulgated thereunder by the SEC), in aggregate, of not less than five per cent (5%) of our issued and outstanding share capital on an as-converted basis; (ii) the Foreign Investment Law in the form implemented does not require that our VIE entities as it relates to VIE entities be owned or controlled by PRC nationals or entities; (iii) the PRC law no longer requires the conduct of the businesses carried out, or contemplated to be carried out, by us in the PRC, be owned or controlled by PRC nationals or entities; (iv) the promulgation of the Foreign Investment Law as it relates to VIE entities is abandoned by the relevant authorities in the PRC; or (v) the relevant authorities in the PRC approve our VIE structure without the need for our VIE entities to be controlled by PRC nationals or entities; provided, however, that the Class B ordinary shares shall not be automatically converted upon ceasing to constitute five per cent (5%) of our issued and outstanding share capital on an as-converted basis if 75% of the board of directors resolve that such automatic conversion shall, in their opinion, result in our failing to comply with any applicable foreign ownership restrictions under PRC law. Class B shareholders may elect to convert any or all of their Class B ordinary shares into Class A ordinary shares. Each Class B ordinary share is generally convertible into one Class A ordinary share, or at a conversion rate of 1:1. However, if and when

the nominal amount of one Class A ordinary share changes by reason of consolidation or sub-division, the applicable conversion rate of Class B ordinary shares into Class A ordinary shares shall equal the quotient of the revised nominal amount, divided by the former nominal amount, of one Class A ordinary share.

#### **Transfer of Ordinary Shares**

Subject to the restrictions contained in our articles of association, as applicable, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors. Class B ordinary shares may not be assigned or transferred in whole or in part by a holder or such holder's affiliate. Class B ordinary shares must be converted into Class A ordinary shares prior to any such assignment or transfer.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;
- the ordinary shares transferred are fully paid and free of any lien in favor of us; and
- any fee related to the transfer has been paid to us; and
- the transfer is not to more than four joint holders.

If our directors refuse to register a transfer they shall, within three months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

#### **Liquidation**

On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of ordinary shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares on a *pro rata* basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

#### **Calls on Ordinary Shares and Forfeiture of Ordinary Shares**

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their ordinary shares. The ordinary shares that have been called upon and remain unpaid are subject to forfeiture.

#### **Redemption of Ordinary Shares**

Subject to the provisions of the Companies Law and other applicable law, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders, on such terms and in such manner, including out of capital, as may be determined by the board of directors.

#### **Variations of Rights of Shares**

If at any time, our share capital is divided into different classes of shares, all or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class. Consequently, the rights of any class of shares cannot be detrimentally altered without a majority of two-thirds of the vote of all of the shares in that class. The rights conferred upon the holders of the shares

of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

#### **General Meetings of Shareholders**

Shareholders' meetings may be convened by a majority of our board of directors or our chairman. Advance notice of at least ten clear days is required for the convening of our annual general shareholders' meeting and any other general meeting of our shareholders. A quorum required for a meeting of shareholders consists of at least two shareholders present or by proxy, representing not less than one-third in nominal value of the total issued voting shares in our company.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our memorandum and articles of association that will be in effect upon the completion of this offering will allow our Class A shareholders (excluding STT GDC and its controlled affiliates) holding shares representing in aggregate not less than one-third of the issued and outstanding Class A ordinary shares of our company (calculated excluding Class A ordinary shares beneficially owned by STT GDC or its controlled affiliates), to requisition an extraordinary general meeting of our shareholders, in which case our directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our memorandum and articles of association that will be in effect upon the completion of this offering will not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders. When STT GDC no longer has any director appointment right as described herein, STT GDC will be eligible for the same right to requisition a shareholder meeting described above on the same terms as other Class A ordinary shareholders, where the one-third of the Class A ordinary shares will then be calculated based upon all Class A ordinary shares issued and outstanding. STT GDC and the Class B shareholders also have the right to requisition a general meeting insofar as is necessary to exercise and protect their respective nomination and appointment rights.

#### **Inspection of Books and Records**

Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will in our articles provide our shareholders with the right to inspect our list of shareholders and to receive annual audited financial statements. See "Where You Can Find More Information."

#### **Changes in Capital**

We may from time to time by ordinary resolution:

- increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- sub-divide our existing shares, or any of them into shares of a smaller amount; or
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled.

We may by special resolution reduce our share capital or any capital redemption reserve in any manner permitted by law.

## Certain Enumerated Rights under Our Amended Articles of Association

### **Appointment Rights**

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 by our shareholders. Our amended articles of association also provide 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 approval of the director or directors appointed by STT GDC. The above rights of STT GDC may not be amended without the approval of STT GDC.

Our amended articles of association further provide that for so long as there are Class B ordinary shares outstanding, 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. As of and after such time as there cease to be any Class B ordinary shares outstanding, and for so long as Mr. William Wei Huang beneficially owns not less than 2% of our then issued share capital, Mr. William Wei Huang may appoint one director (which is intended to be Mr. William Wei Huang) to our board of directors. Such appointments will not be subject to a vote by our shareholders. 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.

### **Nomination Rights**

Our amended articles of association also provide that for so long as there are Class B ordinary shares outstanding, the Class B shareholders shall have the right to nominate one less than a simple majority of our directors, all of whom will be subject to a vote at general meetings of our shareholders and with respect to whom Class B ordinary shares will be entitled to 20 votes per share. If any of the directors nominated by or subject to election by the Class B shareholders at 20 votes per share (i) is not elected or (ii) ceases to be a director, then Mr. Huang may appoint another person to serve in the stead of 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.

### **Exempted Company**

We are an exempted company with limited liability under the Companies Law of the Cayman Islands. The Companies Law in the Cayman Islands distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company's register of members is not open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue no par value, negotiable or bearer shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;

- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company. Upon the closing of this offering, we will be subject to reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. We currently intend to comply with the NASDAQ Stock Market Rules in lieu of following home country practice after the closing of this offering. The NASDAQ Stock Market Rules require that every company listed on the NASDAQ hold an annual general meeting of shareholders. In addition, our articles of association allow directors to call special meeting of shareholders pursuant to the procedures set forth in our articles.

#### **Differences in Corporate Law**

The Companies Law is modeled after that of England and Wales but does not follow recent statutory enactments in England. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the State of Delaware.

#### **Mergers and Similar Arrangements**

A merger of two or more constituent companies under Cayman Islands law requires a plan of merger or consolidation to be approved by the directors of each constituent company and authorization by a special resolution of the members of each constituent company.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders. For this purpose a subsidiary is a company of which at least ninety percent (90%) of the issued shares entitled to vote are owned by the parent company.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain circumstances, a dissenting shareholder of a Cayman constituent company is entitled to payment of the fair value of his shares upon dissenting to a merger or consolidation. The exercise of appraisal rights will preclude the exercise of any other rights save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors (representing 75% by value) with whom the arrangement is to be made, and who must, in addition, represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and

- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

When a take over offer is made and accepted by holders of 90% of the shares within four months, the offeror may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

#### **Shareholders' Suits**

In principle, we will normally be the proper plaintiff and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, there are exceptions to the foregoing principle, including when:

- a company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and
- those who control the company are perpetrating a "fraud on the minority."

#### **Indemnification of Directors and Executive Officers and Limitation of Liability**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our memorandum and articles of association permit indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from dishonesty or fraud which may attach to such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we intend to enter into indemnification agreements with our directors and senior executive officers that will provide such persons with additional indemnification beyond that provided in our 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.

#### **Anti-Takeover Provisions in the Memorandum and Articles of Association**

Some provisions of our amended articles of association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our memorandum and articles of association, as amended and restated from time to time, for what they believe in good faith to be in the best interests of our company.

### **Directors' Fiduciary Duties**

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company—a duty to act *bona fide* in the best interests of the company, a duty not to make a profit based on his or her position as director (unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

### **Shareholder Action by Written Consent**

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Our articles of association expressly provide that shareholders may not approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

### **Shareholder Proposals**

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

Cayman Islands law does not provide for the right for shareholders to requisition a shareholders' meeting. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings. However, our articles of association allow shareholder requisitions of general meetings under certain circumstances. See "Ordinary Shares—General Meetings of Shareholders." However, our articles of association require us to call such meetings every year.

### **Cumulative Voting**

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting



potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. As permitted under Cayman Islands law, our articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

#### **Removal of Directors**

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our articles of association, directors may be removed only in accordance with the enumerated appointment and nomination rights provided to certain of our shareholders.

#### **Transactions with Interested Shareholders**

The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into *bona fide* in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

#### **Dissolution; Winding Up**

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Under the Companies Law of the Cayman Islands and our articles of association, our company may be dissolved, liquidated or wound up by the vote of holders of two-thirds of our shares voting at a meeting or the unanimous written resolution of all shareholders.

#### **Variation of Rights of Shares**

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our articles of association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class only with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class and only with the approval of the holders of such class.

#### **Amendment of Governing Documents**

Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by Cayman Islands law, our memorandum and articles of association may only be amended by special resolution or the unanimous written resolution of all shareholders, and certain amendments require the approval of certain holders of our ordinary shares to amend such holders rights.

#### **Rights of Non-Resident or Foreign Shareholders**

There are no limitations imposed by our memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

#### **Directors' Power to Issue Shares**

Subject to applicable law, our board of directors is empowered to issue or allot shares or grant options and warrants with or without preferred, deferred, qualified or other special rights or restrictions.

#### **History of Securities Issuances**

The following is a summary of our securities issuances since our inception.

#### **Ordinary Shares**

On December 1, 2006, we issued one share to Codan Trust Company (Cayman) Limited, and such share was transferred to Alan Song on the same day. On December 19, 2006, we issued a total of 110,000,000 ordinary shares, with nominal or par value of US\$0.00005, to Global Data Solutions Limited.

On June 30, 2014, we issued 88,352,558 ordinary shares to Brilliant Wise Holdings Limited as part of consideration to acquire EDC Holding.

#### **Preferred Shares**

*Series A Preferred Shares.* On January 31, 2007, we issued 63,250,000 Series A preferred shares for an aggregate purchase price of US\$23,000,000, or at US\$0.363636 per share to certain investors, including to SBCVC Fund II, L.P. and International Finance Corporation.

*Series B Preferred Shares.* On March 18, 2011, we issued 11,550,000 Series B preferred shares for an aggregated purchase price of US\$9,000,000, or at US\$0.77922 per share to certain investors, including SBCVC Fund II-Annex, L.P. and International Finance Corporation.

*Series A\*, B1, B2, B3 and B4 Preferred Shares.* In connection with our acquisition of EDC Holding, we altered our authorized share capital from comprising ordinary shares, Series A and Series B preferred shares, to comprising ordinary shares, Series A, Series B, Series A\*, Series B1, Series B2, Series B3 and

Series B4 preferred shares. Accordingly, Series A\*, Series B1, Series B2, Series B3 and Series B4 preferred shares were newly added to our previously authorized share capital.

On June 30, 2014, we acquired EDC Holding from its shareholders whereby we issued shares to EDC Holding's shareholders in exchange for their shares in EDC Holding. Pursuant to the terms of the agreement, we issued 199,163,164 shares in exchange for approximately 93% of the shares in EDC Holding which we did not already own. Accordingly, we issued 88,352,558 ordinary shares to Brilliant Wise Holdings Limited, 11,319,764 Series A\* preferred shares to SBCVC Company Limited, 2,829,941 Series A\* preferred shares to International Finance Corporation, 9,433,137 Series B1 preferred shares to SBCVC Company Limited, 9,433,137 Series B1 preferred shares to SBCVC Venture Capital, 15,093,019 Series B1 preferred shares to International Finance Corporation, 8,539,471 Series B2 preferred shares to International Finance Corporation, 17,078,942 Series B2 preferred shares to SBCVC Company Limited, 14,045,432 Series B3 preferred shares to International Finance Corporation, and 23,037,763 Series B4 preferred shares to SBCVC Fund III L.P.

*Series B5 and Series C Preferred Shares.* In connection with our issuance of Series C preferred shares, we altered our authorized share capital from comprising ordinary shares, Series A, Series B, Series A\*, Series B1, Series B2, Series B3 and Series B4 preferred shares, to comprising ordinary shares, Series A, Series B, Series A\*, Series B1, Series B2, Series B3, Series B4, Series B5 and Series C preferred shares. Accordingly, Series B5 and Series C preferred shares were newly added to our previously authorized share capital.

On August 13, 2014, SBCVC Fund III L.P. purchased 18,698,485 of our Series A, Series A\* and Series B3 preferred shares from certain of our investors, all of which preferred shares were redesignated as Series B5 preferred shares.

On August 13, 2014, we repurchased 93,811,462 shares from certain of our investors, which include 18,762,292 ordinary shares, 23,533,064 Series A preferred shares, 5,503,899 Series A\* preferred shares, 8,413,412 Series B preferred shares, 13,209,358 Series B1 preferred shares, 9,964,954 Series B2 preferred shares, 5,463,340 Series B3 preferred shares and 8,961,143 Series B4 preferred shares for a total consideration of US\$97,237,644.

On August 13, 2014, we issued 238,526,241 Series C preferred shares for an aggregate purchase price of US\$247,237,696, or at US\$1.036522 per share to STT GDC.

On December 22, 2014, International Finance Corporation transferred and sold its equity interests in GDS Holdings Limited in the form of 1,310,083 Series A, 560,105 Series B, 9,222,193 Series B1, 5,217,820 Series B2 and 384,576 Series B3 preferred shares to SBCVC Fund III, L.P. All of the preferred shares so transferred were reclassified and re-designated as 16,694,777 Series B5 preferred shares.

In connection with and subsequent to the issuance of Series C preferred shares, holders of our preferred shares entered into voting agreements and agreements regarding rights of first refusal and co-sale rights. These voting agreements and the rights of first refusal and co-sale rights will terminate upon the closing of this offering.

Prior to the closing of this offering, holders of each series of preferred shares may elect to convert part or all of the preferred shares held by them into our ordinary shares at a 1:1 share conversion ratio. Each preferred share not so converted will automatically convert into our ordinary shares at the 1:1 share conversion ratio immediately prior to the closing of this offering. All preferred shares converted into ordinary shares will be subject to a lock-up period of 180 days after the date of this prospectus.

#### **Note Financing**

On December 11, 2012, we issued and sold an aggregate principal amount of US\$10.5 million bonds due 2014, par value US\$10,000 per note, in a private placement to Best Million Group Limited. The bonds due 2014 had a maturity date of June 10, 2014 and carried interest at 10% per annum. Upon maturity, the

carrying amount of the bonds due 2014 was US\$10.5 million and we repaid a portion of the bonds due 2014 amounting to US\$0.7 million. On June 11, 2014, we issued and sold to the same investor in an aggregate principal amount of US\$30.2 million bonds due 2015 of which a portion was to settle the remaining unpaid portion of the bonds due 2014 of US\$9.8 million and unpaid interest payable on the bonds due 2014 of US\$1.6 million.

Prior to June 10, 2015, the holder of bonds due 2015 had the right to exchange the bonds into our ordinary shares in the event of a QIPO or private placement. The price used to determine the number of ordinary shares issued in exchange for the bonds is equal to 70% of the QIPO price or 70% of the share issuance price of the private placement.

In August 2014, we conducted a private placement of 238,526,241 Series C redeemable preferred shares, or Series C preferred shares. Upon the issuance of Series C preferred shares, the holder of the bonds due 2015 exchanged outstanding principal amount of the bonds due 2015 of US\$27.9 million for 38,397,655 ordinary shares. The number of ordinary shares issued was based on US\$0.72557, or 70% of the issuance price of Series C preferred shares of US\$1.036522. The holder waived its right to exchange the remaining bonds due 2015 of US\$2.3 million for ordinary shares of the Company.

On June 10, 2015, we fully redeemed the remaining bonds due 2015 of US\$2.3 million upon maturity.

#### **Convertible Bonds**

On December 30, 2015 and January 29, 2016, we issued and sold convertible and redeemable bonds due 2019 in aggregate principal amount of US\$150.0 million, which bonds were subscribed by Ping An Insurance and STT GDC as to US\$100.0 million and US\$50.0 million, respectively. We may, at our option, require STT GDC to subscribe for an additional amount of these bonds as to US\$50.0 million, and thereafter, Ping An Insurance to subscribe for an additional amount of these bonds as to US\$50.0 million, at any time within the nine month period following the date of issue, or until September 30, 2016. Under the terms of the bonds, Ping An Insurance is entitled to appoint one observer to attend meetings of our board of directors.

The bonds are repayable four years from the date of issue, i.e. on December 30, 2019, and may be converted at a set conversion price of US\$1.675262 per share (subject to adjustments arising from any share consolidation, sub-division or distributions by way of shares) at any time between the date on which this offering is completed and December 30, 2019. Any share issued pursuant to the conversion of these bonds by a holder who is not our existing shareholder within twelve months after the closing of this offering will be subject to a lock-up period expiring on the first anniversary of this offering's closing date. We also may mandate each of Ping An Insurance and STT GDC to convert their bonds into shares if the average per-ordinary-share-equivalent closing trading price of our ADSs in any period of ten (10) consecutive trading days following the offering is at least 125% of US\$1.675262.

The bonds bear two types of interest on the principal amount, (i) interest payable in cash semi-annually at a rate of 5% per annum, and (ii) interest accruing semi-annually at a rate of 5% per annum. Such accrued interest is (i) in the case of cash redemption, payable in cash on December 30, 2019, and (ii) in the case of conversion, capitalized and paid in shares upon conversion of the bonds.

We plan to use the proceeds of the bonds for data center development, repayment of indebtedness, and to fund our working capital. As security for the bonds, we pledged our entire equity interest in the registered capital of EDC China Holdings Limited, a limited company incorporated in Hong Kong, which is wholly owned by EDC Holding.

#### **Share Options and Restricted Shares**

We adopted our 2014 share incentive plan in July 2014. In July 2014, we granted 12,394,753 share options to employees, officers and directors and 5,834,200 share options to external consultants. In January

2015, we granted 1,000,000 share options to an external consultant. In May 2016, we granted 11,084,840 share options to employees, officers and directors.

We adopted our 2016 share incentive plan in August 2016. In August 2016, we granted 877,400 fully vested restricted shares in lieu of cash to our directors to settle a portion of their remuneration for services provided by the directors in the past.

For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Share-based Compensation" and "Management—Share Incentive Plans."

#### **Members (Shareholders) Agreement and Voting Agreement**

Pursuant to our amended members agreement entered into on May 19, 2016, we granted the holders of our registrable securities certain preferential rights, including registration rights, information and inspection rights, drag-along rights and pre-emptive rights. The amended members agreement also provides that our board of directors consists of nine directors, including (i) four directors appointed by STT GDC, (ii) two directors appointed by holders of 75% of our then outstanding preferred shares other than the Series C preferred shares, such holders voting together as a separate class on an as-converted basis, and (iii) three directors appointed by holders of a majority of our then outstanding ordinary shares, such holders voting as a separate class. The board composition arrangements under the amended members agreement will terminate immediately prior to the effectiveness of this registration statement. In addition, pursuant to our amended voting agreement entered into on May 19, 2016, the holders of our registrable securities have agreed to exercise voting rights so as to maintain the composition of the board of directors as set forth in the amended members agreement and described above. The amended voting agreement will terminate on the date of the closing of this offering.

The drag-along rights will terminate effective upon the closing of this offering. The pre-emptive rights will terminate immediately prior to the closing of this offering. We will continue to grant certain information rights to STT GDC for so long as it has the right to appoint directors under our articles of association.

##### *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 offering. 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 this offering and (ii) three years after August 13, 2014, until the date that is five years after the closing of this 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 twelve-month period.

##### *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.

*Form S-3/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.

*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.

**Differences in Corporate Law**

The Companies Law is modeled after that of England and Wales but does not follow recent statutory enactments in England. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the State of Delaware.

***Mergers and Similar Arrangements***

A merger of two or more constituent companies under Cayman Islands law requires a plan of merger or consolidation to be approved by the directors of each constituent company and authorization by a special resolution of the members of each constituent company.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders. For this purpose a subsidiary is a company of which at least ninety percent (90%) of the issued shares entitled to vote are owned by the parent company.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain circumstances, a dissenting shareholder of a Cayman constituent company is entitled to payment of the fair value of his or her shares upon dissenting to a merger or consolidation. The exercise of appraisal rights will preclude the exercise of any other rights save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors (representing 75% by value) with whom the arrangement is to be made, and

who must, in addition, represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

When a takeover offer is made and accepted by holders of 90% of the shares within four months, the offer or may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

#### **Shareholders' Suits**

In principle, we will normally be the proper plaintiff and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, there are exceptions to the foregoing principle, including when:

- a company acts or proposes to act illegally or *ultra vires*;
- the act complained of, although not *ultra vires*, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and
- those who control the company are perpetrating a "fraud on the minority."

#### **Indemnification of Directors and Executive Officers and Limitation of Liability**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our memorandum and articles of association permit indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from dishonesty or fraud which may attach to such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we intend to enter into indemnification agreements with our directors and senior executive officers that will provide such persons with additional indemnification beyond that provided in our 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.

***Anti-Takeover Provisions in the Memorandum and Articles of Association***

Some provisions of our memorandum and articles of association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our memorandum and articles of association, as amended and restated from time to time, for what they believe in good faith to be in the best interests of our company.

***Directors' Fiduciary Duties***

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company—a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his or her position as director (unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

***Shareholder Action by Written Consent***

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law and our articles of association provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.



### **Shareholder Proposals**

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. The Delaware General Corporation Law does not provide shareholders an express right to put any proposal before the annual meeting of shareholders, but in keeping with common law, Delaware corporations generally afford shareholders an opportunity to make proposals and nominations provided that they comply with the notice provisions in the certificate of incorporation or bylaws. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

Neither Cayman Islands law nor our articles of association allow our shareholders to requisition a shareholders' meeting. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings. However, our articles of association require us to call such meetings every year.

### **Cumulative Voting**

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. As permitted under Cayman Islands law, our articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

### **Removal of Directors**

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our articles of association, directors may be removed by ordinary resolution.

### **Transactions with Interested Shareholders**

The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation or bylaws that is approved by its shareholders, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting stock or who or which is an affiliate or associate of the corporation and owned 15% or more of the corporation's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that

such transactions must be entered into bona fide in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

***Dissolution; Winding Up***

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Under the Companies Law of the Cayman Islands and our articles of association, our company may be dissolved, liquidated or wound up by the vote of holders of two-thirds of our shares voting at a meeting or the unanimous written resolution of all shareholders.

***Variation of Rights of Shares***

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our articles of association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class only with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

***Amendment of Governing Documents***

Under the Delaware General Corporation Law, a corporation's certificate of incorporation may be amended only if adopted and declared advisable by the board of directors and approved by a majority of the outstanding shares entitled to vote, and the bylaws may be amended with the approval of a majority of the outstanding shares entitled to vote and may, if so provided in the certificate of incorporation, also be amended by the board of directors. As permitted by Cayman Islands law, our memorandum and articles of association may only be amended by special resolution or the unanimous written resolution of all shareholders.

***Rights of Non-Resident or Foreign Shareholders***

There are no limitations imposed by our memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

***Directors' Power to Issue Shares***

Subject to applicable law, our board of directors is empowered to issue or allot shares or grant options and warrants with or without preferred, deferred, qualified or other special rights or restrictions.

***Inspection of Books and Records***

Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements. See "Where You Can Find More Information."

## DESCRIPTION OF AMERICAN DEPOSITARY SHARES

### American Depositary Receipts

JPMorgan Chase Bank, N.A., as depositary will issue the ADSs which you will be entitled to receive in this offering. Each ADS will represent an ownership interest a designated number of Class A ordinary shares which we will deposit with the custodian, as agent of the depositary, under the deposit agreement among ourselves, the depositary and yourself as an ADR holder. In the future, each ADS will also represent any securities, cash or other property deposited with the depositary but which they have not distributed directly to you. Unless certificated ADRs are specifically requested by you, all ADSs will be issued on the books of our depositary in book-entry form and periodic statements will be mailed to you which reflect your ownership interest in such ADSs. In our description, references to American depositary receipts or ADRs shall include the statements you will receive which reflect your ownership of ADSs.

The depositary's office is located at 4 New York Plaza, Floor 12, New York, NY, 10004.

You may hold ADSs either directly or indirectly through your broker or other financial institution. If you hold ADSs directly, by having an ADS registered in your name on the books of the depositary, you are an ADR holder. This description assumes you hold your ADSs directly. If you hold the ADSs through your broker or financial institution nominee, you must rely on the procedures of such broker or financial institution to assert the rights of an ADR holder described in this section. You should consult with your broker or financial institution to find out what those procedures are.

As an ADR holder, we will not treat you as a shareholder of ours and you will not have any shareholder rights. Cayman Island law governs shareholder rights. Because the depositary or its nominee will be the shareholder of record for the Class A ordinary shares represented by all outstanding ADSs, shareholder rights rest with such record holder. Your rights are those of an ADR holder. Such rights derive from the terms of the deposit agreement to be entered into among us, the depositary and all registered holders from time to time of ADSs issued under the deposit agreement. The obligations of the depositary and its agents are also set out in the deposit agreement. Because the depositary or its nominee will actually be the registered owner of the Class A ordinary shares, you must rely on it to exercise the rights of a shareholder on your behalf. The deposit agreement and the ADSs are governed by New York law. Under the deposit agreement, as an ADR holder, you agree that any legal suit, action or proceeding against or involving us or the depositary, arising out of or based upon the deposit agreement, the ADSs or the transactions contemplated thereby, may only be instituted in a state or federal court in New York, New York, and you irrevocably waive any objection which you may have to the laying of venue of any such proceeding and irrevocably submit to the exclusive jurisdiction of such courts in any such suit, action or proceeding.

The following is a summary of what we believe to be the material terms of the deposit agreement. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire deposit agreement and the form of ADR which contains the terms of your ADSs. You can read a copy of the deposit agreement which is filed as an exhibit to the registration statement of which this prospectus forms a part. You may also obtain a copy of the deposit agreement at the SEC's Public Reference Room which is located at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330. You may also find the registration statement and the attached deposit agreement on the SEC's website at <http://www.sec.gov>.

### Share Dividends and Other Distributions

#### *How will I receive dividends and other distributions on the Class A ordinary shares underlying my ADSs?*

We may make various types of distributions with respect to our securities. The depositary has agreed that, to the extent practicable, it will pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after converting any cash received into U.S.

dollars (if it determines such conversion may be made on a reasonable basis) and, in all cases, making any necessary deductions provided for in the deposit agreement. The depositary may utilize a division, branch or affiliate of JPMorgan Chase Bank, N.A. to direct, manage and/or execute any public and/or private sale of securities under the deposit agreement. Such division, branch and/or affiliate may charge the depositary a fee in connection with such sales, which fee is considered an expense of the depositary. You will receive these distributions in proportion to the number of underlying securities that your ADSs represent.

Except as stated below, the depositary will deliver such distributions to ADR holders in proportion to their interests in the following manner:

- **Cash.** The depositary will distribute any U.S. dollars available to it resulting from a cash dividend or other cash distribution or the net proceeds of sales of any other distribution or portion thereof (to the extent applicable), on an averaged or other practicable basis, subject to (i) appropriate adjustments for taxes withheld, (ii) such distribution being impermissible or impracticable with respect to certain registered ADR holders, and (iii) deduction of the depositary's and/or its agents' expenses in (1) converting any foreign currency to U.S. dollars to the extent that it determines that such conversion may be made on a reasonable basis, (2) transferring foreign currency or U.S. dollars to the United States by such means as the depositary may determine to the extent that it determines that such transfer may be made on a reasonable basis, (3) obtaining any approval or license of any governmental authority required for such conversion or transfer, which is obtainable at a reasonable cost and within a reasonable time and (4) making any sale by public or private means in any commercially reasonable manner. *If exchange rates fluctuate during a time when the depositary cannot convert a foreign currency, you may lose some or all of the value of the distribution.*
- **Shares.** In the case of a distribution in shares, the depositary will issue additional ADRs to evidence the number of ADSs representing such Class A ordinary shares. Only whole ADSs will be issued. Any shares which would result in fractional ADSs will be sold and the net proceeds will be distributed in the same manner as cash to the ADR holders entitled thereto.
- **Rights to receive additional shares.** In the case of a distribution of rights to subscribe for additional shares or other rights, if we timely provide evidence satisfactory to the depositary that it may lawfully distribute such rights, the depositary will distribute warrants or other instruments in the discretion of the depositary representing such rights. However, if we do not timely furnish such evidence, the depositary may:
  - (i) sell such rights if practicable and distribute the net proceeds in the same manner as cash to the ADR holders entitled thereto; or
  - (ii) if it is not practicable to sell such rights by reason of the non-transferability of the rights, limited markets therefor, their short duration or otherwise, do nothing and allow such rights to lapse, in which case ADR holders will receive nothing and the rights may lapse.
- **Other Distributions.** In the case of a distribution of securities or property other than those described above, the depositary may either (i) distribute such securities or property in any manner it deems equitable and practicable or (ii) to the extent the depositary deems distribution of such securities or property not to be equitable and practicable, sell such securities or property and distribute any net proceeds in the same way it distributes cash.

If the depositary determines in its discretion that any distribution described above is not practicable with respect to any specific registered ADR holder, the depositary may choose any method of distribution that it deems practicable for such ADR holder, including the distribution of foreign currency, securities or property, or it may retain such items, without paying interest on or investing them, on behalf of the ADR holder as deposited securities, in which case the ADSs will also represent the retained items.

Any U.S. dollars will be distributed by checks drawn on a bank in the United States for whole dollars and cents. Fractional cents will be withheld without liability and dealt with by the depositary in accordance with its then current practices.

*The depositary is not responsible if it fails to determine that any distribution or action is lawful or reasonably practicable.*

*There can be no assurance that the depositary will be able to convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price, nor that any of such transactions can be completed within a specified time period. All purchases and sales of securities will be handled by the Depositary in accordance with its then current policies, which are currently set forth in the "Depositary Receipt Sale and Purchase of Security" section of <https://www.adr.com/Investors/FindOutAboutDRs>, the location and contents of which the Depositary shall be solely responsible for.*

## **Deposit, Withdrawal and Cancellation**

### ***How does the depositary issue ADSs?***

The depositary will issue ADSs if you or your broker deposit Class A ordinary shares or evidence of rights to receive Class A ordinary shares with the custodian and pay the fees and expenses owing to the depositary in connection with such issuance. In the case of the ADSs to be issued under this prospectus, we will arrange with the underwriters named herein to deposit such Class A ordinary shares.

Class A ordinary shares deposited in the future with the custodian must be accompanied by certain delivery documentation and shall, at the time of such deposit, be registered in the name of JPMorgan Chase Bank, N.A., as depositary for the benefit of holders of ADRs or in such other name as the depositary shall direct.

The custodian will hold all deposited shares (including those being deposited by or on our behalf in connection with the offering to which this prospectus relates) for the account and to the order of the depositary. ADR holders thus have no direct ownership interest in the Class A ordinary shares and only have such rights as are contained in the deposit agreement. The custodian will also hold any additional securities, property and cash received on or in substitution for the deposited Class A ordinary shares. The deposited Class A ordinary shares and any such additional items are referred to as "deposited securities".

Upon each deposit of Class A ordinary shares, receipt of related delivery documentation and compliance with the other provisions of the deposit agreement, including the payment of the fees and charges of the depositary and any taxes or other fees or charges owing, the depositary will issue an ADR or ADRs in the name or upon the order of the person entitled thereto evidencing the number of ADSs to which such person is entitled. All of the ADSs issued will, unless specifically requested to the contrary, be part of the depositary's direct registration system, and a registered holder will receive periodic statements from the depositary which will show the number of ADSs registered in such holder's name. An ADR holder can request that the ADSs not be held through the depositary's direct registration system and that a certificated ADR be issued.

### ***How do ADR holders cancel an ADS and obtain deposited securities?***

When you turn in your ADR certificate at the depositary's office, or when you provide proper instructions and documentation in the case of direct registration ADSs, the depositary will, upon payment of certain applicable fees, charges and taxes, deliver the underlying Class A ordinary shares to you or upon your written order. Delivery of deposited securities in certificated form will be made at the custodian's office. At your risk, expense and request, the depositary may deliver deposited securities at such other place as you may request.

The depositary may only restrict the withdrawal of deposited securities in connection with:

- temporary delays caused by closing our transfer books or those of the depositary or the deposit of Class A ordinary shares in connection with voting at a shareholders' meeting, or the payment of dividends;
- the payment of fees, taxes and similar charges; or
- compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

#### **Record Dates**

The depositary may, after consultation with us if practicable, fix record dates (which, to the extent applicable, shall be as near as practicable to any corresponding record dates set by us) for the determination of the registered ADR holders who will be entitled (or obligated, as the case may be):

- to receive any distribution on or in respect of deposited securities,
- to give instructions for the exercise of voting rights at a meeting of holders of shares, or
- to pay the fee assessed by the depositary for administration of the ADR program and for any expenses as provided for in the ADR,
- to receive any notice or to act in respect of other matters

all subject to the provisions of the deposit agreement.

#### **Voting Rights**

##### ***How do I vote?***

If you are an ADR holder and the depositary asks you to provide it with voting instructions, you may instruct the depositary how to exercise the voting rights for the Class A ordinary shares which underlie your ADSs. Subject to the next sentence, as soon as practicable after receipt from us of notice of any meeting at which the holders of shares are entitled to vote, or of our solicitation of consents or proxies from holders of shares, the depositary shall fix the ADS record date in accordance with the provisions of the deposit agreement in respect of such meeting or solicitation of consent or proxy. The depositary shall, if we request in writing in a timely manner (the depositary having no obligation to take any further action if our request shall not have been received by the depositary at least 30 days prior to the date of such vote or meeting) and at our expense and provided no legal prohibitions exist, distribute to the registered ADR holders a notice stating such information as is contained in the voting materials received by the depositary and describing how you may instruct the depositary to exercise the voting rights for the Class A ordinary shares which underlie your ADSs, including instructions for giving a discretionary proxy to a person designated by us. For instructions to be valid, the depositary must receive them in the manner and on or before the date specified. The depositary will try, as far as is practical, subject to the provisions of and governing the underlying Class A ordinary shares or other deposited securities, to vote or to have its agents vote the Class A ordinary shares or other deposited securities as you instruct. The depositary will only vote or attempt to vote as you instruct. Holders are strongly encouraged to forward their voting instructions to the depositary as soon as possible. Voting instructions will not be deemed to be received until such time as the ADR department responsible for proxies and voting has received such instructions notwithstanding that such instructions may have been physically received by the depositary prior to such time. The depositary will not itself exercise any voting discretion. Furthermore, neither the depositary nor its agents are responsible for any failure to carry out any voting instructions, for the manner in which any vote is cast or for the effect of any vote. Notwithstanding anything contained in the deposit agreement or any ADR, the depositary may, to the extent not prohibited by law or regulations, or by the requirements of the stock

exchange on which the ADSs are listed, in lieu of distribution of the materials provided to the depositary in connection with any meeting of, or solicitation of consents or proxies from, holders of deposited securities, distribute to the registered holders of ADRs a notice that provides such holders with, or otherwise publicizes to such holders, instructions on how to retrieve such materials or receive such materials upon request (*i.e.*, by reference to a website containing the materials for retrieval or a contact for requesting copies of the materials).

We have advised the depositary that under the Cayman Islands law and our constituent documents, each as in effect as of the date of the deposit agreement, voting at any meeting of shareholders is by show of hands unless a poll is (before or on the declaration of the results of the show of hands) demanded. In the event that voting on any resolution or matter is conducted on a show of hands basis in accordance with our constituent documents, the depositary will refrain from voting and the voting instructions received by the depositary from holders shall lapse. The depositary will not demand a poll or join in demanding a poll, whether or not requested to do so by holders of ADSs. There is no guarantee that you will receive voting materials in time to instruct the depositary to vote and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

#### **Reports and Other Communications**

##### ***Will ADR holders be able to view our reports?***

The depositary will make available for inspection by ADR holders at the offices of the depositary and the custodian the deposit agreement, the provisions of or governing deposited securities, and any written communications from us which are both received by the custodian or its nominee as a holder of deposited securities and made generally available to the holders of deposited securities.

Additionally, if we make any written communications generally available to holders of our Class A ordinary shares, and we furnish copies thereof (or English translations or summaries) to the depositary, it will distribute the same to registered ADR holders.

#### **Fees and Expenses**

##### ***What fees and expenses will I be responsible for paying?***

The depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of Class A ordinary shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities or whose ADRs are cancelled or reduced for any other reason, \$5.00 for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be. The depositary may sell (by public or private sale) sufficient securities and property received in respect of a share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing Class A ordinary shares or by any party surrendering ADSs and/or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADSs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of U.S.\$1.50 per ADR or ADRs for transfers of certificated or direct registration ADRs;
- a fee of up to U.S.\$0.05 per ADS for any cash distribution made pursuant to the deposit agreement;
- an aggregate fee of up to U.S.\$0.05 per ADS per calendar year (or portion thereof) for services performed by the depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);

- a fee for the reimbursement of such fees, charges and expenses as are incurred by the depositary and/or any of its agents (including, without limitation, the custodian and expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the Class A ordinary shares or other deposited securities, the sale of securities (including, without limitation, deposited securities), the delivery of deposited securities or otherwise in connection with the depositary's or its custodian's compliance with applicable law, rule or regulation (which fees and charges shall be assessed on a proportionate basis against holders as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);
- a fee for the distribution of securities (or the sale of securities in connection with a distribution), such fee being in an amount equal to the \$0.05 per ADS issuance fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the depositary to those holders entitled thereto;
- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at your request in connection with the deposit or delivery of Class A ordinary shares, ADRs or deposited securities;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;
- in connection with the conversion of foreign currency into U.S. dollars, JPMorgan Chase Bank, N.A. ("JPMorgan") shall deduct out of such foreign currency the fees, expenses and other charges charged by it and/or its agent (which may be a division, branch or affiliate) so appointed in connection with such conversion; and
- fees of any division, branch or affiliate of the depositary utilized by the depositary to direct, manage and/or execute any public and/or private sale of securities under the deposit agreement.

JPMorgan and/or its agent may act as principal for such conversion of foreign currency. For further details see <https://www.adr.com>.

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The charges described above may be amended from time to time by agreement between us and the depositary.

The depositary may make available to us a set amount or a portion of the depositary fees charged in respect of the ADR program or otherwise upon such terms and conditions as we and the depositary may agree from time to time. The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing Class A ordinary shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary will generally set off the amounts owing from distributions made to holders of ADSs. If, however, no distribution exists and payment owing is not timely received by the depositary, the depositary may refuse to provide any further services to holders that have not paid those fees and expenses owing until such fees and expenses have been paid. At the discretion of the depositary, all fees and charges owing under the deposit agreement are due in advance and/or when declared owing by the depositary.



## Payment of Taxes

If any taxes or other governmental charges (including any penalties and/or interest) shall become payable by or on behalf of the custodian or the depository with respect to any ADR, any deposited securities represented by the ADSs evidenced thereby or any distribution thereon, including, without limitation, any Chinese Enterprise Income Tax owing if the Circular Guoshuifa [2009] No. 82 issued by the Chinese State Administration of Taxation (SAT) or any other circular, edict, order or ruling, as issued and as from time to time amended, is applied or otherwise, such tax or other governmental charge shall be paid by the holder thereof to the depository and by holding or having held an ADR the holder and all prior holders thereof, jointly and severally, agree to indemnify, defend and save harmless each of the depository and its agents in respect thereof. If an ADR holder owes any tax or other governmental charge, the depository may (i) deduct the amount thereof from any cash distributions, or (ii) sell deposited securities (by public or private sale) and deduct the amount owing from the net proceeds of such sale. In either case the ADR holder remains liable for any shortfall. If any tax or governmental charge is unpaid, the depository may also refuse to effect any registration, registration of transfer, split-up or combination of deposited securities or withdrawal of deposited securities until such payment is made. If any tax or governmental charge is required to be withheld on any cash distribution, the depository may deduct the amount required to be withheld from any cash distribution or, in the case of a non-cash distribution, sell the distributed property or securities (by public or private sale) in such amounts and in such manner as the depository deems necessary and practicable to pay such taxes and distribute any remaining net proceeds or the balance of any such property after deduction of such taxes to the ADR holders entitled thereto.

By holding an ADR or an interest therein, you will be agreeing to indemnify us, the depository, its custodian and any of our or their respective officers, directors, employees, agents and affiliates against, and hold each of them harmless from, any claims by any governmental authority with respect to taxes, additions to tax, penalties or interest arising out of any refund of taxes, reduced rate of withholding at source or other tax benefit obtained.

## Reclassifications, Recapitalizations and Mergers

If we take certain actions that affect the deposited securities, including (i) any change in par value, split-up, consolidation, cancellation or other reclassification of deposited securities or (ii) any distributions of shares or other property not made to holders of ADRs or (iii) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all of our assets, then the depository may choose to, and shall if reasonably requested by us:

- (1) amend the form of ADR;
- (2) distribute additional or amended ADRs;
- (3) distribute cash, securities or other property it has received in connection with such actions;
- (4) sell any securities or property received and distribute the proceeds as cash; or
- (5) none of the above.

If the depository does not choose any of the above options, any of the cash, securities or other property it receives will constitute part of the deposited securities and each ADS will then represent a proportionate interest in such property.

## Amendment and Termination

### *How may the deposit agreement be amended?*

We may agree with the depository to amend the deposit agreement and the ADSs without your consent for any reason. ADR holders must be given at least 30 days notice of any amendment that imposes

or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, SWIFT, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or otherwise prejudices any substantial existing right of ADR holders. Such notice need not describe in detail the specific amendments effectuated thereby, but must identify to ADR holders a means to access the text of such amendment. If an ADR holder continues to hold an ADR or ADRs after being so notified, such ADR holder is deemed to agree to such amendment and to be bound by the deposit agreement as so amended. Notwithstanding the foregoing, if any governmental body or regulatory body should adopt new laws, rules or regulations which would require amendment or supplement of the deposit agreement or the form of ADR to ensure compliance therewith, we and the depositary may amend or supplement the deposit agreement and the ADR at any time in accordance with such changed laws, rules or regulations, which amendment or supplement may take effect before a notice is given or within any other period of time as required for compliance. No amendment, however, will impair your right to surrender your ADSs and receive the underlying securities, except in order to comply with mandatory provisions of applicable law.

***How may the deposit agreement be terminated?***

The depositary may, and shall at our written direction, terminate the deposit agreement and the ADRs by mailing notice of such termination to the registered holders of ADRs at least 30 days prior to the date fixed in such notice for such termination; provided, however, if the depositary shall have (i) resigned as depositary under the deposit agreement, notice of such termination by the depositary shall not be provided to registered holders unless a successor depositary shall not be operating under the deposit agreement within 60 days of the date of such resignation, and (ii) been removed as depositary under the deposit agreement, notice of such termination by the depositary shall not be provided to registered holders of ADRs unless a successor depositary shall not be operating under the deposit agreement on the 120<sup>th</sup> day after our notice of removal was first provided to the depositary. After the date so fixed for termination, (a) all direct registration ADRs shall cease to be eligible for the direct registration system and shall be considered ADRs issued on the ADR register maintained by the depositary and (b) the depositary shall use its reasonable efforts to ensure that the ADSs cease to be DTC eligible so that neither DTC nor any of its nominees shall thereafter be a registered holder of ADRs. At such time as the ADSs cease to be DTC eligible and/or neither DTC nor any of its nominees is a registered holder of ADRs, the depositary shall (a) instruct its custodian to deliver all Class A ordinary shares to us along with a general stock power that refers to the names set forth on the ADR register maintained by the depositary and (b) provide us with a copy of the ADR register maintained by the depositary. Upon receipt of such Class A ordinary shares and the ADR register maintained by the depositary, we have agreed to use our best efforts to issue to each registered holder a Share certificate representing the Shares represented by the ADSs reflected on the ADR register maintained by the depositary in such registered holder's name and to deliver such Share certificate to the registered holder at the address set forth on the ADR register maintained by the depositary. After providing such instruction to the custodian and delivering a copy of the ADR register to us, the depositary and its agents will perform no further acts under the deposit agreement or the ADRs and shall cease to have any obligations under the deposit agreement and/or the ADRs.

**Limitations on Obligations and Liability to ADR holders**

***Limits on our obligations and the obligations of the depositary; limits on liability to ADR holders and holders of ADSs***

Prior to the issue, registration, registration of transfer, split-up, combination, or cancellation of any ADRs, or the delivery of any distribution in respect thereof, and from time to time in the case of the production of proofs as described below, we or the depositary or its custodian may require:

- payment with respect thereto of (i) any stock transfer or other tax or other governmental charge, (ii) any stock transfer or registration fees in effect for the registration of transfers of Class A ordinary

shares or other deposited securities upon any applicable register and (iii) any applicable fees and expenses described in the deposit agreement;

- the production of proof satisfactory to it of (i) the identity of any signatory and genuineness of any signature and (ii) such other information, including without limitation, information as to citizenship, residence, exchange control approval, beneficial ownership of any securities, compliance with applicable law, regulations, provisions of or governing deposited securities and terms of the deposit agreement and the ADRs, as it may deem necessary or proper; and
- compliance with such regulations as the depositary may establish consistent with the deposit agreement.

The issuance of ADRs, the acceptance of deposits of Class A ordinary shares, the registration, registration of transfer, split-up or combination of ADRs or the withdrawal of Class A ordinary shares, may be suspended, generally or in particular instances, when the ADR register or any register for deposited securities is closed or when any such action is deemed advisable by the depositary; provided that the ability to withdraw Class A ordinary shares may only be limited under the following circumstances: (i) temporary delays caused by closing transfer books of the depositary or our transfer books or the deposit of Class A ordinary shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes, and similar charges, and (iii) compliance with any laws or governmental regulations relating to ADRs or to the withdrawal of deposited securities.

The deposit agreement expressly limits the obligations and liability of the depositary, ourselves and our respective agents, provided, however, that no disclaimer of liability under the Securities Act of 1933 is intended by any of the limitations of liabilities provisions of the deposit agreement. In the deposit agreement it provides that neither we nor the depositary nor any such agent will be liable if:

- any present or future law, rule, regulation, fiat, order or decree of the United States, the Cayman Islands, the People's Republic of China (including the Hong Kong Special Administrative Region, the People's Republic of China) or any other country or jurisdiction, or of any governmental or regulatory authority or securities exchange or market or automated quotation system, the provisions of or governing any deposited securities, any present or future provision of our charter, any act of God, war, terrorism, nationalization, expropriation, currency restrictions, work stoppage, strike, civil unrest, revolutions, rebellions, explosions, computer failure or circumstance beyond our, the depositary's or our respective agents' direct and immediate control shall prevent or delay, or shall cause any of them to be subject to any civil or criminal penalty in connection with, any act which the deposit agreement or the ADRs provide shall be done or performed by us, the depositary or our respective agents (including, without limitation, voting);
- it exercises or fails to exercise discretion under the deposit agreement or the ADRs including, without limitation, any failure to determine that any distribution or action may be lawful or reasonably practicable;
- it performs its obligations under the deposit agreement and ADRs without gross negligence or willful misconduct;
- it takes any action or refrains from taking any action in reliance upon the advice of or information from legal counsel, accountants, any person presenting Class A ordinary shares for deposit, any registered holder of ADRs, or any other person believed by it to be competent to give such advice or information; or
- it relies upon any written notice, request, direction, instruction or document believed by it to be genuine and to have been signed, presented or given by the proper party or parties.

Neither the depositary nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs. We and our agents shall only

be obligated to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs, which in our opinion may involve us in expense or liability, if indemnity satisfactory to us against all expense (including fees and disbursements of counsel) and liability is furnished as often as may be required. The depositary and its agents may fully respond to any and all demands or requests for information maintained by or on its behalf in connection with the deposit agreement, any registered holder or holders of ADRs, any ADRs or otherwise related to the deposit agreement or ADRs to the extent such information is requested or required by or pursuant to any lawful authority, including without limitation laws, rules, regulations, administrative or judicial process, banking, securities or other regulators. The depositary shall not be liable for the acts or omissions made by, or the insolvency of, any securities depository, clearing agency or settlement system. Furthermore, the depositary shall not be responsible for, and shall incur no liability in connection with or arising from, the insolvency of any custodian that is not a branch or affiliate of JPMorgan Chase Bank, N.A. Notwithstanding anything to the contrary contained in the deposit agreement or any ADRs, the depositary shall not be responsible for, and shall incur no liability in connection with or arising from, any act or omission to act on the part of the custodian except to the extent that the custodian has (i) committed fraud or willful misconduct in the provision of custodial services to the depositary or (ii) failed to use reasonable care in the provision of custodial services to the depositary as determined in accordance with the standards prevailing in the jurisdiction in which the custodian is located. The depositary and the custodian(s) may use third party delivery services and providers of information regarding matters such as pricing, proxy voting, corporate actions, class action litigation and other services in connection with the ADRs and the deposit agreement, and use local agents to provide extraordinary services such as attendance at annual meetings of issuers of securities. Although the depositary and the custodian will use reasonable care (and cause their agents to use reasonable care) in the selection and retention of such third party providers and local agents, they will not be responsible for any errors or omissions made by them in providing the relevant information or services. The depositary shall not have any liability for the price received in connection with any sale of securities, the timing thereof or any delay in action or omission to act nor shall it be responsible for any error or delay in action, omission to act, default or negligence on the part of the party so retained in connection with any such sale or proposed sale.

The depositary has no obligation to inform ADR holders or other holders of an interest in any ADSs about the requirements of Cayman Islands or People's Republic of China law, rules or regulations or any changes therein or thereto.

Additionally, none of us, the depositary or the custodian shall be liable for the failure by any registered holder of ADRs or beneficial owner therein to obtain the benefits of credits on the basis of non-U.S. tax paid against such holder's or beneficial owner's income tax liability. Neither we nor the depositary shall incur any liability for any tax consequences that may be incurred by registered holders or beneficial owners on account of their ownership of ADRs or ADSs.

Neither the depositary nor its agents will be responsible for any failure to carry out any instructions to vote any of the deposited securities, for the manner in which any such vote is cast or for the effect of any such vote. The depositary may rely upon instructions from us or our counsel in respect of any approval or license required for any currency conversion, transfer or distribution. The depositary shall not incur any liability for the content of any information submitted to it by us or on our behalf for distribution to ADR holders or for any inaccuracy of any translation thereof, for any investment risk associated with acquiring an interest in the deposited securities, for the validity or worth of the deposited securities, for the credit-worthiness of any third party, for allowing any rights to lapse upon the terms of the deposit agreement or for the failure or timeliness of any notice from us. The depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the depositary or in connection with any matter arising wholly after the removal or resignation of the depositary. Neither the depositary nor any of its agents shall be liable to registered holders or beneficial owners of interests in ADSs for any indirect, special, punitive or consequential damages (including, without

limitation, legal fees and expenses) or lost profits, in each case of any form incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought.

In the deposit agreement each party thereto (including, for avoidance of doubt, each holder and beneficial owner and/or holder of interests in ADRs) irrevocably waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in any suit, action or proceeding against the depositary and/or us directly or indirectly arising out of or relating to the Class A ordinary shares or other deposited securities, the ADSs or the ADRs, the deposit agreement or any transaction contemplated therein, or the breach thereof (whether based on contract, tort, common law or any other theory).

The depositary and its agents may own and deal in any class of securities of our company and our affiliates and in ADRs.

#### **Disclosure of Interest in ADSs**

To the extent that the provisions of or governing any deposited securities may require disclosure of or impose limits on beneficial or other ownership of deposited securities, other shares and other securities and may provide for blocking transfer, voting or other rights to enforce such disclosure or limits, you agree to comply with all such disclosure requirements and ownership limitations and to comply with any reasonable instructions we may provide in respect thereof. We reserve the right to instruct you to deliver your ADSs for cancellation and withdrawal of the deposited securities so as to permit us to deal with you directly as a holder of shares and, by holding an ADS or an interest therein, you will be agreeing to comply with such instructions.

#### **Books of Depositary**

The depositary or its agent will maintain a register for the registration, registration of transfer, combination and split-up of ADRs, which register shall include the depositary's direct registration system. Registered holders of ADRs may inspect such records at the depositary's office at all reasonable times, but solely for the purpose of communicating with other holders in the interest of the business of our company or a matter relating to the deposit agreement. Such register may be closed at any time or from time to time, when deemed expedient by the depositary.

The depositary will maintain facilities for the delivery and receipt of ADRs.

#### **Pre-release of ADSs**

In its capacity as depositary, the depositary shall not lend shares or ADSs; provided, however, that the depositary may (i) issue ADSs prior to the receipt of Class A ordinary shares and (ii) deliver Class A ordinary shares prior to the receipt of ADSs for withdrawal of deposited securities, including ADSs which were issued under (i) above but for which shares may not have been received (each such transaction a "pre-release"). The depositary may receive ADSs in lieu of Class A ordinary shares under (i) above (which ADSs will promptly be canceled by the depositary upon receipt by the depositary) and receive Class A ordinary shares in lieu of ADSs under (ii) above. Each such pre-release will be subject to a written agreement whereby the person or entity (the "applicant") to whom ADSs or Class A ordinary shares are to be delivered (a) represents that at the time of the pre-release the applicant or its customer owns the Class A ordinary shares or ADSs that are to be delivered by the applicant under such pre-release, (b) agrees to indicate the depositary as owner of such Class A ordinary shares or ADSs in its records and to hold such Class A ordinary shares or ADSs in trust for the depositary until such Class A ordinary shares or ADSs are delivered to the depositary or the custodian, (c) unconditionally guarantees to deliver to the depositary or the custodian, as applicable, such Class A ordinary shares or ADSs, and (d) agrees to any additional restrictions or requirements that the depositary deems appropriate. Each such pre-release will be at all times fully collateralized with cash, U.S. government securities or such other collateral as the depositary deems

appropriate, terminable by the depositary on not more than five (5) business days' notice and subject to such further indemnities and credit regulations as the depositary deems appropriate. The depositary will normally limit the number of ADSs and Class A ordinary shares involved in such pre-release at any one time to thirty percent (30%) of the ADSs outstanding (without giving effect to ADSs outstanding under (i) above), provided, however, that the depositary reserves the right to change or disregard such limit from time to time as it deems appropriate. The depositary may also set limits with respect to the number of ADSs and Class A ordinary shares involved in pre-release with any one person on a case-by-case basis as it deems appropriate. The depositary may retain for its own account any compensation received by it in conjunction with the foregoing. Collateral provided in connection with pre-release transactions, but not the earnings thereon, shall be held for the benefit of the ADR holders (other than the applicant).

#### **Appointment**

In the deposit agreement, each registered holder of ADRs and each person holding an interest in ADSs, upon acceptance of any ADSs (or any interest therein) issued in accordance with the terms and conditions of the deposit agreement will be deemed for all purposes to:

- be a party to and bound by the terms of the deposit agreement and the applicable ADR or ADRs, and
- appoint the depositary its attorney-in-fact, with full power to delegate, to act on its behalf and to take any and all actions contemplated in the deposit agreement and the applicable ADR or ADRs, to adopt any and all procedures necessary to comply with applicable laws and to take such action as the depositary in its sole discretion may deem necessary or appropriate to carry out the purposes of the deposit agreement and the applicable ADR and ADRs, the taking of such actions to be the conclusive determinant of the necessity and appropriateness thereof.

#### **Governing Law**

The deposit agreement and the ADRs shall be governed by and construed in accordance with the laws of the State of New York. In the deposit agreement, we have submitted to the jurisdiction of the courts of the State of New York and appointed an agent for service of process on our behalf. Notwithstanding the foregoing, (i) any action based on the deposit agreement or the transactions contemplated thereby may be instituted by the depositary in any competent court in the Cayman Islands, Hong Kong, the People's Republic of China and/or the United States, (ii) the depositary may, in its sole discretion, elect to institute any action, controversy, claim or dispute directly or indirectly based on, arising out of or relating to the deposit agreement or the ADRs or the transactions contemplated thereby, including without limitation any question regarding its or their existence, validity, interpretation, performance or termination, against any other party or parties to the deposit agreement (including, without limitation, against ADR holders and owners of interests in ADSs), by having the matter referred to and finally resolved by an arbitration conducted under the terms described below, and (iii) the depositary may in its sole discretion require that any action, controversy, claim, dispute, legal suit or proceeding brought against the depositary by any party or parties to the deposit agreement (including, without limitation, by ADR holders and owners of interests in ADSs) shall be referred to and finally settled by an arbitration conducted under the terms described below. Any such arbitration shall be conducted in the English language either in New York, New York in accordance with the Commercial Arbitration Rules of the American Arbitration Association or in Hong Kong following the arbitration rules of the United Nations Commission on International Trade Law (UNCITRAL).

By holding an ADS or an interest therein, registered holders of ADRs and owners of ADSs each irrevocably agree that any legal suit, action or proceeding against or involving us or the depositary, arising out of or based upon the deposit agreement, the ADSs or the transactions contemplated thereby, may only be instituted in a state or federal court in New York, New York, and each irrevocably waives any objection which it may have to the laying of venue of any such proceeding, and irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action or proceeding.

## SHARES ELIGIBLE FOR FUTURE SALE

Upon closing of this offering, we will have ADSs outstanding representing approximately 20.7% of our ordinary shares (or ADS outstanding representing approximately 23.0% of our ordinary shares if the underwriters exercise in full the over-allotment option). In addition, options to purchase an aggregate of approximately 29,189,800 Class A ordinary shares will be outstanding as of the closing of this offering. Of these options, 28,289,800 will have vested at or prior to the closing of this offering and approximately 900,000 will vest over the next three years. As of the closing of this offering, we also have 877,400 vested but not yet issued restricted shares. Furthermore, we have outstanding convertible bonds in the aggregate principal amount of US\$150.0 million due December 30, 2019. We may, at our option, require the original subscribers, STT GDC to subscribe for an additional amount of these bonds as to US\$50.0 million, and thereafter, Ping An Insurance to subscribe for an additional amount of these bonds as to US\$50.0 million, at any time until September 30, 2016. In addition, following this offering, we may require the conversion of the bonds assuming the average per-Class-A-ordinary-share-equivalent closing trading price of our ADSs in any period of ten (10) consecutive trading days following this offering is at least 125% of US\$1.675262 and we exercise our right to cause STT GDC and Ping An Insurance to convert the bonds. If the bondholders elect to convert, or we cause the bondholders to convert, their bonds, approximately 93,231,684 Class A ordinary shares will be issued. The conversion of the bonds would result in substantial dilution of our ADSs and Class A ordinary shares and a decline in their market price. There can be no certainty as to whether the bondholders will elect to convert, or if we will be entitled to cause the bondholders to convert, their bonds at the time of or after the completion of this offering. The holders of the convertible bonds have agreed with us that they shall not, without our prior written approval, sell, transfer or dispose of any of the convertible bonds. In addition, any share issued upon conversion of the convertible bonds by a holder who is not our existing shareholder, so converted within the 12 months following the completion of this offering will be subject to a lock-up period expiring on the first anniversary of the closing of this offering.

All of the ADSs sold in this offering and the Class A ordinary shares they represent will be freely transferable by persons other than our "affiliates" without restriction or further registration under the Securities Act. Rule 144 of the Securities Act defines an "affiliate" of a company as a person that, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, our company. All outstanding ordinary shares prior to this offering are "restricted securities" as that term is defined in Rule 144 because they were issued in a transaction or series of transactions not involving a public offering. Restricted securities, in the form of ADSs or otherwise, may be sold only if they are the subject of an effective registration statement under the Securities Act or if they are sold pursuant to an exemption from the registration requirement of the Securities Act such as those provided for in Rules 144 or 701 promulgated under the Securities Act, which rules are summarized below. Restricted ordinary shares may also be sold outside of the United States to non-U.S. persons in accordance with Rule 904 of Regulation S under the Act. This prospectus may not be used in connection with any resale of our ADSs acquired in this offering by our affiliates.

Pursuant to Rule 144, ordinary shares will be eligible for sale at various times after the date of this prospectus, subject to the lock-up agreements.

Sales of substantial amounts of our ADSs in the public market could adversely affect prevailing market prices of our ADSs. Prior to this offering, there has been no public market for our Class A ordinary shares or ADSs, and while our application has been made to list our ADSs on the NASDAQ, we cannot assure you that a regular trading market will develop in the ADSs. We do not expect that a trading market will develop for our ordinary shares not represented by ADSs.

### Lock-up Agreements

We, our directors, executive officers, our existing shareholders, certain option and convertible bond holders have agreed, with limited exceptions, subject to some exceptions, not to offer, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any

option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any of our ordinary shares, in the form of ADSs or otherwise, or any securities convertible into or exchangeable or exercisable for our ordinary shares, in the form of ADSs or otherwise, for a period of 180 days after the date this prospectus becomes effective. After the expiration of the 180-day period, the Class A ordinary shares or ADSs held by our directors, executive officers or existing shareholders may be sold subject to the restrictions under Rule 144 under the Securities Act or by means of registered public offerings.

#### **Rule 144**

In general, under Rule 144 as currently in effect, a person who has beneficially owned our restricted securities for at least six months is entitled to sell the restricted securities without registration under the Securities Act, subject to certain restrictions. Persons who are our affiliates (including persons beneficially owning 10% or more of our outstanding shares) may sell within any three-month period a number of restricted securities that does not exceed the greater of the following:

- 1% of the number of our ordinary shares then outstanding, in the form of ADSs or otherwise, which will equal approximately ordinary shares immediately after this offering; and
- the average weekly trading volume of our ADSs on the NASDAQ during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Such sales are also subject to manner-of-sale provisions, notice requirements and the availability of current public information about us. The manner-of-sale provisions require the securities to be sold either in "brokers' transactions" as such term is defined under the Securities Act, through transactions directly with a market maker as such term is defined under the Exchange Act or through a riskless principal transaction as described in Rule 144. In addition, the manner-of-sale provisions require the person selling the securities not to solicit or arrange for the solicitation of orders to buy the securities in anticipation of or in connection with such transaction or make any payment in connection with the offer or sale of the securities to any person other than the broker or dealer who executes the order to sell the securities. If the amount of securities to be sold in reliance upon Rule 144 during any period of three months exceeds 5,000 shares or other units or has an aggregate sale price in excess of US\$50,000, three copies of a notice on Form 144 should be filed with the SEC. If such securities are admitted to trading on any national securities exchange, one copy of such notice also must be transmitted to the principal exchange on which such securities are admitted. The Form 144 should be signed by the person for whose account the securities are to be sold and should be transmitted for filing concurrently with either the placing with a broker of an order to execute a sale of securities or the execution directly with a market maker of such a sale.

Persons who are not our affiliates and have beneficially owned our restricted securities for more than six months but not more than one year may sell the restricted securities without registration under the Securities Act subject to the availability of current public information about us. Persons who are not our affiliates and have beneficially owned our restricted securities for more than one year may freely sell the restricted securities without registration under the Securities Act.

#### **Rule 701**

Beginning 90 days after the date of this prospectus, persons other than affiliates who purchased ordinary shares under a written compensatory plan or contract may be entitled to sell such shares in the United States in reliance on Rule 701 under the Securities Act, or Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell these shares in reliance on Rule 144 subject only to its manner-of-sale requirements. However, the Rule 701 shares would remain subject to lock-up arrangements and would only become eligible for sale when the lock-up period expires.



**Registration Rights**

Upon closing of this offering, the holders of 238,526,241 of our Class A ordinary shares or their transferees (or the holders of our Class A ordinary shares or their transferees if the underwriters exercise in full the over-allotment option) will be entitled to request that we register their ordinary shares under the Securities Act, following the expiration of the lock-up agreements described above. See "Description of Share Capital—Members (Shareholders) Agreement and Voting Agreement—Registration Rights."

## TAXATION

The following is a general summary of the material Cayman Islands, People's Republic of China and United States federal income tax consequences relevant to an investment in our ADSs and Class A ordinary shares. To the extent that the discussion below relates to matters of Cayman Islands tax law, it is the opinion of Conyers Dill & Pearman, our Cayman Islands counsel. To the extent that the discussion below relates to matters of PRC tax law, it is the opinion of King & Wood Mallesons, our PRC counsel. To the extent that the discussion below relates to matters of United States federal income tax law, it is the opinion of Simpson Thacher & Bartlett LLP, our United States counsel. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular prospective purchaser. The discussion is based on laws and relevant interpretations thereof in effect as of the date of this prospectus, all of which are subject to change or different interpretations, possibly with retroactive effect. The discussion does not address U.S. state or local tax laws, or tax laws of jurisdictions other than the Cayman Islands, the People's Republic of China and the United States. You should consult your own tax advisors with respect to the consequences of acquisition, ownership and disposition of our ADSs and Class A ordinary shares.

### Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of our ADSs and ordinary shares. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. 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. The Cayman Islands is a party to a double tax treaty entered with the United Kingdom in 2010 but is otherwise not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to us or our operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on our shares, debentures or other obligations.

The undertaking for us is for a period of twenty years from June 8, 2004.

### People's Republic of China Taxation

In March 2007, the National People's Congress of China enacted the Enterprise Income Tax Law, which became effective on January 1, 2008. The Enterprise Income Tax Law 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 subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The Implementing Rules of the Enterprise Income Tax Law further defines the term "de facto management body" as the management body that exercises substantial and overall management and control over the business, personnel, accounts and properties of an enterprise. While we do not currently consider our company or any of our overseas subsidiaries to be a PRC resident enterprise, there is a risk that the PRC tax authorities may deem our company or any of our overseas subsidiaries as a PRC resident enterprise since a substantial majority of the members of our management team as well as the management team of some of our overseas subsidiaries are located in China, in which case we or the overseas subsidiaries, as the case may be, would be subject to the PRC enterprise income tax at the rate of 25% on worldwide income. If the PRC tax authorities determine that our Cayman Islands

holding company is a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. One example is a 10% withholding tax would be imposed on dividends we pay to our non-PRC enterprise shareholders and with respect to gains derived by our non-PRC enterprise shareholders from transferring our shares or ADSs. It is unclear whether, if we are considered a PRC resident enterprise, holders of our shares or ADSs would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

#### **Material United States Federal Income Tax Considerations**

The following summary describes the material United States federal income tax consequences of the purchase, ownership and disposition of our ADSs and ordinary shares as of the date hereof. This summary is only applicable to ADSs and ordinary shares held as capital assets by a United States Holder (as defined below).

As used herein, the term "United States Holder" means a beneficial owner of our ADSs or ordinary shares that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the depository to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

This summary does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;
- a person holding our ADSs or ordinary shares as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;

- a person liable for alternative minimum tax;
- a person who owns or is deemed to own 10% or more of our voting stock;
- a partnership or other pass-through entity for United States federal income tax purposes; or
- a person whose "functional currency" is not the United States dollar.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) holds our ADSs or ordinary shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our ADSs or ordinary shares, you should consult your tax advisors.

**This summary does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances and does not address the Medicare tax on net investment income or the effects of any state, local or non-United States tax laws. If you are considering the purchase, ownership or disposition of our ADSs or ordinary shares, you should consult your own tax advisors concerning the United States federal income tax consequences to you in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.**

#### **ADSs**

If you hold ADSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to United States federal income tax.

#### **Taxation of Dividends**

Subject to the discussion under "—Passive Foreign Investment Company" below, the gross amount of any distributions on the ADSs or ordinary shares (including any amounts withheld to reflect PRC withholding taxes) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of the ordinary shares, or by the depository, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

With respect to non-corporate United States Holders, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation is treated as a qualified foreign corporation with respect to dividends received from that corporation on ordinary shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. We have applied to list the ADSs on the NASDAQ. Provided that the listing is approved, United States Treasury Department guidance indicates that our ADSs will be readily tradable on an established securities market in the United States. Thus, subject to the discussion under "—Passive Foreign Investment Company" below, we believe that dividends we pay on our ADSs will meet the conditions required for the reduced tax rate. Since we do not expect that our ordinary shares will be listed on an established securities market, we do not believe that dividends that we pay on our ordinary shares that are not represented by ADSs will meet the conditions required for these reduced tax rates. There also can be no assurance that our ADSs will continue to be readily tradable on an established securities market in later years. Consequently, there can be no assurance that our ADSs will continue to be afforded the reduced tax rates. A qualified foreign corporation also includes a foreign corporation that is eligible for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a PRC resident enterprise under the PRC tax law (see "Taxation—People's Republic of China Taxation" above), we may be eligible for the benefits of the income tax treaty between the United States and the PRC, or the Treaty. In

that case, dividends we pay on our ordinary shares would be eligible for the reduced rates of taxation whether or not the shares are readily tradable on an established securities market in the United States, and whether or not the shares are represented by ADSs. Non-corporate United States Holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as "investment income" pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules given your particular circumstances.

Non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a passive foreign investment company, or PFIC, in the taxable year in which such dividends are paid or in the preceding taxable year (see "—Passive Foreign Investment Company" below).

In the event that we are deemed to be a PRC resident enterprise under the PRC tax law, you may be subject to PRC withholding taxes on dividends paid to you with respect to the ADSs or ordinary shares. See "Taxation—People's Republic of China Taxation." In that case, subject to certain conditions and limitations (including a minimum holding period requirement), PRC withholding taxes on dividends may be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the ADSs or ordinary shares will be treated as foreign-source income and will generally constitute passive category income. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisor regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits, as determined under United States federal income tax principles, the distribution ordinarily would be treated, first, as a tax-free return of capital, causing a reduction in the adjusted basis of the ADSs or ordinary shares (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of the ADSs or ordinary shares), and, second, the balance in excess of adjusted basis ordinarily would be taxed as capital gain recognized on a sale or exchange. However, we do not expect to determine our earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that distributions will generally be reported to the Internal Revenue Service, or IRS, and taxed to you as dividends (as discussed above), even if they might ordinarily be treated as a tax-free return of capital or as capital gain.

#### **Passive Foreign Investment Company**

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 PFIC for our taxable year ended December 31, 2015 and we do not expect to be a PFIC for our taxable year ending December 31, 2016 or in future taxable years, although there can be no assurance in this regard, since the determination of our PFIC status cannot be made until the end of a taxable year and depends significantly on the composition of our assets and income throughout the year.

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income, or
- at least 50% of the value (based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person), as well as gains from the sale of assets (such as stock) that produce passive income, foreign

currency gains, and certain other categories of income. If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of determining whether we are a PFIC, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income. However, it is not entirely clear how the contractual arrangements between us and our consolidated VIEs will be treated for purposes of the PFIC rules. For United States federal income tax 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), that would alter the composition of our income and assets for purposes of testing our PFIC status, and may cause us to be treated as a PFIC.

The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. 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. The composition of our income and our assets will also be affected by how, and how quickly, we spend the cash raised in this offering. If the cash is not deployed for active purposes, our risk of becoming a PFIC may increase.

If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares and you do not make a timely mark-to-market election, as described below, you will be subject to special—and generally very unfavourable—tax rules with respect to any "excess distribution" received and any gain realized from a sale or other disposition, including a pledge, of ADSs or ordinary shares. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

Although the determination of whether we are a PFIC is made annually, if we are a PFIC for any taxable year in which you hold our ADSs or ordinary shares, you will generally be subject to the special tax rules described above for that year and for each subsequent year in which you hold the ADSs or ordinary shares (even if we do not qualify as a PFIC in any subsequent years). However, if we cease to be a PFIC, you can avoid the continuing impact of the PFIC rules by making a special election to recognize gain as if your ADSs or ordinary shares had been sold on the last day of the last taxable year during which we were a PFIC. You are urged to consult your own tax advisor about this election.

In certain circumstances, in lieu of being subject to the special tax rules discussed above, you may make a mark-to-market election with respect to your ADSs or ordinary shares provided such ADSs or ordinary shares are treated as "marketable stock." The ADSs or ordinary shares generally will be treated as marketable stock if the ADSs or ordinary shares are "regularly traded" on a "qualified exchange or other market" (within the meaning of the applicable Treasury regulations). Under current law, the mark-to-market election may be available to holders of ADSs if the ADSs are listed on the NASDAQ, which constitutes a qualified exchange, although there can be no assurance that the ADSs will be "regularly traded" for purposes of the mark-to-market election. It should also be noted that it is intended that only the ADSs and not the ordinary shares will be listed on the NASDAQ. Consequently, if you are a holder of ordinary shares that are not represented by ADSs, you generally will not be eligible to make a mark-to-market election.

If you make an effective mark-to-market election, for each taxable year that we are a PFIC, you will include as ordinary income the excess of the fair market value of your ADSs at the end of the year over your adjusted basis in the ADSs. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted basis in the ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, any gain you recognize upon the sale or other disposition of your ADSs in a year that we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

Your adjusted basis in the ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or other market, or the IRS consents to the revocation of the election. You are urged to consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

A different election, known as the "qualified electing fund" or "QEF" election is generally available to holders of PFIC stock, but requires that the corporation provide the holders with a "PFIC Annual Information Statement" containing certain information necessary for the election, including the holder's pro rata share of the corporation's earnings and profits and net capital gains for each taxable year, computed according to United States federal income tax principles. We do not intend, however, to determine our earnings and profits or net capital gain under United States federal income tax principles, nor do we intend to provide United States Holders with a PFIC Annual Information Statement. Therefore, you should not expect to be eligible to make this election.

If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares and any of our non-United States subsidiaries is also a PFIC, you will be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

You will generally be required to file IRS Form 8621 if you hold our ADSs or ordinary shares in any year in which we are classified as a PFIC. You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding ADSs or ordinary shares if we are considered a PFIC in any taxable year.

#### **Taxation of Capital Gains**

For United States federal income tax purposes, you will recognize taxable gain or loss on any sale or exchange of ADSs or ordinary shares in an amount equal to the difference between the amount realized for the ADSs or ordinary shares and your adjusted basis in the ADSs or ordinary shares. Subject to the discussion under "—Passive Foreign Investment Company" above, such gain or loss will generally be capital gain or loss and will generally be long-term capital gain or loss if you have held the ADSs or ordinary shares for more than one year. Long-term capital gains of non-corporate United States Holders (including individuals) are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States source gain or loss. However, if we are treated as a PRC resident enterprise for PRC tax purposes and PRC tax is imposed on any gain, and if you are eligible for the benefits of the Treaty, you may elect to treat such gain as PRC source gain. If you are not eligible for the benefits of the Treaty or you fail to make the election to treat any gain as PRC source, then you may not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of our ADSs or ordinary shares unless such credit can be applied (subject to applicable limitations) against United States federal income tax due on other income derived from foreign

sources in the same income category (generally, the passive category). You are urged to consult your tax advisors regarding the tax consequences if any PRC tax is imposed on gain on a disposition of our ordinary shares or ADSs, including the availability of the foreign tax credit and the election to treat any gain as PRC source, under your particular circumstances.

**Information Reporting and Backup Withholding**

In general, information reporting will apply to dividends in respect of our ADSs or ordinary shares and the proceeds from the sale, exchange or other disposition of our ADSs or ordinary shares that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient such as a corporation. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the IRS in a timely manner.

Certain United States Holders are required to report information relating to our ADSs or ordinary shares by attaching a complete Form 8938, Statement of Specified Foreign Financial Assets, with their tax returns for each year in which they hold ADSs or ordinary shares. Significant penalties can apply if you are required to file this form and you fail to do so. You are urged to consult your own tax advisor regarding this and other information reporting requirements relating to your ownership of the ADSs or ordinary shares.



## UNDERWRITING

We are offering the ADSs described in this prospectus through a number of underwriters. Credit Suisse Securities (USA) LLC, J.P. Morgan Securities LLC, Citigroup Global Markets Inc., RBC Capital Markets, LLC and China Renaissance Securities (Hong Kong) Limited are acting as joint book-running managers of the offering and as representatives of the underwriters. We have entered into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the number of ADSs listed next to its name in the following table:

<u>Name</u>	<u>Number of ADSs</u>
Credit Suisse Securities (USA) LLC	
J.P. Morgan Securities LLC	
Citigroup Global Markets Inc.	
RBC Capital Markets, LLC	
China Renaissance Securities (Hong Kong) Limited	
Credit Agricole Securities (USA) Inc.	
<b>Total</b>	<b>19,250,000</b>

The underwriters are committed to purchase all the ADSs offered by us if they purchase any ADSs. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or the offering may be terminated.

The underwriters propose to offer the ADSs directly to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of US\$ \_\_\_\_\_ per ADS. Any such dealers may resell ADSs to certain other brokers or dealers at a discount of up to US\$ \_\_\_\_\_ per ADS from the initial public offering price. After the initial offering of the ADSs to the public, the offering price and other selling terms may be changed by the underwriters.

Sales of ADSs made inside and outside of the United States may be made by affiliates of the underwriters. Any offers or sales of the ADSs in the United States will be conducted by registered broker-dealers in the United States. China Renaissance Securities (Hong Kong) Limited will offer ADSs in the United States through its SEC-registered broker-dealer affiliate in the United States, China Renaissance Securities (US) Inc.

The address of Credit Suisse Securities (USA) LLC is Eleven Madison Avenue, New York, New York 10010, United States of America. The address of J.P. Morgan Securities LLC is 383 Madison Avenue, New York, New York 10179, United States of America. The address of Citigroup Global Markets Inc. is 388 Greenwich Street, New York, New York 10013, United States of America. The address of RBC Capital Markets, LLC is 200 Vesey Street, 8th Floor, New York, New York 10281, United States of America. The address of China Renaissance Securities (Hong Kong) Limited is Units 8107-08, Level 81, International Commerce Centre 1 Austin Road West, Kowloon, Hong Kong.

### Option to Purchase Additional ADSs

The underwriters have an option to buy up to 2,887,500 additional ADSs from us. The underwriters have 30 days from the date of this prospectus to exercise this option to purchase additional ADSs. If any ADSs are purchased with this option to purchase additional ADSs, the underwriters will purchase ADSs in approximately the same proportion as shown in the table above. If any additional ADSs are purchased, the underwriters will offer the additional ADSs on the same terms as those on which the ADSs are being offered.

**Commissions and Expenses**

The underwriting fee is equal to the public offering price per ADS less the amount paid by the underwriters to us per ADS. The underwriting fee is US\$ \_\_\_\_\_ per ADS. The following table shows the per ADS and total underwriting discounts and commissions to be paid to the underwriters assuming both no exercise and full exercise of the underwriters' option to purchase additional ADSs.

Per ADS	Without exercise of option to purchase additional ADSs		With full exercise of option to purchase additional ADSs	
	US\$	US\$	US\$	US\$
Total				

We have also agreed to reimburse the underwriters for certain expenses in connection with this offering in an aggregate amount not exceeding US\$ \_\_\_\_\_. Such reimbursements are deemed underwriting compensation by the Financial Industry Regulatory Authority, Inc.

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding the underwriting discounts and commissions, will be approximately US\$ \_\_\_\_\_.

**Electronic Distribution**

A prospectus in electronic format may be made available on the web sites maintained by one or more underwriters, or selling group members, if any, participating in the offering. The underwriters may agree to allocate a number of ADSs to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters and selling group members that may make Internet distributions on the same basis as other allocations.

**Lock-Up Agreements**

We have agreed that, with limited exceptions, we will not (i) offer, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act relating to, any of our ordinary shares or the ADSs, or securities convertible into or exchangeable or exercisable for any of our ordinary shares or the ADSs, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, or (ii) enter into any swap, hedge or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of any of our ordinary shares, the ADSs or any such other securities, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position in our ordinary shares or the ADSs or any such other securities, or publicly disclose the intention to make any such agreement or transaction, whether any of these transactions are to be settled by the delivery of ordinary shares, ADSs or such other securities, in cash or otherwise), in each case without the prior written consent of Credit Suisse Securities (USA) LLC and J.P. Morgan Securities LLC for a period of 180 days after the date of this prospectus.

Our directors and executive officers, and our existing shareholders, certain option holders and certain holders of convertible bonds, have entered into lock-up agreements with the underwriters prior to the commencement of this offering pursuant to which each of these persons or entities, with limited exceptions, for a period of 180 days after the date of this prospectus, may not, without the prior written consent of Credit Suisse Securities (USA) LLC and J.P. Morgan Securities LLC, (1) offer, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any of our ordinary shares or the ADSs, or any securities convertible into or exercisable or exchangeable for our ordinary shares or the ADSs (including, with limited exceptions, ordinary shares, ADSs or such other

securities which may be deemed to be beneficially owned by such directors, executive officers, managers and members in accordance with the rules and regulations of the SEC and securities which may be issued upon exercise of an option or warrant) or (2) enter into any swap, hedge or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of our ordinary shares or the ADSs, or such other securities, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position in our ordinary shares or the ADSs or any such other securities, or publicly disclose the intention to make any such agreement or transaction, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of ordinary shares or ADSs or such other securities, in cash or otherwise, or (3) make any demand for or exercise any right with respect to the registration of any of our ordinary shares or the ADSs, or any security convertible into or exercisable or exchangeable for our ordinary shares or the ADSs.

In addition, we will instruct JPMorgan Chase Bank, N.A., as the depositary, not to accept any deposit of any ordinary shares or issue any ADSs for 180 days after the date of this prospectus unless we otherwise instruct the depositary with the prior written consent of the representatives of the underwriters. The foregoing does not affect the right of ADS holders to cancel their ADSs and withdraw the underlying ordinary shares.

#### **Relationships**

Certain of the underwriters and their affiliates have provided in the past to us and our affiliates and may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their business, for which they have received and may continue to receive customary fees and commissions. An affiliate of Credit Agricole Securities (USA) Inc. acted as an arranger/coordinating bank and is a lender under outstanding term loan facilities with certain of our subsidiaries and us, as ultimate parent, and has received, and may in the future receive customary fees and payments in connection therewith. As described in "Use of Proceeds," net proceeds from this offering will be used to repay a portion of outstanding indebtedness under these term loan facilities. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

#### **Directed ADS Program**

At our request, the underwriters have reserved up to 5% of the ADSs being offered by this prospectus for sale at the initial public offering price to our directors, officers, employees and business associates. The sales will be made by Piper Jaffray & Co. through a directed ADS program. We do not know if these persons will choose to purchase all or any portion of these reserved ADSs, but any purchases they do make will reduce the number of ADSs available to the general public. Any reserved ADSs not so purchased will be offered by the underwriters to the general public on the same terms as the other ADSs. We have agreed to indemnify Piper Jaffray & Co. for against certain liabilities and expenses, including liabilities under the Securities Act, in connection with the sales of directed ADSs.

#### **Indemnification**

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

#### **NASDAQ Listing**

We have applied to list our ADSs on the NASDAQ under the symbol "GDS."

### **Stabilization, Short Positions and Penalty Bids**

In connection with this offering, Credit Suisse Securities (USA) LLC, who will act as the sole stabilization agent, may engage in stabilizing transactions, which involves making bids for, purchasing and selling ADSs in the open market for the purpose of preventing or retarding a decline in the market price of the ADSs while this offering is in progress. These stabilizing transactions may include making short sales of ADSs, which involves the sale by the underwriters of a greater number of ADSs than they are required to purchase in this offering, and purchasing ADSs on the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' option to purchase additional ADSs referred to above, or may be "naked" shorts, which are short positions in excess of that amount. The underwriters may close out any covered short position either by exercising their option to purchase additional ADSs, in whole or in part, or by purchasing ADSs in the open market. In making this determination, the underwriters will consider, among other things, the price of ADSs available for purchase in the open market compared to the price at which the underwriters may purchase ADSs through the option to purchase additional ADSs. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the ADSs in the open market that could adversely affect investors who purchase in this offering. To the extent that the underwriters create a naked short position, they will purchase ADSs in the open market to cover the position.

The underwriters have advised us that, pursuant to Regulation M of the Securities Act of 1933, they may also engage in other activities that stabilize, maintain or otherwise affect the price of the ADSs, including the imposition of penalty bids. This means that if the representatives of the underwriters purchase ADSs in the open market in stabilizing transactions or to cover short sales, the representatives can require the underwriters that sold those ADSs as part of this offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the ADSs or preventing or retarding a decline in the market price of the ADSs, and, as a result, the price of the ADSs may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on the NASDAQ, in the over-the-counter market or otherwise.

### **Pricing of the Offering**

Prior to this offering, there has been no public market for our Class A ordinary shares or ADSs. The initial public offering price will be determined by negotiations between us and the representatives of the underwriters. In determining the initial public offering price, we and the representatives of the underwriters expect to consider a number of factors including:

- the information set forth in this prospectus and otherwise available to the representatives;
- our prospects and the history and prospects for the industry in which we compete;
- an assessment of our management;
- our prospects for future earnings;
- the general condition of the securities markets at the time of this offering;
- the recent market prices of, and demand for, publicly traded common stock or ADSs of generally comparable companies; and
- other factors deemed relevant by the underwriters and us.

Neither we nor the underwriters can assure investors that an active trading market will develop for our ADSs, or that the ADSs will trade in the public market at or above the initial public offering price.

## Selling Restrictions

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

**Canada.** The ADSs may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the ADSs must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

**European Economic Area.** In relation to each Member State of the European Economic Area (each, a "Relevant Member State"), no offer of ADSs may be made to the public in that Relevant Member State other than:

- A. to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- B. to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives; or
- C. in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of ADSs shall require the Company or the representatives to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any ADSs or to whom any offer is made will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive. In the case of any ADSs being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the ADSs acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any ADSs to the public other than their offer or resale in a Relevant

Member State to qualified investors as so defined or in circumstances in which the prior consent of the representatives has been obtained to each such proposed offer or resale.

The Company, the representatives and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

This prospectus has been prepared on the basis that any offer of ADSs in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of ADSs. Accordingly any person making or intending to make an offer in that Relevant Member State of ADSs which are the subject of the offering contemplated in this prospectus may only do so in circumstances in which no obligation arises for the Company or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the Company nor the underwriters have authorized, nor do they authorize, the making of any offer of ADSs in circumstances in which an obligation arises for the Company or the underwriters to publish a prospectus for such offer.

For the purpose of the above provisions, the expression "an offer to the public" in relation to any ADSs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the ADSs to be offered so as to enable an investor to decide to purchase or subscribe the ADSs, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member States) and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

**Hong Kong.** The ADSs have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the ADSs has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to ADSs which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

**People's Republic of China.** This prospectus does not constitute a public offer of the ADSs, whether by sale or subscription, in the PRC. The ADSs are not being offered or sold directly or indirectly in the PRC to or for the benefit of, legal or natural persons of the PRC.

Further, no legal or natural persons of the PRC may directly or indirectly purchase any of the ADSs or any beneficial interest therein without obtaining all prior PRC governmental approvals that are required, whether statutorily or otherwise. Persons who come into possession of this document are required by the issuer and its representatives to observe these restrictions.

**Singapore.** This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of ADSs may not be circulated or distributed, nor may the ADSs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified

in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the ADSs are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the ADSs pursuant to an offer made under Section 275 of the SFA except:

- (a) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (b) where no consideration is or will be given for the transfer;
- (c) where the transfer is by operation of law;
- (d) as specified in Section 276(7) of the SFA; or
- (e) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

**United Kingdom.** This document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are "qualified investors" (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons").

Any person in the United Kingdom that is not a relevant person should not act or rely on the information included in this document or use it as basis for taking any action. In the United Kingdom, any investment or investment activity that this document relates to may be made or taken exclusively by relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

**EXPENSES RELATED TO THIS OFFERING**

Set forth below is an itemization of the total expenses, excluding underwriting discounts and commissions, which are expected to be incurred in connection with the offer and sale of the ADSs by us. With the exception of the SEC registration fee and the Financial Industry Regulatory Authority filing fee, all amounts are estimates.

SEC registration fee	US\$	35,921
NASDAQ Global Market entry and listing fee		225,000
Financial Industry Regulatory Authority filing fee		46,989
Printing and engraving expenses		500,000
Legal fees and expenses		3,700,000
Accounting fees and expenses		900,000
Miscellaneous		600,000
<b>Total</b>	<b>US\$</b>	<b>6,007,910</b>

These expenses will be borne by us, except for underwriting discounts and commissions, which will be borne by us in proportion to the numbers of ADSs sold in the offering by us, respectively.



#### LEGAL MATTERS

We are being represented by Simpson Thacher & Bartlett LLP with respect to certain legal matters of United States federal securities and New York state law. Certain legal matters of United States federal securities and New York state law in connection with this offering will be passed upon for the underwriters by Fenwick & West LLP. The validity of the Class A ordinary shares represented by the ADSs offered in this offering and legal matters as to Cayman Islands law will be passed upon for us by Conyers Dill & Pearman. Certain legal matters as to PRC law will be passed upon for us by King & Wood Mallesons and for the underwriters by Fangda Partners. Simpson Thacher & Bartlett LLP and Conyers Dill & Pearman may rely upon King & Wood Mallesons with respect to matters governed by PRC law. Fenwick & West LLP may rely upon Fangda Partners with respect to matters governed by PRC law.

#### EXPERTS

The consolidated financial statements of GDS Holdings Limited as of December 31, 2014 and 2015 and for the years then ended have been included herein and in the registration statement, in reliance upon the report of KPMG Huazhen LLP, an independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

The consolidated statement of comprehensive loss and consolidated statement of cash flows of EDC Holding Limited for the six-month period ended June 30, 2014 have been included herein and in the registration statement, in reliance upon the report of KPMG Huazhen LLP, an independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

The office of KPMG Huazhen LLP is located at 50th Floor, Plaza 66, 1266 Nanjing West Road, Shanghai, People's Republic of China.

#### WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form F-1, including relevant exhibits and schedules under the Securities Act with respect to underlying Class A ordinary shares represented by the ADSs, to be sold in this offering. A related registration statement on F-6 will be filed with the SEC to register the ADSs. This prospectus, which constitutes a part of the registration statement, does not contain all of the information contained in the registration statement. You should read the registration statement and its exhibits and schedules for further information with respect to us and our ADSs.

Immediately upon closing of this offering, we will become subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we will be required to file reports, including annual reports on Form 20-F, and other information with the SEC. All information filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Additional information may also be obtained over the Internet at the SEC's web site at [www.sec.gov](http://www.sec.gov).

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to furnish the depositary with our annual reports, which will include a review of operations and annual audited consolidated combined financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meeting and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depositary from us.

**INDEX TO FINANCIAL INFORMATION**  
**GDS HOLDINGS LIMITED AND SUBSIDIARIES**

	<u>Page</u>
<b>Consolidated Financial Statements</b>	
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-2
<a href="#">Consolidated Balance Sheets as of December 31, 2014 and 2015</a>	F-3
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2014 and 2015</a>	F-4
<a href="#">Consolidated Statements of Comprehensive Loss for the years ended December 31, 2014 and 2015</a>	F-5
<a href="#">Consolidated Statements of Changes in Shareholders' Deficit for the years ended December 31, 2014 and 2015</a>	F-6
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2015</a>	F-7
<a href="#">Notes to Consolidated Financial Statements</a>	F-9
<b>Unaudited Condensed Consolidated Financial Statements</b>	
<a href="#">Unaudited Condensed Consolidated Balance Sheets as of December 31, 2015 and June 30, 2016</a>	F-62
<a href="#">Unaudited Condensed Consolidated Statements of Operations for the Six-month Periods Ended June 30, 2015 and 2016</a>	F-63
<a href="#">Unaudited Condensed Consolidated Statements of Comprehensive Loss for the Six-month Periods Ended June 30, 2015 and 2016</a>	F-64
<a href="#">Unaudited Condensed Consolidated Statement of Changes in Shareholders' Deficit for the Six-month Period Ended June 30, 2016</a>	F-65
<a href="#">Unaudited Condensed Consolidated Statements of Cash Flows for the Six-month Periods Ended June 30, 2015 and 2016</a>	F-66
<a href="#">Notes to Unaudited Condensed Consolidated Financial Statements</a>	F-68
<b>EDC HOLDING LIMITED AND SUBSIDIARIES</b>	
<b>Consolidated Financial Statements</b>	
<a href="#">Independent Auditors' Report</a>	F-90
<a href="#">Consolidated Statement of Comprehensive Loss for the Six-month Period Ended June 30, 2014</a>	F-91
<a href="#">Consolidated Statement of Cash Flows for the Six-month Period Ended June 30, 2014</a>	F-92
<a href="#">Notes to Consolidated Financial Statements</a>	F-94

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**The Board of Directors and Shareholders  
GDS Holdings Limited:**

We have audited the accompanying consolidated balance sheets of GDS Holdings Limited and subsidiaries (the "Company") as of December 31, 2014 and 2015, and the related consolidated statements of operations, comprehensive loss, changes in shareholders' deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GDS Holdings Limited and subsidiaries as of December 31, 2014 and 2015, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG Huazhen LLP

Shanghai, China  
May 20, 2016

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data and per share data, or otherwise noted)

	Note	As at December 31	
		2014	2015
<b>Assets</b>			
<b>Current assets</b>			
Cash			
(including cash of VIEs of RMB4,857 and RMB12,032 as of December 31, 2014 and 2015, respectively)		606,758	924,498
Restricted cash		3,947	6,425
Accounts receivable, net of allowance for doubtful accounts (including accounts receivables of VIEs of RMB506 and RMB3,847, net of allowance for doubtful accounts as of December 31, 2014 and 2015, respectively)	3	73,366	111,013
Value-added-tax ("VAT") recoverable (including VAT recoverable of VIEs of RMB508 and RMB1,389 as of December 31, 2014 and 2015, respectively)		18,249	59,680
Prepaid expenses (including prepaid expenses of VIEs of RMB2 and RMB5,173 as of December 31, 2014 and 2015, respectively)		36,378	51,395
Other current assets (including other current asset of VIEs of RMB10 and RMB234 as of December 31, 2014 and 2015, respectively)	4	7,133	33,688
<b>Total current assets</b>		<b>745,831</b>	<b>1,186,699</b>
<b>Property and equipment, net</b>			
(including property and equipment, net of VIEs of RMB654 and RMB5,830 as of December 31, 2014 and 2015, respectively)	5	1,694,944	2,512,687
<b>Intangible assets, net</b>	6	<b>55,860</b>	<b>46,935</b>
Prepaid land use rights, net	7	28,025	27,408
Goodwill	8	1,294,664	1,294,664
Deferred tax assets	18	—	2,363
Other non-current assets		34,750	57,516
<b>Total assets</b>		<b>3,854,074</b>	<b>5,128,272</b>
<b>Liabilities, Redeemable Preferred Shares and Shareholders' Deficit</b>			
<b>Current liabilities</b>			
Short-term borrowings and current portion of long-term borrowings	9	426,709	428,218
Bonds payable	10	14,340	—
Accounts payable (including accounts payable of VIEs of RMB264 and RMB4,151 as of December 31, 2014 and 2015, respectively)		231,814	215,658
Accrued expenses and other payables (including accrued expenses and other payables of VIEs of RMB760 and RMB1,802 as of December 31, 2014 and 2015, respectively)	11	118,545	118,316
Due to related parties	24	23,300	67,604
Deferred revenue (including deferred revenue of VIEs of RMB717 and RMB8,992 as of December 31, 2014 and 2015, respectively)		43,301	46,508
Obligations under capital leases, current	12	39,621	48,745
<b>Total current liabilities</b>		<b>897,630</b>	<b>925,049</b>
Long-term borrowings, excluding current portion	9	492,123	958,264
Convertible bonds payable	10	—	648,515
Obligations under capital leases, non-current	12	246,996	424,939
Deferred tax liabilities	18	40,724	37,691
Other long-term liabilities		29,127	79,005
<b>Total liabilities</b>		<b>1,706,600</b>	<b>3,073,463</b>
Redeemable preferred shares (US\$0.00005 par value; 350,563,436 shares authorized; 349,087,677 shares issued and outstanding with aggregate redemption amount of RMB2,029,766 and RMB2,277,059, as of December 31, 2014 and 2015, respectively)	13	2,164,039	2,395,314
<b>Shareholders' deficit</b>			
Ordinary shares (US\$0.00005 par value; 675,636,564 shares authorized; 217,987,922 shares issued and outstanding as of December 31, 2014 and 2015, respectively)	15	76	76
Additional paid-in capital		410,486	303,621
Accumulated other comprehensive income (loss)		56,542	(61,949)
Accumulated deficit	19	(483,669)	(582,253)
<b>Total shareholders' deficit</b>		<b>(16,565)</b>	<b>(340,505)</b>
Commitments and contingencies	23		
<b>Total liabilities, redeemable preferred shares and shareholders' deficit</b>		<b>3,854,074</b>	<b>5,128,272</b>

See accompanying notes to consolidated financial statements.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Consolidated Statements of Operations

(In thousands, except share data and per share data, or otherwise noted)

	Note	Years ended December 31,	
		2014	2015
Net revenue	17	468,337	703,636
Cost of revenue		(388,171)	(514,997)
Gross profit		80,166	188,639
Operating expenses			
Selling and marketing expenses		(40,556)	(57,588)
General and administrative expenses		(113,711)	(128,714)
Research and development expenses		(1,597)	(3,554)
Loss from operations		(75,698)	(1,217)
Other income (expenses):			
Interest income		6,935	1,355
Interest expenses		(131,908)	(126,901)
Foreign currency exchange (loss) gain, net		(875)	11,107
Government grants		4,870	3,915
Gain on remeasurement of equity investment	8	62,506	—
Others, net		(412)	1,174
Loss before income taxes		(134,582)	(110,567)
Income tax benefits	18	4,583	11,983
Net loss		(129,999)	(98,584)
Net loss		(129,999)	(98,584)
Extinguishment of redeemable preferred shares	13	(106,515)	—
Change in redemption value of redeemable preferred shares	13	(69,116)	(110,926)
Dividends on redeemable preferred shares	20	(3,509)	(7,127)
Net loss available to ordinary shareholders		(309,139)	(216,637)
Loss per ordinary share			
Basic and diluted	20	(1.91)	(0.99)
Weighted average number of ordinary share outstanding			
Basic and diluted	20	162,070,745	217,987,922

See accompanying notes to consolidated financial statements.

**GDS HOLDINGS LIMITED AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Loss**  
**(In thousands, except share data and per share data, or otherwise noted)**

	Years ended December 31,	
	2014	2015
Net loss	(129,999)	(98,584)
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of nil tax	4,114	(118,491)
Comprehensive loss	<u>(125,885)</u>	<u>(217,075)</u>

See accompanying notes to consolidated financial statements.

**GDS HOLDINGS LIMITED AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Shareholders' Deficit**  
(In thousands, except share data and per share data, or otherwise noted)

	Note	Ordinary Shares		Additional paid-in capital	Accumulated other comprehensive (loss) income	Accumulated deficit	Total deficit
		Number	Amount				
<b>Balance at January 1, 2014</b>	15	110,000,001	43	—	52,428	(353,670)	(301,199)
Loss for the year		—	—	—	—	(129,999)	(129,999)
Other comprehensive income		—	—	—	4,114	—	4,114
Total comprehensive loss		—	—	—	4,114	(129,999)	(125,885)
Acquisition of EDC Holding	8, 15	88,352,558	27	472,918	—	—	472,945
Issuance of shares in exchange for bonds payable	10, 15	38,397,655	12	205,524	—	—	205,536
Repurchase of ordinary shares	15	(18,762,292)	(6)	(119,658)	—	—	(119,664)
Extinguishment of redeemable preferred shares upon repurchase	13	—	—	(76,900)	—	—	(76,900)
Extinguishment of redeemable preferred shares upon exchange	13	—	—	(29,615)	—	—	(29,615)
Change in redemption value of redeemable preferred shares	13	—	—	(69,116)	—	—	(69,116)
Share-based compensation	16	—	—	27,333	—	—	27,333
		107,987,921	33	410,486	—	—	410,519
<b>Balance at December 31, 2014 and January 1, 2015</b>		<b>217,987,922</b>	<b>76</b>	<b>410,486</b>	<b>56,542</b>	<b>(483,669)</b>	<b>(16,565)</b>
Loss for the year		—	—	—	—	(98,584)	(98,584)
Other comprehensive loss		—	—	—	(118,491)	—	(118,491)
Total comprehensive loss		—	—	—	(118,491)	(98,584)	(217,075)
Change in redemption value of redeemable preferred shares	13	—	—	(110,926)	—	—	(110,926)
Share-based compensation	16	—	—	4,061	—	—	4,061
<b>Balance at December 31, 2015</b>		<b>217,987,922</b>	<b>76</b>	<b>303,621</b>	<b>(61,949)</b>	<b>(582,253)</b>	<b>(340,505)</b>

See accompanying notes to consolidated financial statements.



**GDS HOLDINGS LIMITED AND SUBSIDIARIES**
**Consolidated Statements of Cash Flows**

(In thousands, except share data and per share data, or otherwise noted)

	Note	Years ended December 31,	
		2014	2015
<b>Cash flows from operating activities:</b>			
Net loss		(129,999)	(98,584)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Amortization of debt issuance cost and debt discount		33,874	—
Depreciation and amortization		82,753	145,406
Net gain on disposal of property and equipment		(37)	—
Share-based compensation expense		27,333	4,061
Gain on remeasurement of equity investment		(62,506)	—
Allowance for doubtful accounts		2,156	—
Deferred tax benefit		(5,024)	(10,589)
<b>Changes in operating assets and liabilities, net of effect of acquisitions:</b>			
Increase of accounts receivable		(11,851)	(37,647)
Increase of VAT recoverable		(16,197)	(41,431)
Increase of prepaid expenses		(3,499)	(15,017)
Increase of restricted cash		—	(6,425)
Decrease (increase) of other current assets		81,334	(12,287)
Decrease (increase) of other non-current assets		4,105	(22,766)
Decrease of accounts payable		(6,760)	(5,150)
(Decrease) increase of due to related parties		(3,086)	2,668
Increase of deferred revenue		10,675	3,207
Increase (decrease) of accrued expenses and other payables		18,293	(1,071)
Increase of other long-term liabilities		6,373	15,327
<b>Net cash provided by (used in) operating activities</b>		<b>27,937</b>	<b>(80,298)</b>
<b>Cash flows from investing activities:</b>			
Payments for purchase of property and equipment		(248,349)	(732,979)
Loans made to a related party	24(a)	(307,048)	—
Cash acquired from the acquisition of EDC Holding	8	40,999	—
Cash paid for an acquisition made by EDC Holding		(13,592)	—
Proceeds from sale of property and equipment		163	52
Release of restricted cash related to purchase of property and equipment		4,078	1,022
<b>Net cash used in investing activities</b>		<b>(523,749)</b>	<b>(731,905)</b>

See accompanying notes to consolidated financial statements.

**GDS HOLDINGS LIMITED AND SUBSIDIARIES**
**Consolidated Statements of Cash Flows (Continued)**

(In thousands, except share data and per share data, or otherwise noted)

	Note	Years ended December 31,	
		2014	2015
<b>Cash flows from financing activities:</b>			
Proceeds from short-term borrowings		298,307	333,000
Proceeds from long-term borrowings		200,000	584,457
Repayment of short-term borrowings		(357,307)	(289,000)
Repayment of long-term borrowings		(115,936)	(137,709)
Payment of issuance cost of borrowings		—	(24,310)
Proceeds from issuance of convertible bonds payable	10	—	648,950
Proceeds from issuance of bonds payable	10	114,950	—
Repayment of bonds payable	10	(4,081)	(14,330)
Proceeds from a related party loan	24(a)	—	64,936
Proceeds from issuance of Series C redeemable preferred shares	13	1,521,295	—
Payment of issuance costs of Series C redeemable preferred shares	13	(20,128)	—
Repurchase of ordinary shares	15	(119,664)	—
Repurchase of redeemable preferred shares	13	(455,366)	(23,300)
Payment under capital lease obligations		(9,057)	(17,934)
Restricted cash released upon repayment of borrowings		3,274	2,925
<b>Net cash provided by financing activities</b>		<b>1,056,287</b>	<b>1,127,685</b>
Effect of exchange rate changes on cash		(2,328)	2,258
<b>Net increase in cash</b>		<b>558,147</b>	<b>317,740</b>
Cash at beginning of year		48,611	606,758
Cash at end of year		<u>606,758</u>	<u>924,498</u>
<b>Supplemental disclosures of cash flow information</b>			
Interest paid		55,149	81,216
Income tax paid		443	853
<b>Supplemental disclosures of non-cash investing and financing activities</b>			
Payables for purchase of property and equipment		73,709	20,402
Purchase of property and equipment through capital leases		—	205,000
Issuance of ordinary shares in exchange of bonds payable	10	205,536	—
Issuance of ordinary and preferred shares for the acquisition of EDC Holding	8	1,184,242	—

See accompanying notes to consolidated financial statements.

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(In thousands, except share data and per share data, or otherwise noted)

1. DESCRIPTION OF BUSINESS, ORGANIZATION AND BASIS OF PRESENTATION

(a) *Description of business*

GDS Holdings Limited (the "Parent" or "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"). The Company operates its data centers in Hong Kong Special Administrative Region, Shanghai Municipality, Beijing Municipality, Jiangsu Province, Guangdong Province and Sichuan Province of the PRC and serves customers that primarily operate in the internet and banking industries. During the periods presented, the Company's operations are primarily conducted through a wholly owned subsidiary, Global Data Solutions Co., Ltd. ("GDS Suzhou").

On June 30, 2014, the Company acquired EDC Holding Limited and its subsidiaries ("EDC Holding"), a limited liability holding company incorporated in the Cayman Islands. EDC Holding primarily provides colocation services in the PRC. See note 8.

(b) *Basis of presentation*

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.

The accompanying consolidated financial statements contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Company's ability to operate profitably, to generate cash flows from operations, and to pursue financing arrangements, including obtaining new bank borrowings or renewing its existing bank borrowings.

Historically, the Company relied on external bank and third party loans and issuances of preferred shares and convertible bonds to fund its working capital and capital expenditure requirements and to meet its obligations and commitments when they become due.

The Company has carried out a review of its cash flow forecast for the twelve months ending December 31, 2016. Based on such forecast, management believes that adequate sources of liquidity exist to fund the Company's working capital and capital expenditures requirements, and to meet its short-term debt obligations and other liabilities and commitments as they become due. In preparing the cash flow forecast, management has considered historical cash requirements, working capital and capital expenditures plans, estimated cash flows provided by operations, existing cash on hand and available credit facilities, as well as other key factors, including its ability to renew its short-term bank borrowings during 2016 and to obtain external financing. Management believes the assumptions used in the cash forecast are reasonable.

On December 30, 2015, the Company entered into a subscription agreement with two investors for the issuance of 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 issued the first tranche of US\$100,000 (RMB648,950) and the second tranche of US\$50,000 (RMB324,475), respectively. A portion

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

1. DESCRIPTION OF BUSINESS, ORGANIZATION AND BASIS OF PRESENTATION (Continued)

of the second tranche was used to settle an outstanding loan of US\$10,000(RMB64,936). The subscription for the remaining third and fourth tranches of the Convertible Bonds due 2019 in an aggregate principal amount of US\$100,000 (RMB648,950) expires on September 30, 2016.

From January 1, 2016 to May 20, 2016, the Company repaid its bank borrowings that matured during this period in the aggregate amount of RMB159,024 and obtained new bank borrowings of RMB184,275.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Principles of Consolidation*

The accompanying consolidated financial statements include the financial statements of GDS Holdings Limited, its subsidiaries and consolidated variable interest entities ("VIEs") for which the Company is the primary beneficiary. The VIEs are Beijing Wanguo Chang'an Science and Technology Co., Ltd., ("GDS Beijing") and Shanghai Shu'an Data Services Co., Ltd., ("GDS Shanghai").

In certain regions of the PRC, the Company's operations are conducted through 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 hold the legal equity interests of the VIEs on behalf of the Company. The equity holders of the VIEs are the CEO of the Company and his relative.

A series of contractual agreements, including equity interest pledge agreements, powers of attorney, exclusive technology license and services agreements, exclusive option agreements and loan agreements (collectively, the "VIE Agreements") were entered among GDS Suzhou, the VIEs, and the equity holders of the VIEs. Through these agreements, the equity holders have granted all their legal rights, including voting rights, dividends rights, and disposition rights, of their equity interests in the VIEs to the Company. Accordingly, the equity holders of the VIEs do not have (i) rights to make decisions about the activities of the VIEs and (ii) rights to receive the expected residual returns of the VIEs.

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 service 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 law; and (iv) the right to require each of the shareholder of the VIEs to appoint the PRC citizen(s) as designated by GDS Suzhou 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. During the periods presented, the Company provided loans to the VIEs to support their working capital requirements and for capitalization purposes.

In accordance with 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

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

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

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.

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 assets and liabilities of the VIEs are presented parenthetically on the face of the consolidated balance sheets. The operating, investing and financing cash flows of the VIEs were insignificant during the years ended December 31, 2014 and 2015. Net revenue and net loss of the VIEs that were included in the Company's consolidated financial statements for the years ended December 31, 2014 and 2015 are as follows:

	Years ended December 31,		
	2014	2015	
Net revenue	9,244	30,598	
Net loss	4,779	5,327	

The creditors of the VIEs do not have recourse to the general credit of the Company or its consolidated subsidiaries.

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

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

In order to adapt to the new regulatory requirements in China, the Company completed an internal restructuring in respect of GDS Suzhou on April 13, 2016 whereby GDS Suzhou was converted into a PRC domestic company that is wholly owned by GDS Beijing. See Note 26(b) for a further discussion of the restructuring and the VIE Agreements currently in effect.

**(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 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 realization of deferred income tax assets, the fair value of share-based compensation awards, the recoverability of long-lived 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) 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, 2014 and 2015.

**(d) Restricted cash**

Restricted cash represents amounts held by banks, which are not available for the Company's use, as security for issuance of commercial acceptance notes relating to purchase of property and equipment, letters of guarantee or bank borrowings and the related interest. Upon maturity of the commercial acceptance notes, letters of guarantee and repayment of bank borrowings, the deposits are released by the bank and available for general use by the Company. Restricted cash is reported within cash flows from operating, investing or financing activities in the consolidated statements of cash flows with reference to the purpose of the restriction.

**(e) 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,

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

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

the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels (see note 14 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.

**(f) Accounts receivable**

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. 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 receivables 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. The Company does not have any off-balance-sheet credit exposure related to its customers.

**(g) Property and equipment**

Property and equipment are carried at cost less accumulated depreciation and any recorded impairment. Property and equipment acquired under capital 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.

Buildings	20 - 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

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 allocated to the property and equipment categories 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 capital 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 capital lease are amortized over the lease term.

(h) **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.

In August 2014, the Company entered into an agreement with a customer for the development, construction and sale of an ancillary property and the related land right. As of December 31, 2015, all the conditions precedent to the sale of the property have not been performed, and therefore no revenue or income was recognized during the periods presented. The cost of the property held for sale of RMB9,075 is recorded in other current assets (note 4).

(i) **Leases**

Leases are classified at the lease inception date as either a capital lease or an operating lease. A lease is a capital lease if any of the following conditions exists: 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 records 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. As of December 31, 2014 and 2015, assets under capital leases represent data center buildings and data center equipment.

Rental costs on operating leases are 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 are considered in determining the straight-line rent expense to be recorded over the lease term.



## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

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

Rental costs associated with building operating leases that are incurred during the construction of leasehold improvements and to otherwise ready the property for the Company's intended use are recognized as rental expenses and are not capitalized.

**(j) 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.

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, 2014	—
Additions	2,148
Accretion expense	73
Asset retirement obligations as of December 31, 2014	2,221
Additions	3,299
Accretion expense	255
Asset retirement obligations as of December 31, 2015	5,775

**(k) Intangible assets**

Intangible assets acquired in the acquisition of EDC Holding comprised of customer relationships and favorable leases.

The weighted-average amortization period by major intangible asset class is as follows:

Customer relationships	5-6 years
Favorable lease	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.

Favorable lease is recognized as an intangible asset if the terms of the acquiree's operating lease are favorable relative to market terms. Favorable lease is amortized on a straight-line method over the lease term.

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) **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 are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the term of the land use right of 50 years.

(m) **Goodwill**

Goodwill is an asset representing the future economic benefits arising from other assets acquired in the acquisition of EDC Holding 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. Estimating fair value is performed by utilizing various valuation techniques, with a primary technique being a discounted cash flow which requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long term rate of growth for the Company's business, estimation of the useful life over which cash flows will occur, and determination of the Company's weighted average cost of capital.

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 two-step 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 two-step goodwill impairment test is not required. If the two-step goodwill impairment test is required, first, 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 indication of goodwill impairment exists for the reporting unit and the Company performs step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. 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. Fair value of the reporting unit is determined using a discounted cash flow analysis. The Company performs its annual impairment review of goodwill at December 31 of each year. No impairment losses were recorded for goodwill for the years ended December 31, 2014 and 2015.

(n) **Impairment of long-lived assets**

Long-lived assets, such as property and equipment, intangible assets subject to amortization and prepaid land use rights are reviewed for impairment whenever events or changes in circumstances

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No impairment losses were recorded for long-lived assets for the years ended December 31, 2014 and 2015.

(o) **Other non-current assets**

Other non-current assets primarily represent the deposits for leases, amounting to RMB34,750 and RMB46,423 as of December 31, 2014 and 2015, respectively, which are expected to be refunded after one year of the balance sheet date at the end of the lease term. Deposits for leases, which are expected to be refunded within one year of the balance sheet date, are recorded in other current assets.

(p) **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.

(q) **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.

(r) **Revenue recognition**

The Company recognizes revenue when delivery of the service or product has occurred, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

These criteria as they relate to each of the following major revenue generating activities are described below.

The Company derives revenue primarily from the delivery of (i) colocation services; (ii) managed hosting services and; (iii) 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 hosting 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. Colocation

**GDS HOLDINGS LIMITED AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except share data and per share data, or otherwise noted)**

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

services are provided to customers for a fixed amount over the contract service period, ranging from 1 to 6 years. Revenues from colocation services are recognized on a straight line basis over the term of the contract. The Company has determined that its performance pattern to be straight line since the customer receives value as the services are rendered continuously during the term of the contract, the earning process is straight-line, and there is no other discernible performance pattern of recognition.

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 hosting services are primarily provided to financial institution customers as a business continuity and disaster recovery solution. Managed hosting services are provided to customers for a fixed amount over the contract service period ranging from 1 to 6 years. Revenues from managed hosting services are recognized on a straight line basis over the term of the contract. The Company has determined that its performance pattern to be straight line since the customer receives value as the services are rendered continuously during the term of the contract, the earning process is straight-line, and there is no other discernible performance pattern of recognition.

In certain colocation and managed hosting service contracts, the Company agrees with the customers that the Company will charge the customers for the actual power consumption. The Company records the chargeable power consumption as service revenue in the consolidated statements of operations.

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 in equal instalments on a monthly or quarterly basis.

Cash received in advance from customers prior to the delivery of the colocation or managed hosting and cloud services is recorded as deferred revenue.

Managed cloud services are services where the Company delivers virtual storage and computing services to customers. Managed cloud services are provided to customers for a fixed amount over the subscription period, ranging from 1 to 3 years. Revenues from managed cloud services are recognized ratably over the subscription period once all requirements for recognition have been met, including provisioning the service so that it is available to the customers.

The sale of IT equipment is recognized when delivery has occurred and the customer accepts the equipment and the Company has no performance obligation after the delivery.

In certain managed hosting service contracts, the Company sells and delivers IT equipment such as servers and computer terminals prior to the delivery of the services. Since the delivered item has value to the customer on a standalone basis and there is no general right of return for the equipment, the equipment is considered a separate unit of accounting. Accordingly, the contract consideration is allocated to the equipment and the managed hosting services based on their relative standalone selling prices. The consideration allocated to the delivered equipment is not contingent on the delivery of the services or meeting other specified performance conditions. That is, payment on the equipment is due upon the delivery of the equipment and is not contingent upon the delivery of the undelivered services.

Consulting services are provided to customers for a fixed amount over the service period, usually less than one year. The Company's consulting contracts do not specify any interim milestones, (other than

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

for payment based on passage of time), or deliverables. The Company recognizes revenues from consulting services using the proportional performance method based on the pattern of service provided to the customers.

Sales taxes collected from customers and remitted to governmental authorities are excluded from revenues in the consolidated statements of operations.

(s) **Cost of revenues**

Cost of revenues 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.

(t) **Research and development and advertising costs**

Research and development and advertising costs are expensed as incurred. Research and development costs amounted to RMB1,597 and RMB3,554 in 2014 and 2015, respectively. Research and development costs consist primarily of payroll and related personnel costs for developing or significantly improving the Company's services and products.

Advertising costs amounted to RMB2,363 and RMB4,128 in 2014 and 2015, respectively.

(u) **Start-up costs**

Pre-operating or start-up costs incurred prior to operating a new data center are expensed as incurred and consist primarily of rental costs of operating leases of buildings during the construction of leasehold improvements and other miscellaneous costs incurred prior to the operation of the data centers. Start-up costs amounted to RMB16,217 and RMB25,659 and were recorded in general and administrative expenses in 2014 and 2015, respectively.

(v) **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.

As of December 31, 2014 and 2015, deferred government grants of RMB18,466 and RMB16,268 are recorded in other long-term liabilities in the consolidated balance sheets.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

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

(w) **Capitalized interest**

A reconciliation of total interest costs to "Interest expenses" as reported in the consolidated statements of operations for 2014 and 2015 is as follows:

	Years ended December 31,	
	2014	2015
Total interest costs	136,458	138,260
Less: interest costs capitalized	(4,550)	(11,359)
Interest expenses	131,908	126,901

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.

(x) **Debt issuance costs**

Debt issuance costs are capitalized and are amortized over the life of the related loans based on the effective interest method. Such amortization is included as a component of interest expense.

The Company early adopted Accounting Standards Update 2015-03, Interest—Imputation of Interest ("ASU 2015-03"), during the year ended December 31, 2015. In accordance with ASU 2015-03, debt issuance costs of nil and RMB23,908 are presented as a reduction of debt as of December 31, 2014 and 2015, respectively.

(y) **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 deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. 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.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

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

**(z) 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 estimated 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.

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.

**(aa) 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.

**(bb) Foreign currency translation and foreign currency risks**

The functional currency of GDS Holdings is the USD, whereas the functional currency of its PRC subsidiaries and consolidated VIEs is the RMB.

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss and are reported in foreign currency exchange (loss) gain on a net basis.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported in other comprehensive income and accumulated in the translation adjustment component of equity until the sale or liquidation of the foreign entity.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

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

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 RMB89,849 and RMB200,004 as of December 31, 2014 and 2015, respectively. As of December 31, 2015, the Company's cash and restricted cash were deposited in major financial institutions located in PRC, Hong Kong, and Cayman Island financial institutions, and were denominated in the following currencies:

	RMB	USD	HKD	JPY	EUR
In PRC	199,268	110,890	—	—	—
In Hong Kong	736	747	4,859	2,056	22
In Cayman Island	—	256	—	—	—
Total in original currency	200,004	111,893	4,859	2,056	22
RMB equivalent	200,004	726,582	4,071	111	155

**(cc) 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.

**(dd) 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 preferred shares (note 13) 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



## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

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

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.

**(ee) Recently Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). This ASU requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which companies expect to be entitled in exchange for those goods or services. This ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. This ASU was originally effective for fiscal years and interim periods beginning after December 15, 2016. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers ("ASU 2015-14"), which amends ASU 2014-09 and defers its effective date to fiscal years and interim reporting periods beginning after December 15, 2017. ASU 2015-14 permits earlier application only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact that the adoption of these standards will have on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"), to provide guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest ("ASU 2015-03"), to simplify the presentation of debt issuance costs. The ASU requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs is not affected by this ASU. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016, with early adoption permitted. The Company early adopted ASU 2015-03. See note 2(x).

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"), to simplify the presentation of deferred income taxes by eliminating the requirement to separate deferred tax assets and liabilities into current and noncurrent amounts. ASU 2015-17

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

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

requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent and is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Earlier application is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842) ("ASU 2016-02"). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. ASU 2016-02 is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

**3. ACCOUNTS RECEIVABLES, NET**

Accounts receivables, net consisted of the following:

	As at December 31	
	2014	2015
Accounts receivables	75,522	113,169
Less: allowance for doubtful accounts	(2,156)	(2,156)
Accounts receivables, net	73,366	111,013

The Company generally invoices its customers on a monthly or quarterly basis in accordance with the contract terms. Due to the timing difference between the billing and revenue recognition, accounts receivables included an unbilled portion of RMB8,019 and RMB46,275 as of December 31, 2014 and 2015, respectively.

Accounts receivables of RMB43,937 and RMB42,511 was pledged as security for bank loans (see note 9) as of December 31, 2014 and 2015, respectively.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 3. ACCOUNTS RECEIVABLES, NET (Continued)

An allowance for doubtful accounts is provided based on the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company assesses the collectability of accounts receivable by analyzing specific customer accounts that have known or potential doubt as to collectability. The following table presents the movement of the allowance for doubtful accounts:

	Year ended December 31,	
	2014	2015
Balance at the beginning of the year	—	2,156
Allowance made during the year	2,156	—
Balance at the end of the year	2,156	2,156

During the year ended December 31, 2014, the Company made an allowance for doubtful accounts on a receivable from a customer of RMB2,156. Management believes all other accounts receivable as of December 31, 2014 and 2015 are expected to be collected in full.

## 4. OTHER CURRENT ASSETS

Other current assets consisted of the following:

	As at December 31	
	2014	2015
Rental and other deposits	6,027	9,456
Deferred tax assets, current (note 18)	—	5,193
Assets held for sale	—	18,531
Others	1,106	508
	7,133	33,688

Assets held for sale included property held for sale of RMB9,075 and IT equipment awaiting for sale of RMB9,456, for which the Company has entered into sale contracts with the customer.

Others mainly represented miscellaneous receivables due from employees.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 5. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	As at December 31	
	2014	2015
At cost:		
Buildings	1,049,376	1,049,376
Data center equipment	680,633	891,089
Leasehold improvement	220,175	554,450
Furniture and office equipment	26,072	32,001
Vehicles	2,403	2,728
	1,978,659	2,529,644
Less: Accumulated depreciation	(374,117)	(421,475)
	1,604,542	2,108,169
Construction in progress	90,402	404,518
Property and equipment, net	1,694,944	2,512,687

- (1) The carrying amounts of the Company's property and equipment acquired under capital leases at respective balance sheet dates were as follows:

	As at December 31	
	2014	2015
At cost:		
Buildings	422,874	627,874
Data center equipment	12,718	12,718
	435,592	640,592
Less: Accumulated depreciation	(11,642)	(32,061)
	423,950	608,531

- (2) Depreciation of property and equipment (including assets acquired under capital leases) was RMB77,946 and RMB135,864 for the years ended December 31, 2014 and 2015, respectively, and included in the following captions:

	As at December 31	
	2014	2015
Cost of revenue	71,024	131,097
General and administrative expenses	6,922	4,767
	77,946	135,864

- (3) Property and equipment with net a book value of RMB162,686 and RMB579,524 was pledged as security for bank loans (see note 9) as of December 31, 2014 and 2015, respectively.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 5. PROPERTY AND EQUIPMENT, NET (Continued)

- (4) As of December 31, 2014 and 2015, payables for purchase of property and equipment that are contractually due beyond one year of RMB nil and RMB31,152 are recorded in other long-term liabilities in the consolidated balance sheets.

## 6. INTANGIBLE ASSETS

Intangible assets consisted of the following:

	Note	As at December 31	
		2014	2015
Customer relationships	8	44,822	44,822
Favorable lease	8	15,500	15,500
		60,322	60,322
Less: accumulated amortization		(4,462)	(13,387)
Intangible assets, net		55,860	46,935

The Company's customer relationships and favorable lease were acquired in the acquisition of EDC Holding (note 8).

Amortization of intangible assets was RMB4,462 and RMB8,925 for the years ended December 31, 2014 and 2015, respectively.

Estimated future amortization expense related to these intangible assets is as follows:

Fiscal year ending December 31,	
2016	8,925
2017	8,925
2018	8,925
2019	8,925
2020	775
Thereafter	10,460
Total	46,935

## 7. PREPAID LAND USE RIGHTS

Prepaid land use rights consisted of the following:

	As at December 31	
	2014	2015
Prepaid land use rights	28,370	28,370
Less: Accumulated amortization	(345)	(962)
Prepaid land use rights, net	28,025	27,408

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 7. PREPAID LAND USE RIGHTS (Continued)

Amortization of prepaid land use rights was RMB345 and RMB617 for the years ended December 31, 2014 and 2015, respectively.

Prepaid land use rights with a net book value of RMB21,461 and RMB20,983 were pledged as security for bank loans (see note 9) as of December 2014 and 2015, respectively.

## 8. GOODWILL

The movement of goodwill is set out as below:

	As at December 31	
	2014	2015
Balance at the beginning of the year	—	1,294,664
Addition during the year	1,294,664	—
Balance at end of year	1,294,664	1,294,664

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition of EDC Holding in June 2014. The goodwill is not deductible for tax purposes. Goodwill is assigned to the design, build-out and operation of data centers reporting unit.

**EDC Holding Acquisition**

Prior to the acquisition, the Company held a 7% non-controlling equity interest in EDC Holding which was accounted for under the cost method. EDC Holding is principally engaged in providing colocation services in the PRC.

On June 30, 2014, in an effort to enhance its service offering and to increase business synergy, the Company acquired all the equity interests in EDC Holding (preferred and ordinary shares) it did not already own, for a consideration comprising 88,352,558 ordinary shares and 110,810,606 redeemable preferred shares of the Company, consisting of 14,149,705 Series A\* redeemable preferred shares ("Series A\* Shares"), 33,959,293 Series B1 redeemable preferred shares ("Series B1 Shares"), 25,618,413 Series B2 redeemable preferred shares ("Series B2 Shares"), 14,045,432 Series B3 redeemable preferred shares ("Series B3 Shares") and 23,037,763 Series B4 redeemable preferred shares ("Series B4 Shares"). The fair value of the consideration was determined by management with the assistance of a third party appraiser and was considered more reliably measured than the acquisition-date fair value of the acquiree's equity interests.

Prior to the acquisition, the Company and EDC Holding had certain shareholders who held preferred shares in both companies with different ownership interests. None of these shareholders or any other ordinary or preferred shareholders individually or as a group acting in concert held more than 50% of the voting interest of each entity. The Company accounted for the business combination by applying the acquisition method of accounting. The Company completed the acquisition of EDC Holding on June 30, 2014, the date on which the consideration was transferred, and control was obtained to govern the financial and operating policies of EDC Holding and obtain benefits from its activities.

**GDS HOLDINGS LIMITED AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(In thousands, except share data and per share data, or otherwise noted)****8. GOODWILL (Continued)**

The Company was identified as the accounting acquirer for the following reasons: (i) the Company was the entity that issued the new equity interests; (ii) a shareholder of the Company held the largest minority voting interest in the combined entity; (iii) the Company's shareholders have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity; (iv) the Company's management dominates the management of the combined entity after the acquisition; and (v) the Company has a significantly larger relative size in terms of revenue and operations than that of EDC Holding.

Total fair value of consideration transferred at acquisition date was as follows:

Fair value of ordinary shares issued	472,945
Fair value of redeemable preferred shares issued	711,297
<b>Total fair value of total consideration transferred</b>	<b>1,184,242</b>

The fair value of the ordinary shares issued was US\$0.87 per share and the fair values of the various series of preferred shares issued ranged from US\$0.93 to US\$1.13 per share or on average approximately US\$1.04 per share. Each series of preferred shares issued had different terms; in particular, the redemption amount of each series of preferred shares was different.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 8. GOODWILL (Continued)

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.

	<u>Note</u>	
Fair value of consideration transferred		1,184,242
Fair value of non-controlling equity interest previously held by the Company	(i)	62,506
Sub-total		<u>1,246,748</u>
Effective settlement of pre-existing relationships	(ii)	<u>549,521</u>
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash		(40,999)
Property and equipment	(iii)	(1,535,246)
Identifiable intangible assets	(iv)	(60,322)
Other assets		(96,508)
Short-term borrowings and current portion of long-term borrowings		178,638
Accounts payable		290,326
Obligations under capital leases, current		35,234
Long-term borrowings, excluding current portion		342,130
Deferred tax liabilities		45,748
Obligations under capital leases, non-current		250,318
Other liabilities		89,076
Total identifiable net assets		<u>(501,605)</u>
Goodwill		<u>1,294,664</u>

Note (i): The gain of RMB62,506 arising from the re-measurement of the existing carrying value of investment in EDC Holding to fair value was recognized in the consolidated statement of operations. The fair value of the previous held non-controlling equity interest was determined by management with the assistance of a third party appraiser.

Note (ii): Prior to the business combination, the Company had the following pre-existing relationships with EDC Holding: (1) a prepayment due from EDC Holding of RMB254,633 for future services under a service contract with EDC Holding; (2) outstanding loans of RMB344,110 due from EDC Holding; and (3) a loan of US\$8,000 (RMB49,222) issued from EDC Holding to the Company in January 2013. No gain or loss was recognized from the effective settlement of such pre-existing relationship between the Company and EDC Holding. At the acquisition date, the amount due from EDC Holding of RMB598,743 and the amount due to EDC Holding of RMB49,222 are eliminated upon consolidation.

Note (iii): Property and equipment acquired included data center buildings of RMB624,090, properties acquired under capital lease of RMB422,874, data center equipment of RMB299,801, leasehold improvement of RMB2,694, furniture and office equipment of RMB958, vehicles of RMB749 and construction in progress of RMB184,080.

Note (iv): Identifiable intangible assets acquired consisted of customer relationships of RMB44,822 with an estimated useful life of 5 to 6 years and favorable lease of RMB15,500 with estimated useful life of 20 years.

The amounts of net revenue and net loss of EDC Holding included in the Company's consolidated statements of operations from the acquisition date to December 31, 2014 amounted to RMB17,880 and RMB99,949, respectively.



## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 9. LOANS AND BORROWINGS

The Company's borrowings consisted of the following:

	As at December 31	
	2014	2015
Short-term borrowings	289,000	333,000
Current portion of long-term borrowings	137,709	95,218
Sub-total	426,709	428,218
Long-term borrowings, excluding current portion	492,123	958,264
Total loans and borrowings	918,832	1,386,482

**Short-term borrowings**

The Company's short-term borrowings consisted of the following:

	As at December 31	
	2014	2015
Unsecured short-term loans and borrowings	—	60,000
Secured short-term loans and borrowings	(i) 289,000	273,000
	289,000	333,000

(i) Short-term borrowings were secured by the following assets:

	Note	As at December 31	
		2014	2015
Accounts receivable	3	36,576	20,221
Property and equipment, net	5	—	144,540
Prepaid land use rights, net	7	—	14,602
		36,576	179,363

(ii) The weighted average interest rates of short-term borrowings were 6.98% and 6.55% per annum for the years ended December 31, 2014 and 2015, respectively.

(iii) Short-term loans of RMB259,000 and RMB247,000 as of December 31, 2014 and 2015, were guaranteed by William Wei Huang, Director and CEO of the Company, respectively.

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

9. LOANS AND BORROWINGS (Continued)

Long-term borrowings

The Company's long-term borrowings consisted of the following:

	As at December 31	
	2014	2015
Unsecured long-term loans and borrowings	7,269	2,844
Secured long-term loans and borrowings	622,563	1,050,638
	<u>629,832</u>	<u>1,053,482</u>

- (i) The weighted average interest rates of long-term borrowings were 10.2% and 8.73% per annum for the years ended December 31, 2014 and 2015, respectively.
- (ii) As of December 31, 2014 and 2015, accrued interest of RMB8,440 and RMB25,554 payable on maturity of the long-term borrowings was recorded in other long-term liabilities in the consolidated balance sheets.
- (iii) Long-term loans and borrowings were secured by the following assets:

	Note	As at December 31	
		2014	2015
Accounts receivable	3	7,361	22,290
Property and equipment, net	5	162,686	434,984
Prepaid land use rights, net	7	21,461	6,381
		<u>191,508</u>	<u>463,655</u>

- (iv) Long-term loans of RMB15,000 and RMB194,955 as of December 31, 2014 and 2015 were guaranteed by William Wei Huang, respectively.
- (v) The aggregate maturities of the above long-term loans and borrowings for each of the five years and thereafter subsequent to December 31, 2015 are as follows:

Fiscal year ending December 31,	Long-term loans and borrowings
2016	95,218
2017	334,191
2018	155,645
2019	174,433
2020	229,595
Thereafter	64,400
Total	<u>1,053,482</u>

As of December 31, 2015, the particulars of the total secured long-term loans and borrowings of RMB1,050,638, were as follows:

- i) In 2009, a subsidiary of the Company entered into a thirteen-year entrusted credit facility for a principal amount of RMB322,000 with the local government through a third party bank. As of December 31, 2015, the outstanding loan under such credit facility was RMB225,400 and the effective interest rate of the loan was 4.9% per annum. The facility was secured by prepaid land use right with a carrying amount of RMB6,381 as of December 31, 2015.

**GDS HOLDINGS LIMITED AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(In thousands, except share data and per share data, or otherwise noted)****9. LOANS AND BORROWINGS (Continued)**

- ii) In 2014, a subsidiary of the Company entered into an entrusted credit facility of RMB200,000 with a third party lender through a third party bank. As of December 31, 2015, the outstanding loan under such credit facility was RMB199,800 and the interest rate of the loan was 18% per annum. The facility was secured by accounts receivables with a carrying amount of RMB22,290 as of December 31, 2015. The loan contains financial covenants, which require that the subsidiary's outstanding loans (exclusive of this entrusted loan and any other entrusted loans) should be within a range of RMB130,000 and RMB240,000 (the "borrowing range") and the total pledged assets cannot exceed RMB20,000. On March 31, 2015, the subsidiary's outstanding loans exceeded RMB240,000 and total pledged assets exceeded RMB20,000. On June 10, 2015, the subsidiary obtained a waiver letter from the creditor that waived the covenant violations. The creditor and the subsidiary also agreed to revise the acceptable outstanding borrowings in a range of RMB130,000 and RMB360,000 and removed the restriction on the pledged assets. As of December 31, 2015, the Company was in compliance with such covenants.
- iii) In 2015, a subsidiary of the Company entered into a six-year credit facility with a third party bank amounting to RMB290,000. As of December 31, 2015, the outstanding loan under such credit facility was RMB180,455 and the effective interest rate of the loan was 5.94% per annum. The facility was guaranteed by William Wei Huang, Director and CEO of the Company and secured by property and equipment with carrying amount value of RMB154,178 as of December 31, 2015.
- iv) In 2015, two subsidiaries of the Company entered into loan facilities with third party banks amounting to RMB550,000, of which RMB403,580 was initially drawn down. As of December 31, 2015, the outstanding loans under such credit facilities were RMB380,483 (net of debt issuance costs) and the effective interest rate of the loans was 6.56%-6.83% per annum. The facilities are secured by property and equipment with a carrying amount of RMB142,386 as of December 31, 2015. The loans contain a limit on the amount of capital expenditures to be incurred for the construction of the data centers and mature in 2020. The loans are required to be repaid in full prior to the maturity date in the event 1) Singapore Technologies Telemedia Limited of Singapore, the parent company of STT GDC Pte. Ltd. (a principal shareholder of the Company), ceases to own and control, directly or indirectly, at least 40% of the equity interest in the Company prior to an initial public offering (IPO) or 30% of the equity interest in the Company after an IPO, or ceases to be the single largest shareholder of the Company, 2) the Company ceases to own and control, directly or indirectly, 100% of the borrowing subsidiaries, or 3) there are changes in the shareholding structure of a principal operating subsidiary, as defined in the agreements. In addition, under the terms of the loans, upon the completion of the Company's IPO, the Company is required to repay early RMB100,000 of the outstanding loan principal amount to the bank based on the principal amount outstanding as of December 31, 2015. The loan facilities include a cross default provision which would be triggered if the Company fails to repay any financial indebtedness of RMB30,000 or more when due or within any originally applicable grace period. As of December 31, 2015, the Company was in compliance with the above covenants.
- v) As of December 31, 2015, there were two secured long-term loans and borrowings outstanding in the aggregate amount of RMB64,500 (RMB14,500 and RMB50,000). The loans mature in 2017, are secured by property and equipment with carrying amount of RMB138,420 as of December 31, 2015 and do not contain any financial covenants. In addition, the RMB14,500 loan is guaranteed by William Wei Huang, Director and CEO of the Company. The effective interest rates of the RMB14,500 loan and RMB50,000 loan were 5.39% and 6.46% per annum, respectively.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 9. LOANS AND BORROWINGS (Continued)

As of December 31, 2015, the particulars of unsecured long-term loans and borrowings are as follows:

- i) In 2014, a subsidiary of the Company entered into a two-year credit facility with a third party bank amounting to US\$5,000. As of December 31, 2015, the outstanding loan under such credit facility was RMB2,844 (US\$438) and the effective interest rate of the loan was 5.38% per annum, which was based on three-month LIBOR+4.75%. This loan contains a financial covenant that requires the subsidiary to keep a minimum cash liquidity of US\$200 (RMB1,298) at the bank at all times. The loan agreement also requires that both the subsidiary and the Company as a guarantor, maintain minimum quarterly revenues thresholds as specified in the loan agreement. As of December 31, 2015, the Company was in compliance with such covenants.

As of December 31, 2015, the Company has total working capital and project financing credit facilities of RMB1,628,544 from various banks, of which the unused amount was RMB278,965. As of December 31, 2015, the Company drew down RMB1,349,579, of which RMB273,000 was recorded in short-term loans and borrowing and RMB1,053,482 (net of debt issuance costs of RMB23,097) was recorded in long-term loans and borrowing, respectively. Draw downs from the credit facility are subject to the approval of the banks and are subject to the terms and conditions of each agreement.

## 10. BONDS PAYABLE/CONVERTIBLE BONDS PAYABLE

***Bonds due June 10, 2014 issued by a subsidiary ("Bonds due 2014")***

On December 11, 2012, the Company issued Bonds due 2014 to an investor in an aggregate principal amount of US\$10,509 (RMB66,125). The Bonds due 2014 had a maturity date of June 10, 2014 and carried interest at 10% per annum. Upon maturity, the carrying amount of the Bonds due 2014 was US\$10,509 (RMB64,541) and the Company repaid a portion of the Bonds due 2014 amounting to US\$664 (RMB4,081). On June 11, 2014, the Company issued Bonds due 2015 to the same investor in an aggregate principal amount of US\$30,203 (RMB185,770) of which a portion was to settle the remaining unpaid portion of the Bonds due 2014 of US\$9,845 (RMB60,460) and unpaid interest payable on the Bonds due 2014 of RMB10,360.

***Bonds due June 10, 2015 issued by the Company ("Bonds due 2015")***

The key terms of the Bonds due 2015 are summarized as follows:

*Denomination*

- Denomination—US\$10 each

*Maturity date*

- Maturity date—June 10, 2015

*Interest rate and interest repayment*

- Interest rate is at 10% per annum compounded annually.

*Redemption and price*

- The Company shall redeem the unpaid principal together with the interest accrued of the Bonds due 2015 on the Maturity Date.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

**10. BONDS PAYABLE/CONVERTIBLE BONDS PAYABLE (Continued)***Exchange feature of the Bonds due 2015*

Prior to the Maturity Date, the holder of Bonds due 2015 has the right to exchange the bonds into the Company's ordinary shares in the event of a qualifying initial public offering ("QIPO") or private placement. The exchange feature permits the holder to receive a variable number of ordinary shares with an aggregate fair value that is based on a fixed monetary amount (the principal amount of the Bonds due 2015 that is being exchanged). The price used to determine the number of ordinary shares issued in exchange for the bonds is equal to 70% of the QIPO price or 70% of the share issuance price of the private placement. The Company separated this contingent redemption exchange feature (or embedded put option) from the principal amount of the Bonds due 2015 at the issuance date. The fair value of the embedded put option was US\$5,547 (RMB34,105). The recorded discount resulting from the allocation of the proceeds of the Bonds due 2015 to this embedded put option was recognized as interest expense. As of December 31, 2015, there was no outstanding embedded derivative due to the holder's exercise of the right to exchange a portion of the Bonds due 2015 following the completion of Series C shares in August 2014 and the holder waiving the right to exchange the remaining portion for ordinary shares described below. Total interest expense related to the debt discount amounted to RMB34,105 for the year ended December 31, 2014.

In August 2014, the Company conducted a private placement of 238,526,241 Series C redeemable preferred shares ("Series C Shares") (see note 13). Upon the issuance of Series C Shares, the holder of the Bonds due 2015 exchanged outstanding principal amount of the Bonds due 2015 of US\$27,860 (RMB171,431) for 38,397,655 ordinary shares. The number of ordinary shares issued was based on US\$0.72557, or 70% of the issuance price of Series C Shares of US\$1.036522. The difference between the fair value of the ordinary shares and the principal amount of the bonds was RMB34,105, which was charged against the embedded put option described above. The holder waived its right to exchange the remaining Bonds due 2015 of US\$2,343 (RMB14,330) for ordinary shares of the Company.

On June 10, 2015, the Company fully redeemed the remaining Bonds due 2015 of US\$2,343 (RMB14,330) upon maturity.

***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) expires on September 30, 2016.

Convertible Bonds due 2019 bears an interest rate of 10% per annum and matures on December 30, 2019 ("Maturity Date"). The Company shall redeem the unpaid principal together with the interest accrued of the Convertible Bonds due 2019 on the December 30, 2019. The Company pledged 100% of the equity interests in a subsidiary to the investors.

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

10. BONDS PAYABLE/CONVERTIBLE BONDS PAYABLE (Continued)

The key terms of the Convertible Bonds due 2019 are summarized as follows:

*Conversion of the Convertible Bonds due 2019*

If the Company completes a 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 also determined that the embedded conversion option did not require it to be separated as an embedded derivative because a separate instrument with the same terms as the embedded derivative would not be a derivative instrument.

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.

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

11. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables consisted of the following:

	As at December 31	
	2014	2015
Accrued rental expenses	14,767	12,951
Accrued utility expenses	3,754	8,548
Accrued payroll and welfare benefits	18,707	27,062
Accrued interest expenses	31,090	23,722
Accrued professional service fees	14,489	8,352
Other taxes payables	12,132	14,296
Income tax payable (note 18)	95	8,955
Other payables	23,511	14,430
	<u>118,545</u>	<u>118,316</u>

Other payables represent amounts due to service providers for various services received by the Company.

12. LEASE

*Capital leases*

The Company's capital lease obligations are summarized as follows:

	2014		2015	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	39,621	41,985	48,745	51,591
After 1 year but within 2 years	33,351	38,857	52,034	60,019
After 2 years but within 3 years	30,703	39,221	51,693	64,938
After 3 years but within 4 years	29,242	40,846	50,456	69,089
After 4 years but within 5 years	27,949	42,700	108,637	172,079
After 5 years	125,751	288,556	162,119	395,251
	<u>246,996</u>	<u>450,180</u>	<u>424,939</u>	<u>761,376</u>
	<u>286,617</u>	<u>492,165</u>	<u>473,684</u>	<u>812,967</u>
Less: total future interest expenses		(205,548)		(339,283)
Present value of lease obligations		<u>286,617</u>		<u>473,684</u>
Including:				
Current portion		<u>39,621</u>		<u>48,745</u>
Non-current portion		<u>246,996</u>		<u>424,939</u>

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

**12. LEASE (Continued)**

The Company's capital leases expire at various dates ranging from 2020 to 2032. The weighted average effective interest rate of the Company's capital leases was 9.71% and 8.63% as of December 31, 2014 and 2015, respectively.

During the year ended December 31, 2014, the capital lease obligations arose from the acquisition of EDC Holding. The Company recognized the capital lease obligations assumed in the business combination at the acquisition-date fair value. During the year ended December 31, 2015, the Company entered into the following capital lease arrangements:

*Shenzhen 2 Lease and Shenzhen 3 Lease*

In March 2015 and July 2015, the Company entered into two lease agreements to lease two existing buildings in Shenzhen, China from a third party lessor (the "Shenzhen 2 Lease" and the "Shenzhen 3 Lease"). The Shenzhen 2 Lease has a lease term of 10 years from June 2015 to May 2025 and the Shenzhen 3 Lease has a lease term of 15 years from November 2015 to October 2030. The Company determined that both leases were capital leases as the present value of the minimum lease payments of each of the leases exceeded 90% of the respective fair value of the leased property at the inception of the lease.

Accordingly, on the respective 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 in the aggregate amount of RMB205,000.

*Shenzhen 4 Lease*

In October 2015, the Company entered into a lease agreement to lease an existing building in Shenzhen, China from a third party lessor (the "Shenzhen 4 Lease"). The Shenzhen 4 Lease has a lease term of 20 years commencing from January 2016. At the inception of the lease, Company determined that Shenzhen 4 Lease is a capital lease as the present value of the minimum lease payments exceeded 90% of the fair value of the leased property. In January 2016, the Company took possession of or controlled the physical use of the building from the lessor. Accordingly, in January 2016, the Company records a capital lease asset and a capital lease obligation at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term (or RMB138,721) on the lease commencement date.

**Build-to-suit leases**

The Company entered into the following build-to-suit leases during the year December 31, 2015:

In January and February 2015, the Company entered into two lease agreements with a third party developer-lessor for the development, construction and the lease (build-to-suit lease) of two brand new buildings (the "Shanghai 3 Lease" and "Shanghai 4 Lease") in Shanghai, China. The Company paid a deposit for each of the two leases to the developer-lessor. Both the Shanghai 3 Lease and Shanghai 4 Lease have a lease term of 20 years commencing upon the delivery of the completed building to the Company. The two 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. That is, the developer-lessor will hand



## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 12. LEASE (Continued)

over two cold-shell buildings to the Company upon completion of construction. Upon the delivery of the cold-shell buildings, the Company will convert the two buildings into data centers. No rent is paid by the Company during the construction of the two buildings. All project hard costs are to be paid by the developer-lessor, including site preparation and construction costs. In the event of termination of the lease agreements during the lease term, the Company is obligated to pay 15% of the total minimum lease payments. In addition, if the Company terminates the agreements before the construction of the buildings are completed, the Company is obligated to reimburse the developer-lessor for costs incurred during the construction period, including but not limited to project application costs, project design fees, ground preparation and leveling costs.

In accordance with ASC 840-40-55, the Company has determined that it is the owner of the two buildings during the construction period as it has substantially all of the construction period risks based on the maximum guarantee test (without considering probability that the Company having to make the payments). That is, the Company could be required, under any circumstances, to pay more than 90% of the total project costs incurred to date as of any point of time during the construction period. Since the Company is the owner of the two projects for financial reporting purposes, the Company records an asset for the estimated incurred construction costs of the project and a liability for those costs funded by the lessor-developer at the end of each reporting period. The developer-lessor received the onsite construction permit in December 2015 to commence construction. Total costs incurred as of December 31, 2015 was immaterial based on the limited ground preparation costs incurred by the developer-lessor and did not exceed the deposit amount paid to the lessor-developer.

**Operating leases**

The Company leases data centers, offices and other equipment that are classified as operating leases. The majority of the Company's operating leases expire at various dates through 2035.

Future minimum operating lease payments as of December 31, 2015 are summarized as follow:

Fiscal year ending December 31,	
2016	111,389
2017	93,450
2018	73,226
2019	62,273
2020	54,027
Thereafter	481,454
Total	<u>875,819</u>

Rental expenses were approximately RMB110,117 and RMB131,875 for the years ended December 31, 2014 and 2015, respectively. The Company did not sublease any of its operating leases for the periods presented.

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

13. REDEEMABLE PREFERRED SHARES

The movement of the redeemable preferred shares is set out as below:

	Series A		Series A*		Series B		Series B1		Series B2		Series B3		Series B4		Series B5		Series C		Total	
	Shares	RMB'000	Shares	RMB'000	Shares	RMB'000	Shares	RMB'000	Shares	RMB'000	Shares	RMB'000	Shares	RMB'000	Shares	RMB'000	Shares	RMB'000	Shares	RMB'000
Balance at January 1, 2014	63,250,000	198,434	—	—	11,550,000	64,056	—	—	—	—	—	—	—	—	—	—	—	—	74,800,000	262,490
Issuance of redeemable preferred shares																				
— in relation to business combination																				
— third party investor	—	—	14,149,705	80,965	—	—	33,959,293	236,108	25,618,413	165,506	14,045,432	85,554	23,037,763	143,164	—	—	—	—	110,810,606	711,297
Extinguishment of redeemable preferred shares upon repurchase	(23,533,064)	(76,473)	(5,503,899)	(31,497)	(8,413,412)	(48,593)	(13,209,358)	(91,847)	(9,964,954)	(64,383)	(5,463,340)	(33,281)	(8,961,143)	(55,692)	—	—	—	—	(75,049,170)	(401,766)
Extinguishment of redeemable preferred shares upon exchange	(10,081,891)	(32,803)	(1,729,161)	(9,896)	(560,105)	(3,276)	(9,222,193)	(63,800)	(5,217,820)	(33,540)	(8,582,092)	(52,268)	—	—	35,393,262	225,198	—	—	—	29,615
Changes in redemption value	—	6,824	—	—	—	2,393	—	—	—	—	—	—	—	—	5,210	—	—	54,689	—	69,116
Foreign exchange impact	—	1,292	—	3	—	500	—	(313)	—	(164)	—	(5)	—	5	(725)	—	(8,473)	—	—	(7,880)
Balance at December 31, 2014 and January 1, 2015	29,635,045	97,274	6,916,645	39,575	2,576,483	15,080	11,527,742	80,148	10,435,639	67,419	—	—	14,076,620	87,477	35,393,262	229,683	238,526,241	1,547,383	349,087,677	2,164,039
Changes in redemption value	—	4,029	—	—	—	754	—	—	—	—	—	—	—	—	13,715	—	—	92,428	—	110,926
Foreign exchange impact	—	6,125	—	—	—	955	—	—	—	—	—	—	—	—	14,640	—	—	98,629	—	120,349
Balance at December 31, 2015	29,635,045	107,428	6,916,645	39,575	2,576,483	16,789	11,527,742	80,148	10,435,639	67,419	—	—	14,076,620	87,477	35,393,262	258,038	238,526,241	1,738,440	349,087,677	2,395,314

The Series A, Series B Shares, Series A\* Shares, Series B1 Shares, Series B2 Shares, Series B3 Shares, Series B4 Shares, Series B5 Shares and Series C Shares are collectively referred to as the "preferred shares". The preferred shares are denominated in US\$, which is the functional currency of the issuer, GDS Holdings.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 13. REDEEMABLE PREFERRED SHARES (Continued)

A summary of the authorized, issued and outstanding preferred shares as of December 31, 2015 is as follows:

Series	Shares authorized	Shares issued and outstanding	Carrying amount	Redemption value
Series A	29,635,045	29,635,045	107,428	107,428
Series A*	6,916,645	6,916,645	39,575	6,731
Series B	2,576,483	2,576,483	16,789	16,789
Series B1	11,527,742	11,527,742	80,148	54,653
Series B2	10,435,639	10,435,639	67,419	47,484
Series B4	14,076,620	14,076,620	87,477	47,496
Series B5	35,395,262	35,393,262	258,038	258,038
Series C	240,000,000	238,526,241	1,738,440	1,738,440
Total	350,563,436	349,087,677	2,395,314	2,277,059

In January 2007, the Company issued 53,625,000 Series A redeemable preferred shares ("Series A Shares") to a group of investors unrelated to the Company at US\$0.3636 (RMB2.8279) per share. Concurrent with the issuance, a holder of bonds payable converted bonds payable of US\$3,500 (RMB27,222) into 9,625,000 Series A Shares.

In March 2011, the Company issued 11,550,000 Series B redeemable preferred shares ("Series B Shares") to a group of investors unrelated to the Company at US\$0.7792 (RMB5.1087) per share.

In June 2014, the Company issued 88,352,558 ordinary shares, 14,149,705 Series A\* Shares, 33,959,293 Series B1 Shares, 25,618,413 Series B2 Shares, 14,045,432 Series B3 Shares and 23,037,763 Series B4 Shares in connection with the acquisition of EDC Holding (see note 8). Series B1, B2, B3, B4 Shares are collectively referred to as Series B\* Shares.

On August 13, 2014, the Company issued 238,526,241 Series C redeemable preferred shares ("Series C Shares") to an investor unrelated to the Company at US\$1.0365 (RMB6.3779) per share, for cash consideration of US\$247,238 (RMB1,521,295). The Company incurred issuance costs of US\$3,271 (RMB20,128), which were recorded as a reduction in the carrying amount of the redeemable preferred shares.

As of December 31, 2014 and 2015, the Company concluded that it was probable that the redeemable preferred shares will become redeemable. The Company has elected to recognize changes in the redemption value immediately as they occur and adjust the carrying amount of the redeemable preferred shares to equal the redemption value at the end of each reporting period. Increases in the carrying amount of the Series A, B, B5 and C Shares are recorded by charges against retained earnings or, in the absence of retained earnings, by charges against paid-in capital. The Company did not record any increases in the carrying amounts of Series A\*, B1, B2, B3 and B4 Shares as their redemption values were lower than their respective initial carrying amounts. Reductions in the carrying amount of the redeemable preferred shares are recognized only to the extent that increases to the initial carrying amount of the redeemable preferred shares were previously recorded. The resulting increases or decreases in the carrying amount of redeemable preferred shares increases or decreases net loss

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

**13. REDEEMABLE PREFERRED SHARES (Continued)**

available to ordinary shareholders in the calculation of earnings per share. The change in redemption value of the redeemable preferred shares was RMB69,116 and RMB110,926, for the years ended December 31, 2014 and 2015, respectively.

***Extinguishment of preferred shares***

In connection with the issuance of Series C Shares, on August 13, 2014, the Company repurchased 23,533,064 Series A Shares, 5,503,899 Series A\* Shares, 8,413,412 Series B Shares, 13,209,358 Series B1 Shares, 9,964,954 Series B2 Shares, 5,463,340 Series B3 Shares and 8,961,143 Series B4 Shares at US\$1.0365 (RMB6.3779) per share, for cash consideration of US\$77,788 (RMB478,666), of which RMB455,366 was paid in 2014 and the remaining RMB23,300 was paid in 2015. The Company made the offer for the repurchase to all existing preferred shareholders on that date. The reason for the repurchase of these various series of preferred shares and the ordinary shares (see note 15) was so that the Series C shareholder would hold no less than 40% of the Company's issued share capital on a fully diluted basis.

In accordance with ASC 260-10-S99, the difference between the cash consideration transferred to the holders of the preferred shares and the carrying amount of the preferred shares (net of issuance costs) is added to net loss to arrive at loss available to ordinary shareholders in the calculation of loss per share. The Company recorded the difference of US\$12,497 (RMB76,900) between the repurchase price of US\$77,790 (RMB478,666) and the carrying amount of such preferred shares of US\$65,293 (RMB401,766) against additional paid-in capital, in the absence of retained earnings.

On August 13, 2014 and December 22, 2014, the Company exchanged a total of 35,393,262 preferred shares, comprising of 10,081,891 Series A Shares, 1,729,161 Series A\* Shares, 560,105 Series B Shares and 23,022,105 Series B\* Shares (collectively, the "Exchanged Shares") by re-designating those shares into 35,393,262 newly issued Series B5 redeemable preferred shares ("Series B5 Shares") to facilitate the sale of the Exchanged Shares held by certain selling preferred shareholders. Concurrently, the holders sold the 35,393,262 Series B5 Shares to one investor (B5 Holder), at the purchase price of US\$1.0365 (RMB6.3779) per share for a total cash consideration of US\$36,685 (RMB225,198). The terms of the B5 Shares were identical to the terms of the Series C Shares.

The exchange, in substance, is the same as a repurchase of the Exchanged Shares from the selling preferred shareholders and a concurrent issuance of Series B5 Shares to the B5 Holder. Accordingly, the Company accounted for the exchange or re-designation of the Exchanged Shares for Series B5 Shares as an extinguishment. The difference of US\$4,812 (RMB29,615) between the fair value of the Series B5 Shares of US\$36,685 (RMB225,198) and the carrying amount of the Exchanged Shares of US\$31,873 (RMB195,583) was recorded against additional paid-in capital, in the absence of retained earnings. In accordance with ASC 260-10-S99, the difference was added to net loss to arrive at loss available to ordinary shareholders in the calculation of loss per share.

***Modification of preferred shares***

In connection with the issuance of Series C Shares on August 13, 2014, the Company and the holders of the remaining Series A, A\*, B, B1, B2, B3 and B4 Shares (after the above extinguishment) agreed to modify the terms of their respective preferred shares. The redemption date of these Series A, A\*, B,

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

13. REDEEMABLE PREFERRED SHARES (Continued)

B1, B2, B3 and B4 Shares was extended to the same redemption date as Series C Shares. The holders also agreed to modify the redemption price by reducing the annual rate of return of their respective preferred shares.

The Company determines whether an amendment or modification to the terms of its redeemable convertible preferred shares represents an extinguishment based on a fair value approach. If the fair value of the preferred shares immediately before and after the amendment is significantly different (by more than 10%), the amendment or modification represents an extinguishment. The Company has determined that the amendment to the terms of the preferred shares did not represent an extinguishment, and therefore modification accounting was applied by analogy to the modification guidance contained in ASC 718-20, Compensation—Stock Compensation. Based on a comparison of the fair value of the preferred shares after the amendment to the fair value of the preferred shares immediately before the amendment, the additional fair value change was immaterial. The fair value of the preferred shares before and after the amendment or modification was determined by management with the assistance of a third party valuation firm.

**Terms of the preferred shares**

Key terms of the preferred shares are summarized as follows:

*Dividends*

Holders of the preferred shares are entitled to receive preference dividends at an annual rate of 6% per annum of the respective preferred shares issue price, out of any funds legally available for this purpose, when, as and if declared by the Board of Directors of GDS Holdings. Payment of dividends to certain series of preferred shares is in preference and priority to any declaration or payment of any distribution on other series of preferred shares, details of which are set out in the Company's Memorandum of Association. The right to receive dividends on the preferred shares shall be cumulative, and the right to such dividends shall accrue to holders of the preferred shares notwithstanding the fact that dividends on said shares are not declared or paid in any calendar year.

*Conversion*

The holders of preferred shares have the right to convert all or any portion of their holdings into ordinary shares of GDS Holdings at any time. Each preferred share is convertible into one ordinary share, subject to adjustment such as share dividend, share split, consolidation, and recapitalization.

In addition, each preferred share shall (a) automatically be converted into ordinary share at then-effective conversion price immediately prior to the closing of a QIPO, or (b) be converted in to ordinary share at then-effective conversion price with the vote or written consent of the holders of at least 85% of the then outstanding Series A Shares, Series A\* Shares, Series B Shares, Series B1 Shares, Series B2 Shares, Series B4 Shares and Series B5 Shares (voting together as a separate class) and the holders of at least 75% of the then outstanding Series C Shares, in each case on an as converted basis.

For the purposes of conversion of preferred shares, QIPO refers to a firm commitment underwritten IPO on an internationally recognized securities exchange (i) with gross cash proceeds to the Company of at least US\$100,000, (ii) at an issue price per share being not less than twenty-five percent (25%)

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

13. REDEEMABLE PREFERRED SHARES (Continued)

above US\$1.0365, as adjusted for any recapitalization from time to time, and (iii) resulting in a free float of not less than twenty percent (20%) of the Company's share capital.

The Company evaluated the embedded conversion option in the convertible preferred shares to determine if the embedded conversion option require bifurcation and accounted for as a derivative. The Company concluded the embedded conversion option did not require it to be bifurcated pursuant to ASC 815. The Company also determined that there was no beneficial conversion feature ("BCF") attributable to the convertible preferred shares because the initial conversion price was higher than the fair value of the Company's ordinary shares. The fair value of the Company's ordinary shares on the commitment date was estimated by management with the assistance of an independent valuation firm. The Company also determined there was no other embedded derivative to be separated from the convertible preferred share.

*Voting rights*

The holders of the preferred shares have voting rights equivalent to the ordinary shareholders on an "if converted" basis.

*Liquidation preference*

In the event of any liquidation, dissolution or winding up of the affairs of the Company, whether voluntary or involuntary, the holders of preferred shares shall be entitled to be paid out of the assets of the Company available for distributions a liquidation preference in the amount per preferred share equal to the redemption amount plus all accrued or declared but unpaid dividends.

Payment of liquidation preference on certain series of preferred shares is prior and in preference to any payment on other series of preferred shares, and the liquidation preference in order of priority is Series C, Series B5, Series B\*, Series B, Series A\*, and Series A, details of which are set out in the Company's Memorandum of Association.

*Redemption*

Subject to other redemption requirements set out in the Company's Memorandum of Association, on or after the 4th anniversary of the original issue date of Series C Shares, the holders of preferred shares may, at the election of the holders of at least 75% of each series of outstanding preferred shares voting together as a separate class on an as converted basis, to the extent permitted by applicable laws, redeem all or any portion of the then outstanding preferred shares at a redemption price equal to the redemption amount, plus an amount equal to all accrued or declared but unpaid dividends thereon, including the 6% cumulative preference dividends whether declared or not.

The redemption amount, shall mean, with respect to the Series A Shares, US\$0.363636 per share; with respect to the Series B Shares, US\$0.77922 per share, with respect to the Series A\* Shares, US\$0.1060 per share; with respect to the Series B1 Shares, US\$0.5300 per share; with respect to the Series B2 Shares, US\$0.5855 per share; with respect to the Series B4 Shares, US\$0.4340 per share; with respect to the Series B5 Shares, US\$1.036522 per share; and with respect to the Series C Shares, US\$1.036522 per share.

**GDS HOLDINGS LIMITED AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except share data and per share data, or otherwise noted)**

**14. FAIR VALUE MEASUREMENT**

As of December 31, 2014 and 2015, there was no asset or liability that was measured at fair value on a recurring basis in periods subsequent to their initial recognition.

Following is a description of the valuation techniques that the Company uses to measure fair value of financial assets and financial liabilities:

- Short-term financial instruments (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 approximated the carrying value of RMB648,515 as of December 31, 2015. The fair value was measured based on the best information available in the circumstances, including expected cash flows and appropriately risk-adjusted discount rates.

**15. ORDINARY SHARES**

Upon incorporation in 2006, the Company issued 110,000,001 ordinary shares with a par value of US\$0.00005 (RMB0.000404) each.

In June 2014, the Company issued 88,352,558 ordinary shares with a fair value of RMB472,945 to the shareholders of EDC Holding as part of the consideration to acquire EDC Holding (see note 8).

In August 2014, the holder of the Bonds due 2015 exchanged principal amount of US\$27,860 (RMB171,431) for 38,397,655 ordinary shares (see note 10).

In connection with the issuance of Series C Shares, on August 13, 2014, the Company repurchased 18,762,292 ordinary shares from certain shareholders at US\$1.0365 (RMB6.3779) per share, for a total consideration of US\$19,448 (RMB119,664). Upon the repurchase, the Company cancelled such shares. The reason for the repurchase of the various series of preferred shares (see note 13) and these ordinary shares was so that the Series C shareholder would hold no less than 40% of the Company's issued share capital on a fully diluted basis.

**16. SHARE-BASED COMPENSATION**

The Company adopted the 2014 Equity Incentive Plan ("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 Plan, is 29,240,000 shares.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

**16. SHARE-BASED COMPENSATION (Continued)***Options to director, officers and employees*

In July 2014, the Company granted 12,394,753 share options to employees, officers and directors at an exercise price of US\$0.7792 (RMB4.7943) per option. The options have a contractual term of five to six years.

The options vest in accordance with the vesting schedules set out in the respective share option agreements as follows: (1) 63% on the date of grant,  $\frac{1}{48}$  each month thereafter; (2) 71% on the date of grant,  $\frac{1}{48}$  each month thereafter; (3) 75% on the date of grant,  $\frac{1}{48}$  each month thereafter; or (4) 95% on the date of grant,  $\frac{1}{40}$  each month thereafter.

*Options to non-employee consultants*

In July 2014, the Company granted the following share options to external consultants at an exercise price of US\$0.7792 (RMB4.8) per option. The options have a contractual term of five years.

The services performed or to be performed by these external consultants include marketing, technical consultancy, manage telecommunication relationships, strategic, business, operation, and financial planning services.

- 4,158,315 share options to a group of external consultants. Such options vested immediately on the date of grant for services performed and completed by the consultants.
- 1,275,000 share options to a consultant. 75% of the options (or 956,250 options) vested immediately on the date of grant for services performed and completed while the remaining 318,750 options vest monthly thereafter in eleven equal monthly instalments for future ongoing services. As of December 31, 2014, 185,938 options remained unvested. As of December 31, 2015, all options were vested.
- 400,000 share options to a group of external consultants for further services upon a QIPO.  $\frac{1}{3}$  of the options vest upon the completion of a QIPO,  $\frac{1}{3}$  vest upon the 2nd anniversary of a QIPO and  $\frac{1}{3}$  vest upon the 3rd anniversary of a QIPO. As of December 31, 2014 and 2015, 400,000 options remained unvested.

In January 2015, the Company granted 1,000,000 share options to an external consultant at an exercise price of US\$0.7792 (RMB4.8) per option. The options vest every six months in six equal instalments for future ongoing services. The options have a contractual term of five years. As of December 31, 2015, 666,667 options remained unvested.

These consulting service contracts do not contain a performance commitment. Options to non-employees are forfeitable if not vested. The Company determined that these non-employee options are considered indexed to its own stock and would be equity-classified.

The Company measures the fair value of stock options issued in exchange for services on the date when counterparty completes the performance and recognizes the related share-based compensation expenses. The Company recognized share-based compensation expenses of RMB10,060 and RMB2,019 relating to options issued to non-employee for the years ended December 31, 2014 and 2015, respectively.



GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

16. SHARE-BASED COMPENSATION (Continued)

Options that are forfeitable and vest upon the non-employee providing future service is measured at the fair value of the date the performance is completed, which generally coincides with the date on which the options vest and are no longer forfeitable. In accordance with ASC 505-50-S99-1, such options are treated as unissued for accounting purposes until the future services are performed by the non-employees and received by the Company (that is, the options are not considered issued until they vest). During reporting periods prior to completion of performance, the Company measures the cost of the services based on the fair value of the share options at each reporting date using the valuation model applied in previous periods. The portion of the services that the non-employee has rendered is applied to the current measure of fair value to determine the cost to recognize. Changes in the Company's share price from the grant date to the vesting date result in adjustments to the reported costs of services in each period until performance is completed.

A summary of the share option activities is as follows:

	Number of options	Weighted average exercise price (RMB)	Weighted average grant-date fair value per option (RMB)
Options outstanding at January 1, 2014	—	—	—
Granted	17,642,130	4.8	1.9
Forfeited	(178,923)	4.8	1.9
Options outstanding at December 31, 2014	17,463,207	4.8	1.9
Granted	519,271	4.8	1.9
Forfeited	(788,944)	4.8	1.9
Options outstanding at December 31, 2015	<u>17,193,534</u>	4.8	1.9
Options vested and expect to vest at December 31, 2015	<u>17,193,534</u>	4.8	1.9

As of December 31, 2014 and 2015, 585,938 and 1,066,667 forfeitable and unvested non-employee options, respectively, were treated as unissued for accounting purposes and were not included in the table above.

A summary of share-based compensation expenses for the years ended December 31, 2014 and 2015 is as follows:

	Year ended December 31,	
	2014	2015
Costs of revenue	2,851	484
General and administrative expenses	22,525	3,252
Selling and marketing expenses	1,957	325
Total share based compensation expenses	<u>27,333</u>	<u>4,061</u>

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 16. SHARE-BASED COMPENSATION (Continued)

The following table summarizes information with respect to stock options outstanding and stock options exercisable as of December 31, 2015:

	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price (RMB)
Options outstanding and exercisable	17,193,534	3.7	4.8

As of December 31, 2015, there was no unvested employee stock options.

The fair value of the options granted is estimated on the dates of grant using the binomial option pricing model with the following assumptions used.

Grant date:	July 2014	January 2015
Risk-free rate of return	2.25%	2.27%
Volatility	31.40%	29.80%
Expected dividend yield	—	—
Exercise multiple	2.20	2.20
Fair value of underlying ordinary share	US\$0.88 (RMB5.35)	US\$0.90 (RMB 5.5)
Expected term	5-6 years	5 years

## (1) Volatility

The volatility of the underlying ordinary shares during the lives of the options was estimated based on the historical stock price volatility of comparable listed companies over a period comparable to the expected term of the options.

## (2) Risk-free interest rate

Risk-free interest rate was estimated based on the yield to maturity of China international government bonds with a maturity period close to the expected term of the options.

## (3) Dividend yield

The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the options.

## (4) Exercise multiple

Exercise multiple represents the value of the underlying share as a multiple of exercise price of the option, which, if achieved, results in exercise of the option.

**GDS HOLDINGS LIMITED AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(In thousands, except share data and per share data, or otherwise noted)****16. SHARE-BASED COMPENSATION (Continued)**

- (5) Fair value of underlying ordinary shares

The estimated fair value of the ordinary shares underlying the options as of the respective grant dates was determined based on a retrospective valuation with the assistance of a third party appraiser.

**17. NET REVENUE**

Net revenue is consisted of the following:

	Years ended December 31,	
	2014	2015
Service revenue	450,940	653,591
IT equipment sales	17,397	50,045
	<u>468,337</u>	<u>703,636</u>

**18. 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%.

The Company's Hong Kong entity is subject to the Hong Kong Profits Tax rate of 16.5%.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 18. INCOME TAX (Continued)

The operating results before income tax and the provision for income taxes by tax jurisdictions for the years ended December 31, 2014 and 2015 are as follows:

	Years ended December 31,	
	2014	2015
Loss before income taxes:		
PRC	112,572	94,190
Other jurisdictions	22,010	16,377
Total loss before income taxes	134,582	110,567
Current tax expenses:		
PRC	436	(1,650)
Other jurisdictions	5	256
Total current tax expenses(benefits)	441	(1,394)
Deferred tax benefits:		
PRC	(4,877)	(10,589)
Other jurisdictions	(147)	—
Total deferred tax benefits	(5,024)	(10,589)
Total income taxes benefits	(4,583)	(11,983)

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,	
	2014	2015
PRC enterprise income tax rate	25.0%	25.0%
Non-PRC entities not subject to income tax	(1.8%)	(3.8%)
Tax differential for entities in non-PRC jurisdiction	(0.8%)	0.0%
Tax effect of permanent differences	(0.4%)	(0.6%)
Change in valuation allowance	(18.4%)	(9.4%)
Return to provision adjustment	(0.2%)	(0.4%)
	3.4%	10.8%

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

18. INCOME TAX (Continued)

The components of deferred tax assets and liabilities are as follows:

	As at December 31	
	2014	2015
Deferred tax assets:		
Bad debt provision	539	539
Government subsidy	4,621	4,067
Accrued expenses	12,480	8,732
Asset retirement obligation	555	1,444
Net operating loss carry forwards	123,599	135,878
<b>Total gross deferred tax assets</b>	<b>141,794</b>	<b>150,660</b>
Valuation allowance on deferred tax assets	(116,403)	(118,952)
<b>Deferred tax assets, net of valuation allowance</b>	<b>25,391</b>	<b>31,708</b>
Deferred tax liabilities:		
Property and equipment	(38,885)	(37,982)
Intangible assets	(13,585)	(11,430)
Prepaid land use rights	(1,814)	(1,774)
Obligation under capital lease	(11,831)	(10,657)
<b>Total deferred tax liabilities</b>	<b>(66,115)</b>	<b>(61,843)</b>
<b>Net deferred tax liabilities</b>	<b>(40,724)</b>	<b>(30,135)</b>
Analysis as:		
Current deferred tax assets (note 4)	—	5,193
Non-current deferred tax assets	—	2,363
Non-current deferred tax liabilities	(40,724)	(37,691)
<b>Net deferred tax liabilities</b>	<b>(40,724)</b>	<b>(30,135)</b>

The following table presents the movement of the valuation allowance for the deferred tax assets:

	Years ended December 31,	
	2014	2015
Balance at the beginning of the year	117,065	116,403
(Decrease) increase during the year	(662)	2,549
<b>Balance at the end of the year</b>	<b>116,403</b>	<b>118,952</b>

Management believes it is more likely than not that the deferred tax asset, net of the valuation allowance as of December 31, 2015, will be realized. However, the amount of the deferred tax assets considered realizable could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced. As of December 31, 2015, the valuation allowance of RMB118,952 was related to the deferred income tax asset of certain subsidiaries of the Company. These entities were in a cumulative loss position, which is a significant negative indicator to overcome

**GDS HOLDINGS LIMITED AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(In thousands, except share data and per share data, or otherwise noted)****18. INCOME TAX (Continued)**

that sufficient income will be generated over the periods in which the deferred income tax assets are deductible or utilized. 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.

During the year ended December 31, 2015, certain net operating losses carry forwards expired. A full valuation allowance was provided against these net operating losses carry forwards as of the end of December 31, 2014. The net operating losses carry forwards of the Company's PRC subsidiaries amounted to RMB514,385 as of December 31, 2015, of which RMB37,660, RMB65,191, RMB224,920, RMB73,416 and RMB113,198 will expire if unused by December 31, 2016, 2017, 2018, 2019 and 2020, respectively.

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 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 Enterprise Income Tax Law, or 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 CIT 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, 2014 and 2015, 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.

**19. 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.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 19. DISTRIBUTION OF PROFIT (Continued)

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 RMB1,012,478 and RMB1,323,122 as of December 31, 2014 and 2015, respectively, including non-distributable general reserve fund of nil as of December 31, 2014 and 2015. The parent company financial information of GDS Holdings is disclosed in note 25.

## 20. LOSS PER SHARE

The computation of basic and diluted loss per share is as follows:

	Years ended December 31,	
	2014	2015
Net loss	129,999	98,584
Extinguishment of redeemable preferred shares upon repurchase and exchange	106,515	—
Change in redemption value of redeemable preferred shares	69,116	110,926
Dividends on redeemable preferred shares (i)	3,509	7,127
Net loss available to ordinary shareholders	309,139	216,637
Weighted average number of ordinary shares outstanding Basic and diluted	162,070,745	217,987,922
Basic and diluted loss per share	1.91	0.99

Note (i): Represents undeclared dividends on redeemable preferred shares that are cumulative and not included in the carrying amount of the redeemable preferred shares.

For the years ended December 31, 2014 and 2015, the following securities were excluded from the computation of diluted loss per share as inclusion would have been anti-dilutive.

	Years ended December 31,	
	2014	2015
Share options	17,463,207	17,193,534
Convertible bonds payable	—	59,692,156
Redeemable preferred shares	349,087,677	349,087,677
Total	366,550,884	425,973,367

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

**21. 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 allocations to this segment. Accordingly, no reportable segment information is presented.

Substantially all of the Company's operations and assets are in the PRC. Consequently, no geographic information is presented.

**22. MAJOR CUSTOMERS**

The Company had one customer, which generated over 10% of the Company's total revenues during the years ended December 31, 2014 and 2015. Revenues generated from this customer amounted to approximately RMB125,687 and RMB141,711 in 2014 and 2015, respectively.

**23. COMMITMENTS****(a) Capital commitments**

Capital commitments outstanding at December 31, 2014 and 2015 not provided for in the financial statements were as follows:

	As at December 31	
	2014	2015
Contracted for	144,059	272,958

**(b) Lease commitments**

The Company's lease commitments are disclosed in note 12. In respect of Shenzhen 4 Lease, Shanghai 3 Lease and Shanghai 4 Lease, upon the commencement of the leases in 2016 or upon the completion of the construction of the properties, the total minimum lease payments are RMB1,189,954. The total annual lease payment to be paid, in each of the next five years is RMB8,565, RMB27,919, RMB46,982, RMB50,541 and RMB55,647, respectively.

**24. RELATED PARTY TRANSACTION AND BALANCES**

In addition to the related party information disclosed elsewhere in the consolidated financial statements, the Company entered into the following material related party transactions.

Name of party	Relationship
William Wei Huang (Mr. Huang)	Director and CEO of the Company
STT GDC Pte. Ltd.	Principal preferred shareholder of the Company
SBCVC Holdings Limited (SBCVC)	Principal preferred shareholder of the Company
EDC Holding	SBCVC was a common principal preferred shareholder of both GDS Holdings and EDC Holding prior to the acquisition



GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

24. RELATED PARTY TRANSACTION AND BALANCES (Continued)

(a) Major transactions with related parties

		Years ended December 31,	
		2014	2015
Service fees charged by EDC Holding	24(b)(i)	55,869	—
Loans made to EDC Holding	24(b)(i)	307,048	—
Interest income	24(b)(i)	4,296	—
Repurchase of redeemable preferred shares	24(b)(ii)	273,562	—
Loan from a related party	24(b)(iii)	—	64,936
Interest expenses	24(b)(i) 24(b)(iii)	244	2,579

(b) Balances with related parties

Amount due to:	Note	As at December 31	
		2014	2015
SBCVC	ii	23,300	—
STT GDC Pte. Ltd.	iii	—	67,604
		23,300	67,604

(i) Subsequent to the acquisition of EDC Holding by the Company on June 30, 2014, balances and transactions between the Company and EDC Holding are eliminated upon consolidation in the Company's consolidated financial statements as of and for the years ended December 31, 2014 and 2015. Prior to the acquisition, the Company entered into the following transactions with EDC Holding.

In December 2013, the Company made a prepayment of RMB320,000 to EDC Holding under a service agreement where it was a customer of EDC Holding. The prepayment covered a two-year service period from 2014 to 2015. During the six-month period ended June 30, 2014, EDC Holding provided services to the Company amounting to RMB55,869.

During the six-month period ended June 30, 2014, the Company provided loans to EDC Holding amounting to RMB307,048. Interest income on the loans amounted to RMB4,296.

In January 2013, EDC Holding provided a loan of US\$8,000 (RMB49,222) to the Company. During the six-month period ended June 30, 2014, interest expenses on the loan amounted to RMB244.

(ii) In August 2014, the Company repurchased 13,905,901 Series A Shares, 4,403,119 Series A\* Shares, 1,640,183 Series B Shares, 7,338,532 Series B1 Shares, 6,643,303 Series B2 Shares and 8,961,143 Series B4 Shares from SBCVC at US\$1.0365 (RMB6.3779) per share, for a cash consideration of US\$44,458 (RMB273,562). As of December 31, 2014, outstanding consideration payable to SBCVC amounted to RMB23,300, which was fully settled in 2015.

(iii) During the year ended December 31, 2015, the Company borrowed a loan of US\$10,000 (RMB64,936) from STT GDC Pte. Ltd., a principal shareholder of the Company. The interest expenses on the loan amounted to US\$397 (RMB2,579).

As of December 31, 2015, the amount due to STT GDC Pte. Ltd. comprised US\$10,000 (RMB64,936) short-term loan and accrued loan interest of US\$397 (RMB2,668). On January 29, 2016, the Company received the second tranche of US\$50,000 (RMB324,475) from STT GDC Pte. Ltd for subscription of Convertible Bonds due 2019, of which US\$10,000 (RMB64,936) was used to settle the outstanding short-term loan of US\$10,000 (RMB64,936).

**GDS HOLDINGS LIMITED AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements (Continued)**
**(In thousands, except share data and per share data, or otherwise noted)**
**25. PARENT ONLY FINANCIAL INFORMATION**

The following condensed parent company financial information of GDS Holdings has been prepared using the same accounting policies as set out in the accompanying consolidated financial statements except that the equity method has been used to account for investments in its subsidiaries. As of December 31, 2015, there were no material contingencies, significant provisions of long-term obligations, mandatory dividend or redemption requirements of redeemable stocks or guarantees of GDS Holdings, except for those, which have been separately disclosed in the consolidated financial statements.

**Condensed Balance Sheets**

	<b>As at December 31</b>	
	<b>2014</b>	<b>2015</b>
<b>Assets</b>		
Current assets		
Cash	8,101	643,926
<b>Total current assets</b>	<b>8,101</b>	<b>643,926</b>
Investment and loans to subsidiaries	2,187,660	2,152,027
<b>Total assets</b>	<b>2,195,761</b>	<b>2,795,953</b>
<b>Liabilities and Shareholders' Deficit</b>		
Current liabilities		
Accrued expenses and other payables	1,948	3,782
Due to subsidiaries	8,699	20,890
Due to a related party	23,300	67,604
Bonds payable	14,340	—
<b>Total current liabilities</b>	<b>48,287</b>	<b>92,276</b>
Convertible bonds payable	—	648,515
Other long-term liabilities	—	353
<b>Total liabilities</b>	<b>48,287</b>	<b>741,144</b>
Redeemable preferred shares (US\$0.00005 par value; 350,561,436 shares authorized; 349,087,677 shares issued and outstanding and aggregate redemption amount of RMB2,029,766 and RMB2,277,059 as of December 31, 2014 and 2015, respectively)	2,164,039	2,395,314
Shareholders' deficit		
Ordinary shares (US\$0.00005 par value; 675,636,564 shares authorized; 217,987,922 shares issued and outstanding as of December 31, 2014 and 2015, respectively)	76	76
Additional paid-in capital	410,486	303,621
Accumulated other comprehensive income (loss)	56,542	(61,949)
Accumulated deficit	(483,669)	(582,253)
<b>Total shareholders' deficit</b>	<b>(16,565)</b>	<b>(340,505)</b>
Commitments and contingencies		
<b>Total liabilities, redeemable preferred shares and shareholders' deficit</b>	<b>2,195,761</b>	<b>2,795,953</b>

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 25. PARENT ONLY FINANCIAL INFORMATION (Continued)

## Condensed Statements of Operations

	Years ended December 31,	
	2014	2015
Net revenue	—	—
Cost of revenue	—	—
Gross profit	—	—
Operating expenses		
Selling and marketing expenses	(2,387)	(1,566)
General and administrative expenses	(32,166)	(14,665)
Loss from operations	(34,553)	(16,231)
Other income (expenses):		
Interest income	80	—
Interest expenses	(35,192)	(3,297)
Gain on remeasurement of equity investment	62,506	—
Equity in loss of subsidiaries	(122,742)	(79,056)
Others, net	(98)	—
Loss before income taxes	(129,999)	(98,584)
Income tax expenses	—	—
Net loss	(129,999)	(98,584)

## Condensed Statements of Comprehensive Loss

	Years ended December 31,	
	2014	2015
Net loss	(129,999)	(98,584)
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of nil tax	4,114	(118,491)
Comprehensive loss	(125,885)	(217,075)

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 25. PARENT ONLY FINANCIAL INFORMATION (Continued)

## Condensed Statements of Cash Flows

	Years ended December 31,	
	2014	2015
<b>Operating activities:</b>		
Net cash used in operating activities	(6,609)	(4,895)
<b>Investing activities:</b>		
Investment in a subsidiary	(92,300)	—
Increase of due from subsidiaries	(925,539)	(93,101)
Net cash used in investing activities	(1,017,839)	(93,101)
<b>Financing activities:</b>		
Proceeds from issuance of convertible bonds payable	—	648,950
Proceeds from issuance of bonds payable	114,950	—
Repayment of bonds payable	(4,081)	(14,330)
Loan received from a related party	—	64,936
Proceeds from issuance of Series C redeemable preferred shares	1,521,295	—
Payment of issuance costs for Series C redeemable preferred shares	(20,128)	—
Repurchase of ordinary shares	(119,664)	—
Repurchase of redeemable preferred shares	(455,366)	(23,300)
Net cash provided by financing activities	1,037,006	676,256
Effect of exchange rate changes on cash	(4,459)	57,565
<b>Net increase in cash</b>	<b>8,099</b>	<b>635,825</b>
Cash at beginning of year	<u>2</u>	<u>8,101</u>
Cash at end of year	<u>8,101</u>	<u>643,926</u>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	1,317	3,463
<b>Supplemental disclosures of non-cash investing and financing activities</b>		
Issuance of ordinary shares in exchange of bonds payable	205,536	—
Issuance of ordinary and preferred shares for the acquisition of EDC Holding	1,184,242	—

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

26. SUBSEQUENT EVENTS

(a) *Receipt of proceeds from the second tranche of Convertible Bonds due 2019*

On January 29, 2016, the Company received the second tranche of US\$50,000 (RMB324,475) from STT GDC Pte. Ltd. for subscription of Convertible Bonds due 2019, of which US\$10,000 (RMB64,936) was used to settle an outstanding short-term loan due to STT GDC Pte. Ltd.

(b) *2016 Internal Restructuring*

During the periods presented, the Company primarily conducted its operations through GDS Suzhou.

In order to adapt to the new regulatory requirements in China, the Company completed an internal restructuring in respect of GDS Suzhou on April 13, 2016 (the "2016 Variable Interest Entity Restructuring") whereby GDS Suzhou was converted into a PRC domestic company that is wholly owned GDS Beijing. The conversion of GDS Suzhou into a PRC domestic company was accomplished by way of transferring all of the equity interests in GDS Suzhou to GDS Beijing. In connection with the internal restructuring, the VIE Agreements between GDS Beijing and GDS Suzhou were terminated and concurrently, new contractual arrangements were entered into between GDS Beijing and GDS Management Company, a newly-established subsidiary of the Company. The terms of the new contractual arrangements between GDS Beijing and GDS Management Company are identical to the terms of the VIE Agreements between GDS Beijing and GDS Suzhou. The 2016 Variable Interest Entity Restructuring in respect of GDS Suzhou was completed on April 13, 2016. The Company continues to be the primary beneficiary of the VIEs following the completion of the internal restructuring.

Since the entities involved in the 2016 Variable Interest Entity Restructuring are all under common control and the Company is the primary beneficiary of GDS Beijing at the time of transfer, the net assets of GDS Suzhou transferred to GDS Beijing is recorded at the same amounts at which the assets and liabilities would have been measured if they had not been transferred. That is, no gain or loss is recognized because of such transfer.

The following is a summary of the contractual arrangements entered among the GDS Management Company, the VIEs, and the shareholders of the VIEs.

*Equity Interest Pledge Agreements.* Pursuant to the equity interest pledge agreements, each shareholder of the VIEs has pledged all of his or her equity interest in the VIEs as a continuing first priority security interest, as applicable, to respectively guarantee the VIEs and their 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, and shareholder voting rights proxy agreement. If the VIEs or any of their shareholders breach their contractual obligations under these agreements, GDS Management 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 the VIEs in accordance with PRC law. Each of the shareholders of the VIEs 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 Management Company. The equity interest pledge agreements remain effective until the VIEs and their shareholders discharge all their obligations under the contractual arrangements.

*Shareholder Voting Rights Proxy Agreement.* Pursuant to the shareholder voting rights proxy agreements, each shareholder of the VIEs has irrevocably appointed the PRC citizen(s) as designated by

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

**26. SUBSEQUENT EVENTS (Continued)**

GDS Management 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. GDS Management 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 the VIEs 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 the VIE.

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

*Intellectual Property Rights License Agreement.* Pursuant to an intellectual property rights license agreement between GDS Management Company and GDS Shanghai, GDS Shanghai has granted GDS Management Company an exclusive license to use for free any or all of the intellectual property rights owned by GDS Shanghai from time to time, and without the parties' prior written consent, 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 Management Company's use of the licensed intellectual property rights from GDS Shanghai. The parties have also agreed under the agreement that GDS Management 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 Shanghai. This agreement can only be early terminated by prior mutual consent of the parties and need to be renewed upon GDS Management Company's unilateral request.

*Exclusive Call Option Agreements.* Pursuant to the exclusive call option agreements, the shareholders of the VIEs have irrevocably granted GDS Management 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 shareholders' equity interests in the VIEs. 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 Management Company's prior written consent, the shareholders of the VIEs have agreed that the VIEs shall not amend the articles of association, increase or decrease the registered capital, sell or otherwise dispose of their assets or beneficial interest, create or allow any encumbrance on their assets or other beneficial interests, provide any loans, or distribute dividends to the shareholders. These agreements will remain effective until all equity interests of the VIEs have been transferred or assigned to GDS Management Company or its designated person(s).

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

**26. SUBSEQUENT EVENTS (Continued)**

*Loan Agreements.* Pursuant to the loan agreements between GDS Management and the shareholders of the VIEs, GDS Management agrees to extend loans in an aggregate amount of RMB310,100 to the shareholders of the VIEs solely for their capitalization or equity contribution into the VIEs. Pursuant to the loan agreements, GDS Management Company has the right to require repayment of the loans upon delivery of thirty-day's prior notice to the shareholders, and the shareholders can repay the loans by either sale of their equity interests in the VIEs to GDS Management Company or its designated person(s) pursuant to their respective exclusive option agreements, or other methods as determined by GDS Management 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 law; and (iv) the right to require each of the shareholder of the VIEs to appoint the PRC citizen(s) as designated by GDS Management 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.

**(c) Acquisition of WTENG**

On May 19, 2016, the Company, through GDS Beijing, acquired all of the equity interests in Guangzhou Weiteng Construction Co., Ltd. ("WTENG") from a third party for an aggregate purchase price of RMB129,500, subject to adjustment, if any, pursuant to the terms and conditions of the equity purchase agreement. WTENG is a limited liability company organized and existing under the PRC law and owns a data center project in Guangzhou. At the date of acquisition, the data center has just commenced its operations. After the acquisition, WTENG became a wholly-owned subsidiary of the Company. The initial accounting for this acquisition is incomplete as the acquisition was completed at a date that was just prior to the issuance of the consolidated financial statements. Management does not believe this acquisition is significant as measured by the assets or pre-tax earnings (loss) of the acquiree as a percentage of the Company's consolidated assets or pre-tax earnings (loss), respectively.

**(d) Share options grant**

On May 1, 2016, the Company granted 11,084,840 share options to employees, officers and directors. These share options were fully vested upon the date of grant for past services and had an exercise price of US\$0.7792 (RMB 5.0328) per option. The options have a contractual term of five years. The Company is evaluating the fair values of its ordinary share and the share options. Based on the Company's best estimate, the estimated fair value of its ordinary share on the date of the grant was approximately US\$1.6 (RMB10.3342) per share and total share-based compensation expenses to be recognized is approximately RMB62,000. Upon completion of the fair value analysis, management will revise these estimates and such revisions are not expected to be materially different from these current estimates.

Management has considered subsequent events through May 20, 2016, which was the date these consolidated financial statements were issued.

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share data and per share data, or otherwise noted)

	Note	As at	
		December 31, 2015	June 30, 2016
<b>Assets</b>			
<b>Current assets</b>			
Cash (including cash of VIEs of RMB12,032 and RMB60,680 as of December 31, 2015 and June 30, 2016, respectively)		924,498	834,477
Restricted cash		6,425	8,485
Accounts receivable, net of allowance for doubtful accounts (including accounts receivables, net of allowance for doubtful accounts of VIEs of RMB3,847 and RMB 108,593 as of December 31, 2015 and June 30, 2016, respectively)		111,013	170,149
Value-added-tax ("VAT") recoverable (including VAT recoverable of VIEs of RMB1,389 and RMB 19,044 as of December 31, 2015 and June 30, 2016, respectively)		59,680	99,256
Prepaid expenses (including prepaid expenses of VIEs of RMB5,173 and RMB 24,699 as of December 31, 2015 and June 30, 2016, respectively)		51,395	41,056
Other current assets (including other current asset of VIEs of RMB234 and RMB10,516 as of December 31, 2015 and June 30, 2016, respectively)		33,688	29,808
<b>Total current assets</b>		<b>1,186,699</b>	<b>1,183,231</b>
<b>Property and equipment, net</b>			
(including property and equipment, net of VIEs of RMB5,830 and RMB 356,285 as of December 31, 2015 and June 30, 2016, respectively)	3	2,512,687	3,591,456
<b>Intangible assets, net (including intangible assets, net of VIEs of RMB nil and RMB58,565 as of December 31, 2015 and June 30, 2016, respectively)</b>	4	46,935	101,038
Prepaid land use rights, net		27,408	27,100
Goodwill (including goodwill of VIEs of RMB nil and RMB46,423 as of December 31, 2015 and June 30, 2016, respectively)	5	1,294,664	1,341,087
Deferred tax assets (including deferred tax assets of VIEs of RMB nil and RMB 10,604 as of December 31, 2015 and June 30, 2016, respectively)		2,363	10,604
Other non-current assets (including other non-current assets of VIEs of RMB nil and RMB8,233 as of December 31, 2015 and June 30, 2016, respectively)	6	57,516	79,550
<b>Total assets</b>		<b>5,128,272</b>	<b>6,334,066</b>
<b>Liabilities, Redeemable Preferred Shares and Shareholders' Deficit</b>			
<b>Current liabilities</b>			
Short-term borrowings and current portion of long-term borrowings (including short-term borrowings and current portion of long-term borrowings of VIEs of RMB nil and RMB463,700 as of December 31, 2015 and June 30, 2016, respectively)	8	428,218	699,394
Accounts payable (including accounts payable of VIEs of RMB 4,151 and RMB182,652 as of December 31, 2015 and June 30, 2016, respectively)		215,658	459,996
Accrued expenses and other payables (including accrued expenses and other payables of VIEs of RMB 1,802 and RMB 110,704 as of December 31, 2015 and June 30, 2016 respectively)		118,316	201,998
Due to a related party		67,604	—
Deferred revenue (including deferred revenue of VIEs of RMB 8,992 and RMB36,120 as of December 31, 2015 and June 30, 2016, respectively)		46,508	45,008
Obligations under capital leases, current (including obligations under capital leases, current of VIEs of RMB nil and RMB12,494 as of December 31, 2015 and June 30, 2016, respectively)	9	48,745	71,919
<b>Total current liabilities</b>		<b>925,049</b>	<b>1,478,315</b>
Long-term borrowings, excluding current portion	8	958,264	825,392
Convertible bonds payable	10	648,515	994,243
Obligations under capital leases, non-current (including obligations under capital leases, non-current of VIEs of RMB nil and RMB68,266 as of December 31, 2015 and June 30, 2016, respectively)	9	424,939	873,972
Deferred tax liabilities (including deferred tax liabilities of VIEs of RMB nil and RMB21,142 as of December 31, 2015 and June 30, 2016, respectively)		37,691	57,138
Other long-term liabilities (including other long-term liabilities of VIEs of RMB nil and RMB9,420 as of December 31, 2015 and June 30, 2016, respectively)	11	79,005	151,849
<b>Total liabilities</b>		<b>3,073,463</b>	<b>4,380,909</b>
<b>Redeemable preferred shares</b>			
(US\$0.00005 par value; 350,563,436 shares authorized; 349,087,677 shares issued and outstanding with aggregate redemption amount of RMB2,277,059 and RMB2,387,936, as of December 31, 2015 and June 30, 2016, respectively)	12	2,395,314	2,499,117
<b>Shareholders' deficit</b>			
Ordinary shares (US\$0.00005 par value; 675,636,564 shares authorized; 217,987,922 shares issued and outstanding as of December 31, 2015 and June 30, 2016, respectively)		76	76
Additional paid-in capital		303,621	302,939
Accumulated other comprehensive loss		(61,949)	(112,525)
Accumulated deficit		(582,253)	(736,450)
<b>Total shareholders' deficit</b>		<b>(340,505)</b>	<b>(545,960)</b>
<b>Commitments and contingencies</b>			
<b>Total liabilities, redeemable preferred shares and shareholders' deficit</b>		<b>5,128,272</b>	<b>6,334,066</b>

See accompanying notes to unaudited condensed consolidated financial statements.



**GDS HOLDINGS LIMITED AND SUBSIDIARIES**  
**Unaudited Condensed Consolidated Statements of Operations**  
(In thousands, except share data and per share data, or otherwise noted)

	Note	Six-month periods ended	
		June 30,	
		2015	2016
Net revenue	14	304,794	447,135
Cost of revenue		(221,519)	(332,034)
Gross profit		83,275	115,101
Operating expenses			
Selling and marketing expenses		(23,494)	(34,563)
General and administrative expenses		(58,837)	(131,452)
Research and development expenses		(1,257)	(4,765)
Loss from operations		(313)	(55,679)
Other income (expenses):			
Interest income		870	1,192
Interest expenses	3	(61,310)	(111,484)
Foreign currency exchange gain, net		4,456	4,101
Government grants		1,030	1,030
Others, net		1,362	179
Loss before income taxes		(53,905)	(160,661)
Income tax benefits	7	6,641	6,464
Net loss		(47,264)	(154,197)
Net loss		(47,264)	(154,197)
Change in redemption value of redeemable preferred shares	12	(55,462)	(57,869)
Dividends on cumulative preferred shares	16	(3,564)	(3,725)
Net loss available to ordinary shareholders		(106,290)	(215,791)
Loss per ordinary share			
Basic and diluted	16	(0.49)	(0.99)
Weighted average number of ordinary share outstanding			
Basic and diluted	16	217,987,922	217,987,922

See accompanying notes to unaudited condensed consolidated financial statements.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Unaudited Condensed Consolidated Statements of Comprehensive Loss

(In thousands, except share data and per share data, or otherwise noted)

	Six-month periods ended June 30,	
	2015	2016
Net loss	(47,264)	(154,197)
Other comprehensive income (loss)		
Foreign currency translation adjustments, net of nil tax	2,836	(50,576)
Comprehensive loss	(44,428)	(204,773)

See accompanying notes to unaudited condensed consolidated financial statements.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Unaudited Condensed Consolidated Statement of Changes in Shareholders' Deficit

(In thousands, except share data and per share data, or otherwise noted)

	Note	Ordinary Shares		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total deficit
		Number	Amount				
<b>Balance at January 1, 2016</b>		<b>217,987,922</b>	<b>76</b>	<b>303,621</b>	<b>(61,949)</b>	<b>(582,253)</b>	<b>(340,505)</b>
Loss for the period		—	—	—	—	(154,197)	(154,197)
Other comprehensive loss		—	—	—	(50,576)	—	(50,576)
Total comprehensive loss		—	—	—	(50,576)	(154,197)	(204,773)
Change in redemption value of redeemable preferred shares	12	—	—	(57,869)	—	—	(57,869)
Share-based compensation	13	—	—	57,187	—	—	57,187
<b>Balance at June 30, 2016</b>		<b>217,987,922</b>	<b>76</b>	<b>302,939</b>	<b>(112,525)</b>	<b>(736,450)</b>	<b>(545,960)</b>

See accompanying notes to unaudited condensed consolidated financial statements.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands, except share data and per share data, or otherwise noted)

	Six-month periods ended June 30,	
	2015	2016
<b>Cash flows from operating activities:</b>		
Net loss	(47,264)	(154,197)
Amortization of debt issuance cost and debt discount	—	422
Depreciation and amortization	63,968	93,469
Share-based compensation expense	3,166	57,187
Deferred tax benefit	(9,896)	(9,577)
<b>Changes in operating assets and liabilities, net of effect of an acquisition:</b>		
Increase of accounts receivable	(4,848)	(52,837)
Increase of VAT recoverable	(13,921)	(22,024)
Decrease of prepaid expenses	1,412	10,339
Increase of restricted cash	—	(2,060)
(Increase) decrease of other current assets	(2,906)	3,644
Increase of other non-current assets	(2,954)	(5,644)
Increase of accounts payable	12,343	47,832
Decrease of due to a related party	(89)	(2,668)
Decrease of deferred revenue	(1,672)	(1,500)
(Decrease) increase of accrued expenses and other payables	(19,137)	15,173
Increase of other long-term liabilities	8,199	372
<b>Net cash used in operating activities</b>	<b>(13,599)</b>	<b>(22,069)</b>

See accompanying notes to unaudited condensed consolidated financial statements.

**GDS HOLDINGS LIMITED AND SUBSIDIARIES**
**Unaudited Condensed Consolidated Statements of Cash Flows (Continued)**

(In thousands, except share data and per share data, or otherwise noted)

	Note	Six-month periods ended June 30	
		2015	2016
<b>Cash flows from investing activities</b>			
Payments for purchase of property and equipment		(274,425)	(317,555)
Loans made to WTENG prior to acquisition	5	—	(42,000)
Cash paid for the acquisition of WTENG, less cash acquired of RMB1,237	5	—	(102,363)
Deposit paid for a potential acquisition	6	—	(15,000)
<b>Net cash used in investing activities</b>		<b>(274,425)</b>	<b>(476,918)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from short-term borrowings		62,000	204,000
Proceeds from long-term borrowings		—	121,605
Repayment of short-term borrowings		(42,000)	(147,000)
Repayment of long-term borrowings		(12,642)	(42,815)
Proceeds from issuance of convertible bonds payable	10	—	262,106
Repayment of bonds payable		(14,330)	—
Payment under capital lease obligations		(9,530)	(2,550)
Increase of restricted cash related to borrowings		(1,798)	—
<b>Net cash (used in) provided by financing activities</b>		<b>(18,300)</b>	<b>395,346</b>
Effect of exchange rate changes on cash		1,457	13,620
<b>Net decrease in cash</b>		<b>(304,867)</b>	<b>(90,021)</b>
Cash at beginning of period		606,758	924,498
Cash at end of period		<u>301,891</u>	<u>834,477</u>
<b>Supplemental disclosures of cash flow information</b>			
Interest paid		26,267	47,412
Income tax paid		596	5,645
<b>Supplemental disclosures of non-cash investing and financing activities</b>			
Payables for purchase of property and equipment		168,693	65,392
Purchase of property and equipment through capital leases		—	394,078
Consideration payable for the acquisition of WTENG		—	25,900

See accompanying notes to unaudited condensed consolidated financial statements.

**GDS HOLDINGS LIMITED AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(In thousands, except share data and per share data, or otherwise noted)**

**1 BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by rules and regulations of the United States Securities and Exchange Commission ("SEC"). The condensed consolidated balance sheet as of December 31, 2015 was derived from the audited consolidated financial statements of GDS Holdings Limited ("GDS Holdings") and its subsidiaries (collectively, "the Company"). The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated balance sheet of the Company as of December 31, 2015 and the related consolidated statements of operations, comprehensive loss, changes in shareholders' deficit and cash flow for the year then ended and the related notes to the consolidated financial statements, included elsewhere herein.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the financial position as of June 30, 2016, and the results of operations and cash flows for the six-month periods ended June 30, 2015 and 2016, have been made.

The preparation of condensed 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 condensed 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 limited to, the useful lives of long-lived assets, the allowance for doubtful accounts receivable, the realization of deferred income tax assets, the fair value of share-based compensation awards, the recoverability of long-lived 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 condensed consolidated financial statements.

The accompanying condensed consolidated financial statements contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Company's ability to operate profitably, to generate cash flows from operations, and to pursue financing arrangements, including obtaining new bank borrowings or renewing its existing bank borrowings.

Historically, the Company relied on external bank and third party loans and issuances of preferred shares and convertible bonds to fund its working capital and capital expenditure requirements and to meet its obligations and commitments when they become due.

The Company has carried out a review of its cash flow forecast for the twelve months ending June 30, 2017. Based on such forecast, management believes that adequate sources of liquidity exist to fund the Company's working capital and capital expenditures requirements, and to meet its short-term debt obligations and other liabilities and commitments as they become due. In preparing the cash flow forecast, management has considered historical cash requirements, working capital and capital expenditures plans, estimated cash flows provided by operations, existing cash on hand and available credit facilities, as well as other key factors, including its ability to renew its short-term bank

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

**1 BASIS OF PRESENTATION (Continued)**

borrowings during the twelve months ending June 30, 2017. Management believes the assumptions used in the cash forecast are reasonable.

**2 PRINCIPLES OF CONSOLIDATION**

The accompanying condensed consolidated financial statements include the financial statements of GDS Holdings Limited, its subsidiaries and consolidated variable interest entities ("VIEs") for which the Company is the primary beneficiary.

In certain regions of the PRC, the Company's operations are conducted through 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 hold the legal equity interests of the VIEs on behalf of the Company. The equity holders of the VIEs are the CEO of the Company and his relative.

Prior to the internal restructuring of GDS Suzhou on April 13, 2016 (the "2016 Variable Interest Entity Restructuring"), the Company primarily conducted its operations through Global Data Solutions Co., Ltd. ("GDS Suzhou"), a wholly owned subsidiary. In order to adapt to the new regulatory requirements in China, the Company completed the 2016 Variable Interest Entity Restructuring in respect of GDS Suzhou whereby GDS Suzhou was converted into a PRC domestic company that is wholly owned by Beijing Wanguo Chang'an Science and Technology Co., Ltd. ("GDS Beijing"). Prior to the internal restructuring, GDS Beijing was a VIE of GDS Suzhou through a series of contractual agreements, including the equity interest pledge agreements, shareholder voting rights proxy agreement, exclusive technology license and service agreements, exclusive call option agreements and loan agreements (collectively, the "VIE Agreements"). The conversion of GDS Suzhou into a PRC domestic company was accomplished by way of transferring all of the equity interests in GDS Suzhou to GDS Beijing. In connection with the internal restructuring, the VIE Agreements between GDS Beijing and GDS Suzhou were terminated and concurrently, new contractual VIE Agreements were entered into between GDS Beijing and GDS Management Company, a newly-established subsidiary of the Company. The terms of the new contractual arrangements between GDS Beijing and GDS Management Company are identical to the terms of the VIE Agreements between GDS Beijing and GDS Suzhou. The 2016 Variable Interest Entity Restructuring in respect of GDS Suzhou was completed on April 13, 2016. The Company continues to be the primary beneficiary of the VIEs following the completion of the internal restructuring.

Since the entities involved in the 2016 Variable Interest Entity Restructuring are all under common control and the Company is the primary beneficiary of GDS Beijing at the time of transfer, the net assets of GDS Suzhou transferred to GDS Beijing is recorded at the same amounts at which the assets and liabilities would have been measured if they had not been transferred. That is, no gain or loss is recognized because of such transfer.

The following is a summary of the contractual VIE Agreements entered among GDS Management Company, the VIEs, and the shareholders of the VIEs.

*Equity Interest Pledge Agreements.* Pursuant to the equity interest pledge agreements, each shareholder of the VIEs has pledged all of his or her equity interest in the VIEs as a continuing first priority security interest, as applicable, to respectively guarantee the VIEs and their shareholders.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 2 PRINCIPLES OF CONSOLIDATION (Continued)

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. If the VIEs or any of their shareholders breach their contractual obligations under these agreements, GDS Management 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 the VIEs in accordance with PRC law. Each of the shareholders of the VIEs 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 Management Company. The equity interest pledge agreements remain effective until the VIEs and their shareholders discharge all their obligations under the contractual arrangements.

*Shareholder Voting Rights Proxy Agreement.* Pursuant to the shareholder voting rights proxy agreements, each shareholder of the VIEs has irrevocably appointed the PRC citizen(s) as designated by GDS Management 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. GDS Management 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 the VIEs 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 the VIE.

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

*Intellectual Property Rights License Agreement.* Pursuant to an intellectual property rights license agreement between GDS Management Company and GDS Shanghai, GDS Shanghai has granted GDS Management Company an exclusive license to use for free any or all of the intellectual property rights owned by GDS Shanghai from time to time, and without the parties' prior written consent, 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 Management Company's use of the licensed intellectual property rights from GDS Shanghai. The parties have also agreed under the agreement that GDS Management 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 Shanghai. This agreement can only



GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

2 PRINCIPLES OF CONSOLIDATION (Continued)

be early terminated by prior mutual consent of the parties and need to be renewed upon GDS Management Company's unilateral request.

*Exclusive Call Option Agreements.* Pursuant to the exclusive call option agreements, the shareholders of the VIEs have irrevocably granted GDS Management 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 shareholders' equity interests in the VIEs. 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 Management Company's prior written consent, the shareholders of the VIEs have agreed that the VIEs shall not amend the articles of association, increase or decrease the registered capital, sell or otherwise dispose of their assets or beneficial interest, create or allow any encumbrance on their assets or other beneficial interests, provide any loans, or distribute dividends to the shareholders. These agreements will remain effective until all equity interests of the VIEs have been transferred or assigned to GDS Management Company or its designated person(s).

*Loan Agreements.* Pursuant to the loan agreements between GDS Management and the shareholders of the VIEs, GDS Management agrees to extend loans in an aggregate amount of RMB310,100 to the shareholders of the VIEs solely for their capitalization or equity contribution into the VIEs. Pursuant to the loan agreements, GDS Management Company has the right to require repayment of the loans upon delivery of thirty-day's prior notice to the shareholders, and the shareholders can repay the loans by either sale of their equity interests in the VIEs to GDS Management Company or its designated person(s) pursuant to their respective exclusive option agreements, or other methods as determined by GDS Management 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 law; and (iv) the right to require each of the shareholder of the VIEs to appoint the PRC citizen(s) as designated by GDS Management 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 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 condensed 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

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 2 PRINCIPLES OF CONSOLIDATION (Continued)

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.

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 condensed consolidated financial statements.

The assets and liabilities of the VIEs are presented parenthetically on the face of the condensed consolidated balance sheets. Net revenue, net income, operating, investing and financing cash flows of the VIEs that were included in the Company's condensed consolidated financial statements for the six-month periods ended June 30, 2015 and 2016 are as follows:

	Six-month periods ended June 30,	
	2015	2016
Net revenue	6,634	222,567
Net income	1,489	10,570
Net cash generated from operating activities	3,066	69,705
Net cash used in investing activities	(1,000)	(48,042)
Net cash generated from financing activities	—	26,985

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 condensed consolidated balance sheets as they do not meet all the capitalization criteria.

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

3 PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	As at December 31, 2015	As at June 30, 2016
At cost:		
Buildings	1,049,376	1,263,884
Data center equipment	891,089	1,083,391
Leasehold improvement	554,450	901,983
Furniture and office equipment	32,001	27,821
Vehicles	2,728	2,740
	<u>2,529,644</u>	<u>3,279,819</u>
Less: Accumulated depreciation	(421,475)	(487,224)
	<u>2,108,169</u>	<u>2,792,595</u>
Construction in progress	404,518	798,861
Property and equipment, net	<u>2,512,687</u>	<u>3,591,456</u>

The carrying amounts of the Company's property and equipment acquired under capital leases at the respective balance sheet dates were as follows:

	As at December 31, 2015	As at June 30, 2016
At cost:		
Buildings	627,874	1,111,080
Data center equipment	12,718	26,375
	<u>640,592</u>	<u>1,137,455</u>
Less: Accumulated depreciation	(32,061)	(44,465)
	<u>608,531</u>	<u>1,092,990</u>

- (1) Depreciation of property and equipment (including assets acquired under capital leases) was RMB 59,198 and RMB 87,764 for the six-month periods ended June 30, 2015 and 2016, respectively, and included in the following captions:

	Six-month periods ended June 30,	
	2015	2016
Cost of revenue	52,065	80,120
General and administrative expenses	7,003	7,453
Research and development expenses	130	191
	<u>59,198</u>	<u>87,764</u>

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

**3 PROPERTY AND EQUIPMENT, NET (Continued)**

- (2) Interest that are directly attributable to the construction of an asset are capitalized as part of the cost of the asset. A reconciliation of total interest costs to "Interest expenses" as reported in the condensed consolidated statements of operations is as follows:

	Six-month periods ended June 30,	
	2015	2016
Total interest costs	61,977	142,808
Less: interest costs capitalized	(667)	(31,324)
Interest expenses	61,310	111,484

**4 INTANGIBLE ASSETS, NET**

Intangible assets consisted of the following:

	As at December 31, 2015	As at June 30, 2016
	Customer relationships	44,822
Favorable lease	15,500	15,500
	60,322	119,822
Less: accumulated amortization	(13,387)	(18,784)
Intangible assets, net	46,935	101,038

Amortization of intangible assets was RMB 4,462 and RMB 5,397 for the six-month periods ended June 30, 2015 and 2016, respectively.

**5 BUSINESS COMBINATION**

On May 19, 2016, the Company acquired all of the equity interests in Guangzhou Weiteng Construction Co., Ltd. ("WTENG") from a third party for cash consideration of RMB129,500, of which RMB 25,900 is outstanding as of June 30, 2016 and payable on May 19, 2017. WTENG is a limited liability company organized and existing under the PRC law and owns a data center project in Guangzhou. At the date of acquisition, the data center has just commenced its operations.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 5 BUSINESS COMBINATION (Continued)

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.

	<u>Note</u>	
Fair value of consideration		129,500
Effective settlement of pre-existing relationships upon consolidation	(i)	43,161
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash		1,237
Property and equipment	(ii)	281,437
Identifiable intangible assets	(iii)	59,500
Other assets		25,363
Accounts payable		(131,114)
Obligations under capital leases, current		(12,097)
Obligations under capital leases, non-current		(68,584)
Deferred tax liabilities		(21,143)
Other liabilities		(8,361)
Total identifiable net assets		<u>126,238</u>
Goodwill	(iv)	<u>46,423</u>

Note (i): Prior to the acquisition of WTENG, in February and May 2016, the Company lent short-term loans of RMB42,000 to WTENG. The loans bear an interest rate of 10% per annum and mature in September 2016. No gain or loss was recognized from the effective settlement of such pre-existing relationship between the Company and WTENG. At the acquisition date, the amount due from WTENG of RMB 43,161, including interest receivable of RMB1,161, is eliminated upon consolidation.

Note (ii): Property and equipment acquired included properties and equipment acquired under capital lease of RMB102,785, data center equipment of RMB19,895, leasehold improvement of RMB132,462 and construction in progress of RMB26,295.

Note (iii): Identifiable intangible assets acquired consisted of customer relationships of RMB59,500 with an estimated useful life of 7 to 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 of WTENG. Goodwill is assigned to the design, build-out and operation of data centers reporting unit. The goodwill is not deductible for tax purposes.

The amounts of net revenue and net income of WTENG included in the Company's condensed consolidated statements of operations from the acquisition date to June 30, 2016 amounted to RMB6,400 and RMB613, respectively.

Supplemental pro forma financial information as if the acquisition had occurred as of the earliest date presented has not been provided as the WTENG acquisition is not material to the Company's results of operations.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

**6 OTHER NON-CURRENT ASSETS**

In April 2016, the Company entered into a memorandum of understanding with a third party in respect of a potential acquisition of a data center and paid a deposit of RMB15,000 to the third party. The final purchase price and other major terms of the acquisition have not yet been agreed, as negotiations are at an early stage and due diligence has not been completed. If the acquisition is not consummated within 12 months of the date of the memorandum of understanding, RMB5,000 of the deposit amount will be refunded to the Company and the remainder will be forfeited.

**7 INCOME TAX**

The income tax benefits for the six-month periods ended June 30, 2015 and 2016 were RMB 6,641 and RMB 6,464, respectively. The Company's effective tax rates for the six-month periods ended June 30, 2015 and 2016 were 12.3% and 4.0%, respectively.

The actual income tax expense reported in the condensed consolidated statements of operations differs from the amount computed by applying the PRC statutory income tax rate to loss before income taxes, which is primarily due to the tax effect of non-PRC entities not being subject to income tax. Pursuant to the rules and regulations of the Cayman Islands, GDS Holdings and its subsidiaries incorporated in the Cayman Islands are not subject to any income tax.

**8 LOANS AND BORROWINGS**

The Company's borrowings consisted of the following:

	As at December 31, 2015	As at June 30, 2016
Short-term borrowings	333,000	390,000
Current portion of long-term borrowings	95,218	309,394
Sub-total	428,218	699,394
Long-term borrowings, excluding current portion	958,264	825,392
Total loans and borrowings	1,386,482	1,524,786

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

8 LOANS AND BORROWINGS (Continued)

**Short-term borrowings**

The Company's short-term borrowings consisted of the following:

	As at December 31, 2015	As at June 30, 2016
Unsecured short-term loans and borrowings	60,000	
Secured short-term loans and borrowings	273,000	390,000
	<u>333,000</u>	<u>390,000</u>

(i) Short-term borrowings were secured by the following assets:

	As at December 31, 2015	As at June 30, 2016
Accounts receivable	20,221	15,885
Property and equipment, net	144,540	239,504
Prepaid land use rights, net	14,602	14,436
	<u>179,363</u>	<u>269,825</u>

(ii) The weighted average interest rates of short-term borrowings were 6.91% and 5.70% per annum for the six-month periods ended June 30, 2015 and 2016, respectively.

(iii) Short-term loans of RMB 247,000 and RMB 264,000 as of December 31, 2015 and June 30, 2016, respectively, are guaranteed by William Wei Huang, a director and CEO of the Company.

**Long-term borrowings**

The Company's long-term borrowings consisted of the following:

	As at December 31, 2015	As at June 30, 2016
Unsecured long-term loans and borrowings	2,844	414
Secured long-term loans and borrowings	1,050,638	1,134,372
	<u>1,053,482</u>	<u>1,134,786</u>

(i) The weighted average interest rates of long-term borrowings were 9.93% and 8.48% per annum for the six-month periods ended June 30, 2015 and 2016, respectively.

(ii) Long-term borrowings were secured by the following assets:

	As at December 31, 2015	As at June 30, 2016
Accounts receivable	22,290	89,101
Property and equipment, net	434,934	434,418
Prepaid land use rights, net	6,381	6,308
	<u>463,605</u>	<u>529,827</u>

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 8 LOANS AND BORROWINGS (Continued)

- (iii) Long-term loans of RMB 194,955 and RMB 193,955 as of December 31, 2015 and June 30, 2016 are guaranteed by William Wei Huang.
- (iv) The aggregate maturities of the above long-term borrowings for each for the five years and thereafter subsequent to June 30, 2016 are as follows:

	Long-term borrowings
Twelve-months ending June 30,	
2017	309,394
2018	175,959
2019	202,950
2020	223,583
2021	172,791
Thereafter	50,109
	<u>1,134,786</u>

As of June 30, 2016, the particulars of the total secured long-term loans and borrowings of RMB1,134,372, were as follows:

- i) In 2009, a subsidiary of the Company entered into a thirteen-year entrusted credit facility for a principal amount of RMB322,000 with the local government through a third party bank. As of June 30, 2016, the outstanding loan under such credit facility was RMB211,109, and the effective interest rate of the loan was 4.9% per annum. The facility was secured by prepaid land use right with a carrying amount of RMB6,308 as of June 30, 2016.
- ii) In 2014, a subsidiary of the Company entered into an entrusted credit facility of RMB200,000 with a third party lender through a third party bank. As of June 30, 2016, the outstanding loan under such credit facility was RMB199,700, and the interest rate of the loan was 18% per annum. The facility was secured by accounts receivables with a carrying amount of RMB17,030 as of June 30, 2016. The loan contains financial covenants, which require that the subsidiary's outstanding loans (exclusive of this entrusted loan and any other entrusted loans) should be within a range of RMB130,000 and RMB240,000 (the "borrowing range") and the total pledged assets not exceeding RMB20,000. On March 31, 2015, the subsidiary's outstanding loans exceeded RMB240,000 and total pledged assets exceeded RMB20,000. On June 10, 2015, the subsidiary obtained a waiver letter from the creditor that waived the covenant violations. The creditor and the subsidiary also agreed to revise the acceptable outstanding borrowings in a range of RMB130,000 and RMB360,000 and removed the restriction on the pledged assets. As of June 30, 2016, the Company was in compliance with such covenants.
- iii) In 2015, a subsidiary of the Company entered into a six-year credit facility with a third party bank amounting to RMB290,000. As of June 30, 2016, the outstanding loan under such credit facility was RMB180,455, and the effective interest rate of the loan was 5.94% per annum. The facility is guaranteed by William Wei Huang, a director and CEO of the Company and secured by property and equipment with carrying amount value of RMB143,055 as of June 30, 2016.
- iv) In 2015 and 2016, two subsidiaries of the Company entered into loan facilities with third party banks in the aggregate amount of RMB650,000. As of June 30, 2016, the outstanding loans under such credit facilities were RMB504,608 (net of debt issuance costs), and the effective interest rate



## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 8 LOANS AND BORROWINGS (Continued)

of the loans was 6.18%- 6.56% per annum. The outstanding loans under such credit facilities are secured by accounts receivables and property and equipment with a carrying amount of RMB72,071 and RMB155,543 as of June 30, 2016, respectively. The outstanding loans contain a limit on the amount of capital expenditures to be incurred for the construction of the data centers and mature in 2020. The outstanding loans are required to be repaid in full prior to the maturity date in the event 1) Singapore Technologies Telemedia Limited of Singapore, the parent company of STT GDC Pte. Ltd. (a principal shareholder of the Company), ceases to own and control, directly or indirectly, at least 40% of the equity interest in the Company prior to an initial public offering (IPO) or 30% of the equity interest in the Company after an IPO, or ceases to be the single largest shareholder of the Company, (2) the Company ceases to own and control, directly or indirectly, 100% of the equity interest of the borrowing subsidiaries, (3) there are changes in the shareholding structure of a principal operating subsidiary, as defined in the loan agreements or (4) William Wei Huang, the founder, chairman and chief executive officer of the Company, ceases to own and control, directly or indirectly, at least 99.96% of the equity interest of GDS Beijing. In addition, under the terms of the loans, upon the completion of the Company's IPO, the Company is required to repay RMB127,185 of the outstanding loan principal amount based on the principal amount outstanding as of June 30, 2016. The loan facilities include a cross-default provision which would be triggered if the Company fails to repay any financial indebtedness of RMB30,000 or more when due or within any originally applicable grace period. As of June 30, 2016, the Company was in compliance with these covenants.

- v) As of June 30, 2016, there were two secured long-term loans and borrowings outstanding in the aggregate amount of RMB38,500 (RMB13,500 and RMB25,000). The loans mature in 2017, are secured by property and equipment with carrying amount of RMB135,820 as of June 30, 2016, and do not contain any financial covenants. In addition, the RMB13,500 loan is guaranteed by William Wei Huang, a director and CEO of the Company. The effective interest rates of the RMB13,500 loan and RMB25,000 loan were 5.39% and 5.15% per annum, respectively.

In June 2016, two subsidiaries of the Company entered into loan facilities with third party banks in the aggregate amount of RMB1,135,000. As of June 30, 2016, the Company has not drawn down any amount under such loan facilities. The loan facilities are required to be repaid in full prior to the maturity date in the event (1) STT Communications Ltd. ceases to, directly or indirectly, own at least 50.1% of equity interests of STT GDC Pte. Ltd., (2) STT GDC Pte. Ltd. ceases to own and control, directly or indirectly, at least 40% of the equity interest in the Company prior to an IPO or 30% of the equity interest in the Company after an IPO, or ceases to be the single largest shareholder of the Company, (3) the Company ceases to, directly or indirectly, own or control 100% of the borrowing subsidiaries, (4) there are changes in the shareholding structure of a principal operating subsidiary, as defined in the loan agreements or, (5) William Wei Huang ceases to, directly or indirectly, own at least 99.9% of the equity interests of GDS Beijing. In addition, the loan facilities include a cross default provision which would be triggered if the Company fails to repay any financial indebtedness in an aggregate amount of RMB50,000 or more when due or within any originally applicable grace period.

As of June 30, 2016, the Company has total working capital and project financing credit facilities of RMB2,920,723 from various banks, of which the unused amount was RMB1,375,359. As of June 30, 2016, the Company drew down RMB1,545,364, of which RMB390,000 was recorded in short-term

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 8 LOANS AND BORROWINGS (Continued)

loans and borrowing and RMB1,134,786 (net of debt issuance costs of RMB20,578) was recorded in long-term loans and borrowing, respectively. Draw downs from the credit facility are subject to the approval of the banks and are subject to the terms and conditions of each agreement.

## 9 LEASE

*Capital leases*

The Company's capital lease obligations are summarized as follows:

	December 31, 2015		June 30, 2016	
	Present value of minimum lease payments	Total minimum lease payments	Present value of minimum lease payments	Total minimum lease payments
Within 1 year	48,745	51,591	71,919	75,716
After 1 year but within 2 years	52,034	60,019	92,083	104,755
After 2 years but within 3 years	51,693	64,938	88,131	109,292
After 3 years but within 4 years	50,456	69,089	86,387	115,817
After 4 years but within 5 years	108,637	172,079	140,609	211,485
After 5 years	162,119	395,251	466,762	1,177,423
	424,939	761,376	873,972	1,718,772
	473,684	812,967	945,891	1,794,488
Less: total future interest expenses		(339,283)		(848,597)
Present value of lease obligations		473,684		945,891
Including:				
Current portion		48,745		71,919
Non-current portion		424,939		873,972

The Company's capital leases expire at various dates ranging from 2020 to 2035. The weighted average effective interest rate of the Company's capital leases was 9.04% and 8.14% for the six-month periods ended June 30, 2015 and 2016, respectively.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 9 LEASE (Continued)

*Operating leases*

The Company leases data centers, offices and other equipment that are classified as operating leases. The majority of the Company's operating leases expire at various dates through 2035.

Future minimum operating lease payments as of June 30, 2016 are summarized as follows:

Twelve-months ending June 30,	
2017	121,761
2018	88,287
2019	74,960
2020	66,406
2021	42,601
Thereafter	442,636
Total	836,651

Rental expenses were approximately RMB62,518 and RMB62,854 for the six-month periods ended June 30, 2015 and 2016, respectively. The Company did not sublease any of its operating leases for the six-month periods presented.

## 10 CONVERTIBLE BONDS PAYABLE

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 for cash in four tranches. On December 30, 2015 and January 29, 2016, the Company received the first tranche of US\$100,000 (RMB 648,950) from PA investor and the second tranche of US\$50,000 (RMB327,580) from STT GDC, respectively. US\$10,475 (RMB68,653) of the second tranche was used to settle an outstanding short-term loan of US\$10,000 (RMB65,474) and related interest payable of US\$475 (RMB3,179) to STT GDC.

## 11 Other long-term liabilities

Other long-term liabilities consisted of the following:

	As at December 31, 2015	As at June 30, 2016
Payables for purchase of property and equipment	31,152	103,615
Accrued interests	25,810	23,808
Deferred government grants	16,268	15,237
Others	5,775	9,189
Total	79,005	151,849

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

**12 REDEEMABLE PREFERRED SHARES**

There was no new issuance or extinguishment of redeemable preferred shares during the six-month period ended June 30, 2016.

A summary of the authorized, issued and outstanding preferred shares as of June 30, 2016 is as follows:

Series	Shares authorized	Shares issued and outstanding	Carrying amount	Redemption value
Series A	29,635,045	29,635,045	111,841	111,841
Series A*	6,916,645	6,916,645	39,575	7,018
Series B	2,576,483	2,576,483	17,543	17,543
Series B1	11,527,742	11,527,742	80,148	57,016
Series B2	10,435,639	10,435,639	67,419	49,696
Series B4	14,076,620	14,076,620	87,477	49,708
Series B5	35,395,262	35,393,262	270,785	270,785
Series C	240,000,000	238,526,241	1,824,329	1,824,329
Total	350,563,436	349,087,677	2,499,117	2,387,936

The changes in the redemption value of the redeemable preferred shares were RMB55,462 and RMB57,869, for the six-month periods ended June 30, 2015 and 2016, respectively.

**13 SHARE-BASED COMPENSATION**

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.

In January 2015, the Company granted 1,000,000 share options to an external consultant at an exercise price of US\$0.7792 (RMB4.8) per option. The options vest every six months in six equal instalments for future ongoing services. The options have a contractual term of five years. During the six-month period ended June 30, 2016, 166,667 share options vested.

On May 1, 2016, the Company granted 11,084,840 share options to employees, officers and directors. These share options were fully vested upon the date of grant for past services and have an exercise price of US\$0.7792 (RMB 5.0328) per option. The options have a contractual term of five years. The Company recognized share-based compensation expenses of RMB56,340 related to the fully vested shares on the grant date.

GDS HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

13 SHARE-BASED COMPENSATION (Continued)

A summary of the option activity is as follows:

	Number of options	Weighted average exercise price (RMB)	Weighted average grant-date fair value per option (RMB)
Options outstanding at January 1, 2016	17,193,534	4.8	1.9
Granted	11,251,507	5.2	4.9
Forfeited	(152,241)	4.8	1.9
Options outstanding at June 30, 2016	<u>28,292,800</u>	5.2	3.2
Options vested and expect to vest at June 30, 2016	<u>28,292,800</u>	5.2	3.2

As of December 31, 2015 and June 30, 2016, 1,066,667 and 900,000 forfeitable and unvested non-employee options, respectively, were treated as unissued for accounting purposes. As of June 30, 2016, there were no unvested employee stock options.

A summary of share-based compensation expenses for the six-month periods ended June 30, 2015 and 2016 is as follows:

	Six-month period ended June 30,	
	2015	2016
Costs of revenue	467	1,169
Selling and marketing expenses	303	5,159
General and administrative expenses	<u>2,396</u>	<u>50,859</u>
Total share-based compensation expenses	<u>3,166</u>	<u>57,187</u>

The fair value of the options granted is estimated on the date of grant using the binomial option pricing model with the following assumptions used.

Grant date:	May 2016
Risk-free rate of return	1.98%
Volatility	28.50%
Expected dividend yield	—
Exercise multiple	2.20
Fair value of underlying ordinary share	US\$1.51 (RMB 9.8)
Expected term	5 years

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 13 SHARE-BASED COMPENSATION (Continued)

## (1) Volatility

The volatility of the underlying ordinary shares during the lives of the options was estimated based on the historical stock price volatility of comparable listed companies over a period comparable to the expected term of the options.

## (2) Risk-free interest rate

Risk-free interest rate was estimated based on the yield to maturity of China international government bonds with a maturity period close to the expected term of the options.

## (3) Dividend yield

The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the options.

## (4) Exercise multiple

Exercise multiple represents the value of the underlying share as a multiple of exercise price of the option, which, if achieved, results in exercise of the option.

## (5) Fair value of underlying ordinary shares

The estimated fair value of the ordinary shares underlying the options as of the respective grant dates was determined based on a retrospective valuation with the assistance of a third party appraiser.

## 14 REVENUE

Net revenue consisted of the following:

	Six-month periods ended June 30,	
	2015	2016
Service revenue	291,777	436,394
Equipment sales	13,017	10,741
	<u>304,794</u>	<u>447,135</u>

During the six-month period ended June 30, 2015, the Company had one customer, which generated over 10% of the Company's total revenues or RMB68,062. During the six-month period ended June 30, 2016, the Company had three customers, which generated over 10% of the Company's total revenues or RMB76,253, RMB58,329 and RMB45,671, respectively.

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 15 START-UP COSTS

Pre-operating or start-up costs incurred prior to operating a new data center are expensed as incurred and consist primarily of rental costs of operating leases of buildings during the construction of leasehold improvements and other miscellaneous costs incurred prior to the operation of the data centers. Start-up costs amounted to RMB11,643 and RMB5,974 and were recorded in general and administrative expenses during the six-month periods ended 30 June, 2015 and 2016, respectively.

## 16 LOSS PER ORDINARY SHARE

The computation of basic and diluted loss per share is as follows:

	Six-month periods ended June 30,	
	2015	2016
Net loss	47,264	154,197
Change in redemption value of redeemable preferred shares	55,462	57,869
Cumulative dividend on preferred shares (i)	3,564	3,725
Net loss available to ordinary shareholders	106,290	215,791
Weighted average number of ordinary shares outstanding-basic and diluted	217,987,922	217,987,922
Loss per ordinary share—basic and diluted	(0.49)	(0.99)

Note (i): Represents undeclared dividends on redeemable preferred shares that are cumulative and not included in the carrying amount of the redeemable preferred shares.

The following securities were excluded from the computation of diluted loss per share as inclusion would have been anti-dilutive.

	Six-month periods ended June 30,	
	2015	2016
Share options	17,026,867	28,292,800
Convertible bonds payable	—	91,681,348
Redeemable preferred shares	349,087,677	349,087,677
Total	366,114,544	469,061,825

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

## 17 COMMITMENTS

Capital commitments outstanding at December 31, 2015 and June 30, 2016 not provided for in the financial statements were as follows:

	As at December 31, 2015	As at June 30, 2016
Contracted for	272,958	733,262

## 18 RELATED PARTY TRANSACTIONS

On January 29, 2016, STT GDC subscribed the second tranche of Convertible Bonds due 2019 amounting to US\$50,000 (RMB327,580), of which US\$10,475 (RMB68,653) was used to repay an equal amount of the outstanding short-term loan and related interest payable. The interest expenses on the loan amounted to US\$78 (RMB 511) during the six-month period ended June 30, 2016.

## 19 SUBSEQUENT EVENTS

(a) *Restructuring of EDC Shanghai Waigaoqiao*

Prior to August 9, 2016, Shanghai Waigaoqiao EDC Technology Co, Ltd., or EDC Shanghai Waigaoqiao, was a wholly owned subsidiary of the Company. In order to adapt to the new regulatory requirements in China, on August 9, 2016, the Company converted EDC Shanghai Waigaoqiao into a PRC domestic company by way of transferring all of the equity interests in EDC Shanghai Waigaoqiao to GDS Beijing. Since the entities involved in the transfer are all under common control and the Company is the primary beneficiary of GDS Beijing at the time of transfer, the net assets of EDC Shanghai Waigaoqiao transferred to GDS Beijing is recorded at the same amounts at which the assets and liabilities would have been measured if they had not been transferred. That is, no gain or loss is recognized because of the transfer.

(b) *2016 Equity Incentive Plan*

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.

In August 2016, the Company granted 877,400 fully vested restricted shares in lieu of cash to its directors to settle a portion of their remuneration for services provided by the directors in the past. Based on the Company's best estimate, the fair value of the restricted shares was approximately US\$1.51 (RMB9.8) per share. Fifty percent (50%) of the restricted shares may not be sold or otherwise disposed of for one year from the grant date. The Company is evaluating the fair values of the restricted shares. Upon completion of the fair value analysis, management will revise these estimates and such revisions are not expected to be materially different from these current estimates.



## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

**19 SUBSEQUENT EVENTS (Continued)****(c) Preference Dividend**

On September 29, 2016, the Board of Directors of the Company declared and approved the payment of the preference dividend on the Company's preferred shares. The entitlement to, and payment of the dividend is conditional on the completion of the Qualified IPO. The amount of the preference dividend to be paid is determined based on the annual rate of 6% from the date of the issuance of the respective preferred shares to the date of the Qualified IPO plus a special rate of return on Series A\*, B1, B2 and B4 Shares. The preference dividend is to be paid in either cash or ordinary shares of the Company as elected by each preferred shareholder. The number of ordinary shares to be issued to pay the preference dividends is determined based on the initial public offering price of the Company's ordinary shares and the dividend amount elected by the preferred shareholder to be paid in ordinary shares. The shareholders of Series A, A\*, B, B1, B2 redeemable preferred shares have elected to receive the dividend in cash upon the completion of the Qualified IPO, and the shareholders of Series B4, B5 and C redeemable preferred shares have elected to receive the dividend in ordinary shares of the Company upon the completion of the Qualified IPO.

**(d) New Loan Facilities**

In September 2016, a subsidiary of the Company entered into a facility agreement with a third party bank for a total amount of RMB220,000. The securities for the loan include, among others, the subsidiary's accounts receivables and property and equipment. The loans are required to be repaid in full prior to the maturity date in the event (i) STT Communications Ltd. ceases to, directly or indirectly, own at least 50.1% of equity interests of STT GDC, (ii) STT GDC ceases to own and control, directly or indirectly, at least 40% of the equity interests in the Company prior to an IPO or 30% of the equity interests in the Company after an IPO, or ceases to be the single largest shareholder of the Company, (iii) the Company ceases to, directly or indirectly, own or control 100% of the borrowing subsidiary, (iv) there are changes in the shareholding structure of a principal operating subsidiary, as defined in the loan agreement or (v) William Huang ceases to, directly or indirectly, own at least 99.9% of the equity interests of GDS Beijing. In addition, the loan facility includes a cross default provision which would be triggered if the Company fails to repay any financial indebtedness in an aggregate amount of RMB50,000 or more when due or within any originally applicable grace period. As of September 30, 2016, the outstanding loan under such facility was RMB71,384 with an effective interest rate of 6.41% per annum. The outstanding loan matures on September 21, 2021.

In September 2016, two subsidiaries of the Company entered into loan facilities with third party banks in a total amount of RMB1,135,000, for the purpose of (i) replacing an existing term loan facility agreement entered into in June 2016, and (ii) financing the subsidiaries' data center projects and working capital requirements. The securities for the loan include, among others, the subsidiaries' accounts receivables and property and equipment. The loans are required to be repaid in full prior to the maturity date in the event (i) STT Communications Ltd. ceases to, directly or indirectly, own at least 50.1% of equity interests of STT GDC, (ii) STT GDC ceases to own and control, directly or indirectly, at least 40% of the equity interests in the Company prior to an IPO or 30% of the equity interests in the Company after an IPO, or ceases to be the single largest shareholder of the Company, (iii) the Company ceases to, directly or indirectly, own or control 100% of the borrowing subsidiary, (iv) there are changes in the shareholding structure of a principal operating subsidiary, as defined in

## GDS HOLDINGS LIMITED AND SUBSIDIARIES

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share data and per share data, or otherwise noted)

**19 SUBSEQUENT EVENTS (Continued)**

the loan agreement or (v) William Huang ceases to, directly or indirectly, own at least 99.9% of the equity interests of GDS Beijing. In addition, the loan facility includes a cross default provision which would be triggered if the Company fails to repay any financial indebtedness in an aggregate amount of RMB50,000 or more when due or within any originally applicable grace period. As of September 30, 2016, the outstanding loan under such facility was RMB752,583 with a weighted average effective interest rate of 6.17% per annum, of which RMB8,129, RMB626,617 and RMB117,837 mature on September 30, 2017, July 12, 2021 and September 30, 2021, respectively.

Management has considered subsequent events through October 4, 2016, which was the date these condensed consolidated financial statements were issued.

**20 PRO FORMA INFORMATION (UNAUDITED)**

Each Series A, A\*, B, B1, B2, B4, B5 and C redeemable preferred share is automatically converted into one ordinary share upon the consummation of a Qualified IPO.

On September 29, 2016, the Board of Directors of the Company declared and approved the payment of the preference dividend on the Company's preferred shares. The amount of the preference dividend to be paid is determined based on the annual rate of 6% from the date of the issuance of the respective preferred shares to the date of the Qualified IPO plus a special rate of return on Series A\*, B1, B2 and B4 Shares. The preference dividend is to be paid in either cash or ordinary shares of the Company as elected by each preferred shareholder. The number of ordinary shares to be issued to pay the preference dividends is determined based on the initial public offering price of the Company's ordinary shares and the dividend amount elected by the preferred shareholder to be paid in ordinary shares. The shareholders of Series A, A\*, B, B1, B2 redeemable preferred shares have elected to receive the dividend in cash upon the completion of the Qualified IPO, and the shareholders of Series B4, B5 and C redeemable preferred shares have elected to receive the dividend in ordinary shares of the Company upon the completion of the Qualified IPO.

The unaudited pro forma information has been computed, assuming 1) the conversion of the redeemable preferred shares into ordinary shares occurred on June 30, 2016 (excluding effects of offering proceeds) and 2) a Qualified IPO had occurred on June 30, 2016 resulting in preference dividend of RMB294,263 being declared and payable on June 30, 2016, of which RMB72,444 is payable in cash and RMB221,819 is payable in ordinary shares.

	As at June 30, 2016	
	Actual	Pro forma
Total liabilities	4,380,909	4,675,172
Redeemable preferred shares	2,499,117	—
Shareholders' (deficit) equity		
Ordinary shares	76	189
Additional paid-in capital	302,939	2,507,680
Accumulated other comprehensive loss	(112,525)	(112,525)
Accumulated deficit	(736,450)	(736,450)
Total shareholders' (deficit) equity	(545,960)	1,658,894

**GDS HOLDINGS LIMITED AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

**(In thousands, except share data and per share data, or otherwise noted)**

**20 PRO FORMA INFORMATION (UNAUDITED) (Continued)**

On a pro forma basis, upon conversion, the carrying amounts of the Series A, A\*, B, B1, B2, B4, B5 and C redeemable preferred shares as of June 30, 2016 are classified in shareholders' equity under ordinary shares (for the par value) and additional paid-in capital (for the excess of the carrying value of the redeemable preferred shares over the par value). In addition, on a pro forma basis, the additional paid-in capital and the carrying value of the redeemable preferred shares (prior to the automatic conversion into ordinary shares) were adjusted to reflect the preference dividends as if the preference dividends were declared and payable on June 30, 2016 and as if the Qualified IPO occurred on June 30, 2016.

Pro forma loss per share is not presented because the effect of (i) the conversion of the outstanding redeemable preferred shares into ordinary shares using a conversion ratio of one-to-one, (ii) the number of ordinary shares that will be issued to pay the dividend, and (iii) the number of ordinary shares whose proceeds will be used to pay the cash portion of the dividend would not have resulted in a pro forma net loss per share greater than the actual basic net loss per share for the six-month period ended June 30, 2016 and the year ended December 31, 2015.

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
EDC Holding Limited:

**Report on the Financial Statements**

We have audited the accompanying consolidated statement of comprehensive loss and the consolidated statement of cash flows of EDC Holding Limited and subsidiaries for the six-month period ended June 30, 2014, and the related notes (the consolidated financial statements).

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements referred to above presents fairly, in all material respects, the results of the operations and the cash flows of EDC Holding Limited and subsidiaries for the six-month period ended June 30, 2014 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG Huazhen LLP

Shanghai, China  
May 20, 2016

**EDC HOLDING LIMITED AND SUBSIDIARIES**  
**Consolidated Statement of Comprehensive Loss**  
**(In thousands)**

	Note	Six-month period ended June 30, 2014
Net revenue (including net revenue from related parties of RMB60,723)	4	67,257
Cost of revenue		<u>(75,746)</u>
Gross loss		(8,489)
Operating expenses		
Selling and marketing expenses		(4,112)
General and administrative expenses		<u>(24,134)</u>
Loss from operations		(36,735)
Other income (expenses):		
Interest income		924
Interest expenses		(29,940)
Foreign currency exchange gain, net		192
Government grants		1,630
Gain on remeasurement of equity investment	3	<u>5,568</u>
Loss before income taxes		(58,361)
Income tax expenses	5	<u>—</u>
Net loss		(58,361)
Other comprehensive loss:		
Foreign currency translation adjustments, net of nil tax		<u>(2,648)</u>
Comprehensive loss		<u><u>(61,009)</u></u>

See accompanying notes to consolidated financial statements.

## EDC HOLDING LIMITED AND SUBSIDIARIES

## Consolidated Statement of Cash Flows

(In thousands)

	Six-month period ended June 30, 2014
<b>Cash flows from operating activities:</b>	
Net loss	(58,361)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	35,212
Net gain on disposal of property and equipment	(1,109)
Gain on remeasurement of equity investment	(5,568)
<b>Changes in operating assets and liabilities, net of effect of an acquisition:</b>	
Decrease of accounts receivable	192
Increase of due from related parties	(6,360)
Decrease of value added tax recoverable	109
Increase of prepaid expenses	(140)
Decrease of other current assets	13,394
Increase of other non-current assets	(755)
Decrease of accounts payable	(8,767)
Decrease of due to related parties	(65,367)
Increase of deferred revenue	581
Increase of accrued expenses and other payables	19,841
Decrease of other long-term liabilities	(97)
<b>Net cash used in operating activities</b>	<b>(77,195)</b>

See accompanying notes to consolidated financial statements.

**EDC HOLDING LIMITED AND SUBSIDIARIES**  
**Consolidated Statement of Cash Flows (Continued)**  
**(In thousands)**

	<b>Six-month period ended June 30, 2014</b>
<b>Cash flows from investing activities:</b>	
Payments for purchase of property and equipment	(157,453)
Cash acquired from the acquisition of MPI	3,677
Proceeds from sale of property and equipment	8,128
<b>Net cash used in investing activities</b>	<b>(145,648)</b>
<b>Cash flows from financing activities:</b>	
Proceeds from short-term borrowings	30,000
Repayment of short-term borrowings	(8,000)
Repayment of long-term borrowings	(43,682)
Proceeds from loans from a related party	307,048
Repayment of loan from a related party	(24,388)
Payment under capital lease obligations	(11,398)
<b>Net cash provided by financing activities</b>	<b>249,580</b>
Effect of exchange rate changes on cash	1,578
<b>Net increase in cash</b>	<b>28,315</b>
Cash at beginning of period	12,684
Cash at end of period	40,999
<b>Supplemental disclosures of cash flow information</b>	
Interest paid	19,867
Income tax paid	—
<b>Supplemental disclosures of non-cash investing activities</b>	
Payables for purchase of property and equipment	117,258
Consideration payable for the acquisition of MPI	13,592

See accompanying notes to consolidated financial statements.

**EDC HOLDING LIMITED AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(In thousands)

**1. DESCRIPTION OF BUSINESS, ORGANIZATION AND BASIS OF PRESENTATION**

**(a) Description of business**

EDC Holding Limited ("EDC Holding") was incorporated in the Cayman Islands on August 21, 2008. EDC Holding and its consolidated subsidiaries (collectively referred to as "the Company") are principally engaged in providing colocation services in the People's Republic of China (the "PRC"). During the six-month period ended June 30, 2014, the Company's total revenue was primarily from related parties (see note 8).

On June 30, 2014, GDS Holdings Limited ("GDS Holdings") issued its equity interests to acquire all the ordinary and preferred equity interests in the Company from the shareholders of the Company. On that date, GDS Holdings obtained control to govern the financial and operational policies of the Company and obtain benefits from the activities of the Company.

**(b) Basis of presentation**

The accompanying consolidated statement of comprehensive loss and consolidated statement of cash flows for the six-month period ended June 30, 2014 have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"). The accompanying consolidated financial statements is not a full set of financial statements, as a consolidated balance sheet and a consolidated statement of changes in equity, and the related notes are not presented.

The Company has prepared the accompanying consolidated financial statements to fulfil the rules and requirements of S-X Rule 3-05 of the Securities and Exchange Commission ("SEC") in connection with GDS Holdings' filing of its initial registration statement with the SEC. Pursuant to S-X Rule 3-05, the period of time in which the results of operations of the Company are included in GDS Holdings' audited statements of operations may be applied to reduce the number of periods for which pre-acquisition statements of operations of the Company are required. Upon the acquisition of the Company by GDS Holdings, the results of operations of the Company are included in GDS Holdings' audited consolidated financial statements for the two-year period ended December 31, 2015, which are included elsewhere herein.

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Principles of Consolidation**

The accompanying consolidated financial statements include the financial statements of EDC Holding Limited and its subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation. As of January 1, 2014 and the six-month period ended, the Company had no involvement nor held any variable interest in a variable interest entity.

**(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



## EDC HOLDING LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands)

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

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 limited to, the useful lives of long-lived assets, the fair values of assets acquired and liabilities assumed in a business combination, the allowance for doubtful accounts receivable, the realization of deferred income tax assets, the recoverability of long-lived 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) Cash and cash equivalent**

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 June 30, 2014.

**(d) Restricted cash**

Restricted cash represents amounts held by banks, which are not available for the Company's use, as security for issuance of commercial acceptance notes relating to purchase of property and equipment, letters of guarantee or bank borrowings. Upon maturity of the commercial acceptance notes, letters of guarantee and repayment of bank borrowings, the deposits are released by the bank and become available for general use by the Company. Restricted cash is reported within cash flows from operating, investing or financing activities in the consolidated statement of cash flows with reference to the purpose of the restriction.

**(e) 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:

- 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 measurement date.

As of and during the six-month period, the Company had no financial asset and financial liability that was recognized at fair value on a recurring basis. The Company's non-financial assets, which include long-lived assets, intangible assets, and property and equipment are reported at carrying value and are not required to be measured at fair value on a recurring basis. When an impairment has occurred, such assets are written down to their estimated fair value.

## EDC HOLDING LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands)

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

(f) **Accounts receivable**

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statement of cash flows. 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, and the current receivables aging and current payment 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. The Company does not have any off-balance-sheet credit exposure related to its customers.

No allowance for doubtful accounts was recorded for the six-month period ended June 30, 2014. Management believes all accounts receivable as of June 30, 2014 are expected to be collected in full.

(g) **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and any recorded impairment. Property and equipment under capital leases are stated 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.

Buildings	20 - 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 includes the cost of buildings and the related construction expenditures that are required to prepare the 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 building is ready for its intended use and becomes operational, construction in progress is allocated to the property and equipment categories 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 capital lease, the assets are amortized in a manner consistent with the Company's normal depreciation policy for owned assets if the lease

**EDC HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**

(In thousands)

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

transfers ownership to the Company by the end of the lease term or contains a bargain-purchase-option. Otherwise, assets acquired under a capital lease are amortized over the lease term.

Depreciation of property and equipment (including assets acquired under capital leases) was RMB34,984 for the six-month period ended June 30, 2014, and included in the following captions:

	Six-month period ended June 30, 2014
Cost of revenue	34,654
General and administrative expenses	330
	<u>34,984</u>

**(h) Leases**

Leases are classified at the inception date as either a capital lease or an operating lease. A lease is a capital lease if any of the following conditions exists: 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 records 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. The Company's capital lease assets primarily consist of buildings.

The weighted average effective interest rate of the Company's capital leases was 7.17% as of June 30, 2014.

Rental costs on operating leases is 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 are considered in determining the straight-line rent expense to be recorded over the lease term.

Rental costs associated with building operating leases that are incurred during the construction of leasehold improvements and to otherwise ready the property for the Company's intended use are recognized as rental expenses and are not capitalized.

Rental expenses were RMB7,250 for the six-month period ended June 30, 2014. The Company did not sublease any of its operating leases for the period presented.

**(i) Asset retirement costs**

The Company's asset retirement obligations are primarily related to its 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

**EDC HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**

(In thousands)

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

obligations over time and the accretion expense is recorded in cost of revenue. During the six-month period ended June 30, 2014, the Company recorded accretion expenses of RMB73.

**(j) Intangible assets**

The intangible asset acquired in the acquisition of Megaport International Limited ("MPI") was customer relationship.

The weighted-average amortization period of the customer relationship ranged from 5 to 6 years.

Customer relationship represents the orders, backlog and customer lists, which arise from contractual rights or through means other than contracts. Customer relationship is 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 expense of intangible assets was immaterial for the six-month period ended June 30, 2014 as the acquisition of MPI was completed in June 2014.

**(k) 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 are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the term of the land use right of 50 years.

Amortization of prepaid land use rights was RMB228 for the six-month period ended June 30, 2014.

**(l) Goodwill**

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

Goodwill is not amortized but is tested for impairment annually on December 31 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. Estimating fair value is performed by utilizing various valuation techniques, with a primary technique being a discounted cash flow which requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long term rate of growth for the Company's business, estimation of the useful life over which cash flows will occur, and determination of the Company's weighted average cost of capital.

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

## EDC HOLDING LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands)

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

performing the two-step 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 two-step goodwill impairment test is not required. If the two-step goodwill impairment test is required, first, 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 indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. 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. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed. No impairment of goodwill was recognized for the six-month period ended June 30, 2014.

**(m) Impairment of long-lived assets**

Long-lived assets, such as property and equipment, intangible assets subject to amortization 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 expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No impairment losses were recorded for long-lived assets for the six-month period ended June 30, 2014.

**(n) Interest-bearing borrowings**

The weighted average interest rates of short-term borrowings and long-term borrowings were 6.00% and 6.77% per annum for the six-month period ended June 30, 2014, respectively.

**(o) 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.

**(p) Revenue recognition**

The Company recognizes revenue from colocation services when services have been rendered, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. During the six-month period ended June 30, 2014, the Company's revenues were from the provision of colocation services.

EDC HOLDING LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 service centers. Colocation services are provided to customers for a fixed amount over the contract period, ranging from 1 to 5 years. The Company bills the customers monthly in equal instalments.

Revenues from colocation services are recognized on a proportional performance basis over the term of the contract. The Company has determined that its performance pattern to be straight line since the customer receives value as the services are rendered continuously during the term of the contract, the earning process is straight-line, and there is no other discernible performance pattern of recognition.

Cash received in advance from customers prior to delivery of the colocation services is initially recorded as deferred revenue.

Value-added taxes collected from customers and remitted to governmental authorities are excluded from revenues in the consolidated statement of comprehensive loss.

(q) **Cost of revenues**

Cost of revenues 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.

(r) **Start-up costs**

Pre-operating or start-up costs incurred prior to operations of a service center are expensed as incurred and consist primarily of rental costs of operating leases of buildings during the construction of leasehold improvements and other miscellaneous costs incurred prior to the operation of the service centers. For the six-month period ended June 30, 2014, start-up costs amounting to RMB4,926 was included in general and administrative expenses.

(s) **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 statement of comprehensive loss. Subsidies that are not associated with expenses are recognized as other income. Subsidies for obtaining the rights to use land are recorded as a liability and then amortized over the land use right period as a reduction of the amortization charges of the related land use rights.

(t) **Capitalized interest**

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

## EDC HOLDING LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands)

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

interest costs is ceased when the asset is substantially complete and ready for its intended use. No interest was capitalized for the six-month period ended June 30, 2014.

**(u) 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 deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. 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.

**(v) 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 31.4% to 49% on a standard salary base as determined by the local social security bureau. Contributions to the defined contribution plans are charged to the consolidated statement of comprehensive loss when the related service is provided.

**(w) Foreign currency translation and foreign currency risks**

The functional currency of EDC Holding is the USD, whereas the functional currency of its PRC subsidiaries is the RMB.

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss and are reported in foreign currency exchange (loss) gain on a net basis.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the years. The resulting foreign currency translation adjustments are reported in other comprehensive income in the statement of comprehensive loss and accumulated in the translation adjustment component of equity until the sale of the foreign entity. During the six-month period ended June 30, 2014, there was no sale or liquidation of foreign entities, and therefore there was no reclassification adjustment during the period.

## EDC HOLDING LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(x) 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 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 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 render services to the customer or require the customer to pay cash, post letters of credit to secure payment or to make significant down payments. Historically, no credit losses on accounts receivable were incurred.

**(y) Recently Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). This ASU requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which companies expect to be entitled in exchange for those goods or services. This ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. This ASU was originally effective for fiscal years and interim periods beginning after December 15, 2016. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers ("ASU 2015-14"), which amends ASU 2014-09 and defers its effective date to fiscal years and interim reporting periods beginning after December 15, 2017. ASU 2015-14 permits earlier application only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact that the adoption of these standards will have on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842) ("ASU 2016-02"). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. ASU 2016-02 is effective for public



## EDC HOLDING LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

(In thousands)

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

companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

**3. BUSINESS COMBINATION**

In June 2014, immediately before the consummation of the acquisition of the Company by GDS Holdings, the Company acquired MPI. MPI is engaged in the provision of colocation services in Hong Kong. Prior to the acquisition, the Company held non-controlling equity interests in MPI. In June 2014, the Company acquired the remaining equity interests in MPI it did not already own for a cash consideration payable of US\$2,209 (RMB13,592). In August 2014, the cash consideration payable to the selling shareholders of MPI was repaid. The Company recognized a gain from the re-measurement of its previously held non-controlling equity interests in the amount of RMB5,568. The fair value of the previous held non-controlling equity interest was determined by management with the assistance of a third party appraiser. The assets acquired of RMB15,699 consisted primarily of cash of RMB3,677, intangible assets of RMB4,922 and other assets of RMB7,100. Liabilities assumed of RMB6,699 consisted primarily of accrued expenses and other payable of RMB2,658 and other liabilities of RMB4,041. A goodwill of RMB27,679 was recognized on the acquisition date and was not tax deductible. At the acquisition date, the Company had an amount due from MPI of RMB18,591 for services it provided to MPI and for expenses it paid on behalf of MPI. The Company also had an amount due to MPI of RMB1,072. No gain or loss was recognized for the effective settlement of such pre-existing balances between the Company and MPI. Acquisition-related costs were immaterial and were recorded in general and administrative expenses.

The following unaudited supplemental pro forma information presents the net revenues and net loss of the combined entity as if the business combination had occurred on January 1, 2014. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition date would remain the same as if the acquisition had occurred on January 1, 2014.

	Pro forma six-month period ended June 30, 2014 (Unaudited)
Net revenue	71,557
Net loss	68,204

**4. NET REVENUE**

Net revenue consisted of the following:

	Six-month period ended June 30, 2014
Colocation services	67,257

**EDC HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**

(In thousands)

**5. INCOME TAX**

Pursuant to the rules and regulations of the Cayman Islands, EDC Holding is not subject to any income or withholding tax in the Cayman Islands.

The PRC subsidiaries are subject to the PRC Corporate Income Tax ("CIT") rate of 25%. The CIT 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.

No provision for Hong Kong Profits Tax was made for the subsidiaries located in Hong Kong as the subsidiaries did not have assessable profits subject to Hong Kong Profits Tax for the six-month period ended June 30, 2014. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

The operating results before income tax and the provision for income taxes by tax jurisdictions for the six-month period ended June 30, 2014 are as follows:

	Six-month period ended June 30, 2014
Loss (income) before income taxes:	
PRC	62,135
Other jurisdictions	(3,774)
Total loss before income taxes	<u>58,361</u>
Current tax expenses:	
PRC	—
Other jurisdictions	—
Total current tax expenses	—
Deferred tax expenses:	
PRC	—
Other jurisdictions	—
Total deferred tax expenses	—
Total income taxes expenses	<u>—</u>

The actual income tax expense reported in the consolidated statement of comprehensive loss for the six-month period ended June 30, 2014 differs from the amount computed by applying the PRC statutory income tax rate to loss before income taxes due to the following:

	Six-month period ended June 30, 2014
PRC enterprise income tax rate	25.0%
Tax differential for entities in non-PRC jurisdiction	1.6%
Change in valuation allowance	(26.6%)
	<u>0.0%</u>

**EDC HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**

(In thousands)

**5. INCOME TAX (Continued)**

During the six-month period ended June 30, 2014, the Company recorded additional valuation allowance of RMB11,832, primarily related to the deferred tax assets for temporary differences and net operating losses of certain subsidiaries in PRC and Hong Kong. As of June 30, 2014, these entities were in a cumulative loss position, which is a significant negative indicator to overcome that sufficient income will be generated over the periods in which the deferred income tax assets are deductible or utilized. Management considers projected future taxable income and tax planning strategies in making this assessment.

**6. MAJOR CUSTOMERS**

GDS Holdings is a major customer of the Company. Revenue from GDS Holdings was RMB55,869 or 83% of the Company's total revenue during the six-month period ended June 30, 2014.

**7. COMMITMENTS**

**(a) Operating leases commitments**

The Company leases buildings, offices and other equipment that are classified as operating leases. The majority of the Company's operating leases expire at various dates though 2019.

Future minimum operating lease payments as of June 30, 2014 are summarized as follow:

Year ending June 30,	
2015	37,285
2016	33,937
2017	33,419
2018	32,189
2019	23,384
Thereafter	352,687
Total	<u>512,901</u>

**EDC HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**

(In thousands)

**7. COMMITMENTS (Continued)**

**(b) Capital leases commitments**

The Company's capital lease obligations as of June 30, 2014 are summarized as follows:

	<u>Total minimum lease payments</u>
Within 1 year	36,678
After 1 year but within 2 years	36,678
After 2 years but within 3 years	37,366
After 3 years but within 4 years	40,846
After 4 years but within 5 years	40,846
After 5 years	313,845
Sub-total	<u>506,259</u>
Less: total future interest expenses	(171,365)
Present value of lease obligations	<u>334,894</u>

**8. RELATED PARTY TRANSACTIONS**

In addition to the related party information disclosed elsewhere in the consolidated financial statements, the Company entered into the following related party transactions.

<u>Name of party</u>	<u>Relationship</u>
SBCVC Holdings Limited (SBCVC)	Principal preferred shareholder of the Company
GDS Holdings	SBCVC was a common principal preferred shareholder of both GDS Holdings and EDC Holding prior to the acquisition
MPI	SBCVC was a common principal preferred shareholder of both EDC Holding and MPI prior to the acquisition

**EDC HOLDING LIMITED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**

(In thousands)

**8. RELATED PARTY TRANSACTIONS (Continued)**

**(a) Major transactions with related parties**

		Six-month period ended June 30, 2014
Services provided to MPI	(i)	4,854
Expenses paid by the Company on behalf of MPI	(i)	1,506
Services provided to GDS Holdings	(ii)	55,869
Loans from GDS Holdings	(iii)	307,048
Interest expenses	(iii)	4,296
Interest income	(iv)	244
Repayment of a loan from SBCVC	(v)	24,388

- (i) During the six-month period ended June 30, 2014, the Company provided services to MPI amounting to RMB4,854 and paid miscellaneous expenses of RMB1,506 on behalf of MPI.
- (ii) In December 2013, the Company received a payment in advance of RMB320,000 from GDS Holdings under a colocation service agreement. The prepayment covered a two-year service period from 2014 to 2015. During the six-month period ended June 30, 2014, the Company provided services to GDS Holdings amounting to RMB55,869, which was recognized as revenue.
- (iii) During the six-month period ended June 30, 2014, the Company received loans from GDS Holdings amounting to RMB307,048. Interest expense on the loans amounted to RMB4,296.
- (iv) Prior to January 1, 2014, the Company advanced a loan of US\$8,000 (RMB49,222) to GDS Holdings. During the six-month period ended June 30, 2014, interest income on the loan amounted to RMB244.
- (v) Prior to January 1, 2014, the Company received a loan from SBCVC amounting to US\$4,000 (RMB24,388). During the six-month period ended June 30, 2014, interest expense on the loan was RMB1,020. The Company fully repaid the principal and the interest of the loan during the six-month period ended June 30, 2014.

**9. SUBSEQUENT EVENTS**

Management has considered subsequent events through May 20, 2016, which was the date these consolidated financial statements were issued.

## Aiming to capitalize on attractive growth opportunities in the data center services market in China and strengthen our leadership position in the high-performance segment

### Hosting a number of leading cloud service providers and large enterprises...

High-performance data center infrastructure complemented by value-added IT services



Colocation



Managed hosting



Managed cloud



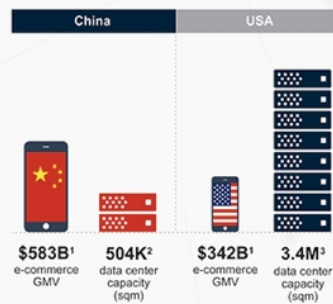
IT services

Managed cloud services that strengthen our customer stickiness and increase monetization potential

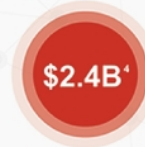


### ...in the fast-growing high-performance data center market in China

Under-served data center market in China



Expected high-performance data center market size in China in 2018



Expected revenue CAGR of high-performance carrier-neutral data center services market in China



<sup>1</sup> E-commerce Gross Merchandise Value ("GMV") data in 2015; United States Census Bureau for the U.S. number; National Bureau of Statistics China for China number  
<sup>2</sup> Based on 451 Research, in terms of area in service of high-performance data centers in 2015  
<sup>3</sup> Based on 451 Research, in terms of colocation area in service of data centers in 2015, of which the majority was high-performance  
<sup>4</sup> Based on 451 Research, market size in terms of revenue  
<sup>5</sup> Based on 451 Research

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

**Item 6. Indemnification of Directors and Officers**

Cayman Islands law does not limit the extent to which a company's articles of association may provide indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to the public interest, such as providing indemnification against civil fraud or the consequences of committing a crime. The registrant's articles of association provide that each officer or director of the registrant shall be indemnified out of the assets of the registrant against any liability incurred by him or her in defending any proceedings, whether civil or criminal, in which judgment is given in his or her favor, or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on his or her part, or in which he or she is acquitted or in connection with any application in which relief is granted to him or her by the court from liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the registrant.

Under the form of indemnification agreements filed as Exhibit 10.14 to this registration statement, we will agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being such a director or executive officer.

The form of underwriting agreement to be filed as Exhibit 1.1 to this registration statement will also provide for indemnification of us and our officers and directors.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to 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.

**Item 7. Recent Sales of Unregistered Securities**

During the past three years, we have issued and sold the securities described below without registering the securities under the Securities Act. None of these transactions involved any underwriters' underwriting discounts or commissions, or any public offering. We believe that each of the following issuances was exempt from registration under the Securities Act in reliance on Regulation S or Rule 701 under the Securities Act or pursuant to Section 4(2) of the Securities Act regarding transactions not involving a public offering.

**Ordinary Shares**

On December 1, 2006, we issued one share to Codan Trust Company (Cayman) Limited, and such share was transferred to Alan Song on the same day. On December 19, 2006, we issued a total of 110,000,000 ordinary shares, with nominal or par value of US\$0.00005, to Global Data Solutions Limited.

On June 30, 2014, we issued 88,352,558 ordinary shares to Brilliant Wise Holdings Limited as part of consideration to acquire EDC Holding.

**Preferred Shares**

*Series A Preferred Shares.* On January 31, 2007, we issued 63,250,000 Series A preferred shares for an aggregate purchase price of US\$23,000,000, or at US\$0.363636 per share to certain investors, including to SBCVC Fund II, L.P. and International Finance Corporation.

*Series B Preferred Shares.* On March 18, 2011, we issued 11,550,000 Series B preferred shares for an aggregated purchase price of US\$9,000,000, or at US\$0.77922 per share to certain investors, including SBCVC Fund II-Annex, L.P. and International Finance Corporation.

*Series A\*, B1, B2, B3 and B4 Preferred Shares.* In connection with our acquisition of EDC Holding, we altered our authorized share capital from comprising ordinary shares, Series A and Series B preferred shares, to comprising ordinary shares, Series A, Series B, Series A\*, Series B1, Series B2, Series B3 and Series B4 preferred shares. Accordingly, Series A\*, Series B1, Series B2, Series B3 and Series B4 preferred shares were newly added to our previously authorized share capital.

On June 30, 2014, we acquired EDC Holding from its shareholders whereby we issued shares to EDC Holding's shareholders in exchange for their shares in EDC Holding. Pursuant to the terms of the agreement, we issued 199,163,164 shares in exchange for approximately 93% of the shares in EDC Holding which we did not already own. Accordingly, we issued 88,352,558 ordinary shares to Brilliant Wise Holdings Limited, 11,319,764 Series A\* preferred shares to SBCVC Company Limited, 2,829,941 Series A\* preferred shares to International Finance Corporation, 9,433,137 Series B1 preferred shares to SBCVC Company Limited, 9,433,137 Series B1 preferred shares to SBCVC Venture Capital, 15,093,019 Series B1 preferred shares to International Finance Corporation, 8,539,471 Series B2 preferred shares to International Finance Corporation, 17,078,942 Series B2 preferred shares to SBCVC Company Limited, 14,045,432 Series B3 preferred shares to International Finance Corporation, and 23,037,763 Series B4 preferred shares to SBCVC Fund III L.P.

*Series B5 and Series C Preferred Shares.* In connection with our issuance of Series C preferred shares, we altered our authorized share capital from comprising ordinary shares, Series A, Series B, Series A\*, Series B1, Series B2, Series B3 and Series B4 preferred shares, to comprising ordinary shares, Series A, Series B, Series A\*, Series B1, Series B2, Series B3, Series B4, Series B5 and Series C preferred shares. Accordingly, Series B5 and Series C preferred shares were newly added to our previously authorized share capital.

On August 13, 2014, SBCVC Fund III L.P. purchased 18,698,485 of our Series A, Series A\* and Series B3 preferred shares from certain of our investors, all of which preferred shares were redesignated as Series B5 preferred shares.

On August 13, 2014, we repurchased 93,811,462 shares from certain of our investors, which include 18,762,292 ordinary shares, 23,533,064 Series A preferred shares, 5,503,899 Series A\* preferred shares, 8,413,412 Series B preferred shares, 13,209,358 Series B1 preferred shares, 9,964,954 Series B2 preferred shares, 5,463,340 Series B3 preferred shares and 8,961,143 Series B4 preferred shares for a total consideration of US\$97,237,644.

On August 13, 2014, we issued 238,526,241 Series C preferred shares for an aggregate purchase price of US\$247,237,696, or at US\$1.036522 per share to STT GDC.

On December 22, 2014, International Finance Corporation transferred and sold its equity interests in GDS Holdings Limited in the form of 1,310,083 Series A, 560,105 Series B, 9,222,193 Series B1, 5,217,820 Series B2 and 384,576 Series B3 preferred shares to SBCVC Fund III, L.P. All of the preferred shares so transferred were reclassified and re-designated as 16,694,777 Series B5 preferred shares.

In connection with and subsequent to the issuance of Series C preferred shares, holders of our preferred shares entered into voting agreements and agreements regarding rights of first refusal and co-sale rights. These voting agreements and the rights of first refusal and co-sale rights will terminate upon the closing of this offering.

Prior to the closing of this offering, holders of each series of preferred shares may elect to convert part or all of the preferred shares held by them into our ordinary shares at a 1:1 share conversion ratio. Each preferred share not so converted will automatically convert into our ordinary shares at the 1:1 share



conversion ratio immediately prior to the closing of this offering. All preferred shares converted into ordinary shares within twelve months after the closing of this offering will be subject to a lock-up period expiring on the first anniversary of this offering's closing date.

**Note Financing**

On December 11, 2012, we issued and sold an aggregate principal amount of US\$10.5 million bonds due 2014, par value US\$10,000 per note, in a private placement to Best Million Group Limited. The bonds due 2014 had a maturity date of June 10, 2014 and carried interest at 10% per annum. Upon maturity, the carrying amount of the bonds due 2014 was US\$10.5 million and we repaid a portion of the bonds due 2014 amounting to US\$0.7 million. On June 11, 2014, we issued and sold to the same investor in an aggregate principal amount of US\$30.2 million bonds due 2015 of which a portion was to settle the remaining unpaid portion of the bonds due 2014 of US\$9.8 million and unpaid interest payable on the bonds due 2014 of US\$1.7 million.

Prior to June 10, 2015, the holder of bonds due 2015 had the right to exchange the bonds into our ordinary shares in the event of a QIPO or private placement. The price used to determine the number of ordinary shares issued in exchange for the bonds is equal to 70% of the QIPO price or 70% of the share issuance price of the private placement.

In August 2014, we conducted a private placement of 238,526,241 Series C redeemable preferred shares, or Series C preferred shares. Upon the issuance of Series C preferred shares, the holder of the bonds due 2015 exchanged outstanding principal amount of the bonds due 2015 of US\$27.9 million for 38,397,655 ordinary shares. The number of ordinary shares issued was based on US\$0.72557, or 70% of the issuance price of Series C preferred shares of US\$1.036522. The holder waived its right to exchange the remaining bonds due 2015 of US\$2.3 million for ordinary shares of the Company.

On June 10, 2015, we fully redeemed the remaining bonds due 2015 of US\$2.3 million upon maturity.

**Convertible Bonds**

On December 30, 2015 and January 29, 2016, we issued and sold convertible and redeemable bonds due 2019 in aggregate principal amount of US\$150.0 million, which bonds were subscribed by Ping An Insurance and STT GDC as to US\$100.0 million and US\$50.0 million, respectively. We may, at our option, require STT GDC to subscribe for an additional amount of these bonds as to US\$50.0 million, and thereafter, Ping An Insurance to subscribe for an additional amount of these bonds as to US\$50.0 million at any time within the nine month period following the date of issue, or until September 30, 2016. Under the terms of the bonds, Ping An Insurance is entitled to appoint one observer to attend meetings of our board of directors.

The bonds are repayable four years from the date of issue, i.e. on December 30, 2019, and may be converted at a set conversion price of US\$1.675262 per share (subject to adjustments arising from any share consolidation, sub-division or distributions by way of shares) at any time between the date on which this offering is completed and December 30, 2019. Any share issued pursuant to the conversion of these bonds by a holder who is not our existing shareholder within twelve months after the closing of this offering will be subject to a lock-up period expiring on the first anniversary of this offering's closing date. We also may mandate each of Ping An Insurance and STT GDC to convert their bonds into shares if the average per-ordinary-share-equivalent closing trading price of our ADSs in any period of ten (10) consecutive trading days following this offering is at least 125% of US\$1.675262.

The bonds bear two components of interest on the principal amount, (i) interest payable in cash semi-annually at a rate of 5% per annum, and (ii) interest accruing semi-annually at a rate of 5% per annum. Such accrued interest is (i) in the case of cash redemption, payable in cash on December 30, 2019, and (ii) in the case of conversion, capitalized and paid in shares upon conversion of the bonds.

We plan to use the proceeds of the bonds for data center development, repayment of indebtedness, and to fund our working capital. As security for the bonds, EDC Holding pledged its entire equity interest in the registered capital of EDC China Holdings Limited, a limited company incorporated in Hong Kong, which is wholly owned by EDC Holding.

**Share Options and Restricted Shares**

We adopted our 2014 share incentive plan in July 2014. In July 2014, we granted 12,394,753 share options to employees, officers and directors and 5,834,200 share options to external consultants. In January 2015, we granted 1,000,000 share options to an external consultant. In May 2016, we granted 11,084,840 share options to employees, officers and directors.

We adopted our 2016 share incentive plan in August 2016. In August 2016, we granted 877,400 fully vested restricted shares in lieu of cash to our directors to settle a portion of their remuneration for services provided by the directors in the past.

**Item 8. Exhibits and Financial Statement Schedules**

**(a) Exhibits**

See Exhibit Index beginning on page II-8 of this Registration Statement.

**(b) Financial Statement Schedules.**

All supplement schedules are omitted because of the absence of conditions under which they are required or because the information is shown in the financial statements or notes thereto.

**Item 9. Undertakings**

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant under the provisions described in Item 6, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant under Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act, each posteffective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Hong Kong on October 19, 2016.

**GDS HOLDINGS LIMITED**By: /s/ William Wei HuangName: William Wei Huang  
Title: *Chairman and Chief Executive Officer*

Pursuant to the requirements of the Securities Act, the Registration Statement has been signed by the following person in the capacity and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ William Wei Huang</u> William Wei Huang	Chairman and Chief Executive Officer (principal executive officer)	October 19, 2016
<u>/s/ Daniel Newman</u> Daniel Newman	Chief Financial Officer (principal financial and accounting officer)	October 19, 2016
<u>*</u> Sio Tat Hiang	Vice-chairman	October 19, 2016
<u>*</u> Erik Ho Ping Siao	Director	October 19, 2016
<u>*</u> Peter Ping Hua	Director	October 19, 2016
<u>*</u> Hua Chen	Director	October 19, 2016

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
* _____ Satoshi Okada	Director	October 19, 2016
* _____ Bruno Lopez	Director	October 19, 2016
* _____ Lee Choong Kwong	Director	October 19, 2016
* _____ Lim Ah Doo	Director	October 19, 2016

\*By: /s/ William Wei Huang  
Name: William Wei Huang  
*Attorney-in-Fact*

**SIGNATURE OF AUTHORIZED REPRESENTATIVE IN THE UNITED STATES**

Pursuant to the Securities Act of 1933, as amended, the undersigned, the duly authorized representative in the United States of GDS Holdings Limited has signed this registration statement or amendment thereto in New York, New York on October 19, 2016.

By: /s/ Giselle Manon

Name: Giselle Manon  
Title: Service of Process Officer  
Law Debenture Corporate Services Inc.

## EXHIBIT INDEX

Exhibit No.	Description of Exhibit
1.1*	Form of Underwriting Agreement
3.1***	Seventh Amended and Restated Memorandum and Articles of Association of the Registrant, adopted by special resolution on May 19, 2016, and effective on May 19, 2016
3.2	Form of Amended and Restated Memorandum and Articles of Association of the Registrant
4.1	Specimen of Class A Ordinary Share Certificate
4.2**	Form of Deposit Agreement between the Registrant and JPMorgan Chase Bank, N.A., as depositary
4.3**	Form of American Depositary Receipt evidencing American Depositary Shares (included in Exhibit 4.2)
4.4***	Amendment Agreement Dated August 5, 2016 Between Shenzhen Yungang EDC Technology Co., Ltd. as Borrower, and GDS Holdings Limited as Ultimate Parent, and Beijing Wanguo Changan Technology Co., Ltd. as Guarantor, arranged by Credit Agricole Corporate and Investment Bank (China) Limited, United Overseas Bank (China) Limited Shenzhen Branch as Mandated Lead Arrangers with United Overseas Bank (China) Limited Shenzhen Branch acting as Facility Agent and Security Agent and United Overseas Bank (China) Limited Shenzhen Branch acting as Account Bank, relating to a RMB 430,000,000 Term Loan Facility Agreement dated September 17, 2015
4.5***	Sixth Amended and Restated Members Agreement, dated May 19, 2016
4.6***	Sixth Amended and Restated Voting Agreement, dated May 19, 2016
4.7***	Sixth Amended and Restated Right of First Refusal And Co-sale Agreement, dated May 19, 2016
4.8***	Agreement Dated June 30, 2016 Between Shanghai Waigaoqiao EDC Technology Co., Ltd. and Shanghai Yungang EDC Technology Co. Ltd. as Borrowers and GDS Holdings Limited as Ultimate Parent, arranged by Credit Agricole Corporate and Investment Bank (China) Limited, United Overseas Bank (China) Limited Shanghai Pilot Free Trade Zone Sub-Branch as Mandated Lead Arrangers with United Overseas Bank (China) Limited Shanghai Pilot Free Trade Zone Sub-Branch acting as Facility Agent and Security Agent and United Overseas Bank (China) Limited Shanghai Pilot Free Trade Zone Sub-Branch acting as Account Bank, and Credit Agricole Corporate and Investment Bank (China) Limited and United Overseas Bank Limited acting as Coordinating Banks relating to Term Loan Facilities
4.9***	Agreement Dated September 29, 2016 Between Shanghai Waigaoqiao EDC Technology Co., Ltd. and Shanghai Yungang EDC Technology Co. Ltd. as Borrowers and GDS Holdings Limited as Ultimate Parent, arranged by Credit Agricole Corporate and Investment Bank, United Overseas Bank (China) Limited Shanghai Pilot Free Trade Zone Sub-Branch, DBS Bank (China) Ltd, Shanghai Branch, Shanghai HuaRui Bank Co., Ltd. and Australia and New Zealand Bank (China) Company Limited, Shanghai Branch as Mandated Lead Arrangers with United Overseas Bank (China) Limited Shanghai Pilot Free Trade Zone Sub-Branch acting as Facility Agent and Security Agent and United Overseas Bank (China) Limited Shanghai Pilot Free Trade Zone Sub-Branch acting as Account Bank, and Credit Agricole Corporate and Investment Bank and United Overseas Bank Limited acting as Coordinating Banks relating to Term Loan Facilities
5.1	Opinion of Conyers Dill & Pearman regarding the validity of the ordinary shares being registered
8.1***	Opinion of Simpson Thacher & Bartlett LLP regarding certain United States federal tax matters

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
8.2	Opinion of Conyers Dill & Pearman regarding certain Cayman Islands tax matters
8.3	Opinion of King & Wood Mallesons regarding certain PRC tax matters
10.1***	Share Swap Agreement among the Registrant, EDC Holding and the shareholders of EDC Holding, dated June 12, 2014
10.2***	Subscription Agreement for up to US\$250,000,000 10% Convertible and Redeemable Bond due 2019 convertible into shares in GDS Holdings, among GDS Holdings, Perfect Success Limited and STT GDC Pte. Ltd., dated December 30 2015
10.3***	Equity Interest Pledge Agreement concerning GDS Beijing, among William Wei Huang, Qiuping Huang and GDS Management Company, dated April 13, 2015 (English Translation)
10.4***	Shareholder Voting Rights Proxy Agreement concerning GDS Beijing, among GDS Management Company, GDS Beijing, William Wei Huang and Qiuping Huang, dated April 13, 2016 (English Translation)
10.5***	Exclusive Call Option Agreement concerning GDS Beijing, among William Wei Huang, Qiuping Huang and GDS Management Company, dated April 13, 2016 (English Translation)
10.6***	Loan Agreement between William Wei Huang, Qiuping Huang and GDS Management Company, dated April 13, 2016 (English Translation)
10.7***	Exclusive Technology License and Service Agreement between GDS Beijing and GDS Management Company, dated April 13, 2016 (English Translation)
10.8***	Equity Interest Pledge Agreement concerning GDS Shanghai, among William Wei Huang, Qiuping Huang and GDS Management Company, dated April 13, 2016 (English Translation)
10.9***	Shareholder Voting Rights Proxy Agreement concerning GDS Shanghai, among GDS Management Company, GDS Shanghai, William Wei Huang and Qiuping Huang, dated April 13, 2016 (English Translation)
10.10***	Intellectual Property Rights License Agreement between GDS Shanghai and GDS Management Company, dated April 13, 2016 (English Translation)
10.11***	Exclusive Call Option Agreement concerning GDS Shanghai, among William Wei Huang, Qiuping Huang, GDS Shanghai and GDS Management Company, dated April 13, 2016 (English Translation)
10.12***	Exclusive Technology License and Service Agreement between GDS Shanghai and GDS Management Company, dated April 13, 2016 (English Translation)
10.13***	Loan Agreement among William Wei Huang, Qiuping Huang and GDS Management Company, dated April 13, 2016 (English Translation)
10.14***	Form of Indemnification Agreement between the Registrant and its directors and executive officers
10.15***	Forms of Employment Agreements between the Registrant and its executive officers
10.16***	GDS Holdings Limited 2014 Equity Incentive Plan
10.17***	Data Center Outsourcing Service Agreement (English Translation)
10.18††††	Premises and Warehouse Lease Agreement dated December 26, 2008 (English Translation)
10.19††††	Premises and Warehouse Lease Agreement dated April 15, 2011 (English Translation)
10.20††††	Premise Lease Agreement dated July 16, 2012 (English Translation)

Exhibit No.	Description of Exhibit
10.21††***	Premise Lease Agreement dated March 9, 2015 (English Translation)
10.22††***	Premise Lease Agreement dated July 6, 2015 (English Translation)
10.23††***	Tenement Lease Agreement dated April 1, 2015 (English Translation)
10.24††***	Premise Lease Agreement dated November 27, 2013 (English Translation)
10.25††***	Premise Lease Agreement dated August 1, 2015 (English Translation)
10.26***	GDS Holdings Limited 2016 Equity Incentive Plan
21.1***	Subsidiaries of Registrant
23.1	Consent of KPMG as to the financial information of GDS Holdings Limited
23.2	Consent of KPMG as to the financial information of EDC Holding Limited
23.3	Consent of Conyers Dill & Pearman (included in Exhibit 5.1 and Exhibit 8.2)
23.4***	Consent of Simpson Thacher & Bartlett LLP (included in Exhibit 8.1)
23.5	Consent of King & Wood Mallesons (included in Exhibit 8.3)
23.6***	Consent of 451 Research
23.7	Consent of Bin Yu
23.8	Consent of Zulkifli Baharudin
24.1***	Powers of Attorney
99.1	Code of Business Conduct of GDS Holdings Limited

\* To be filed by amendment.

\*\* Incorporated by reference to the Registration Statement on Form F-6 to be filed with the Securities and Exchange Commission with respect to American depositary shares representing our ordinary shares.

\*\*\* Previously filed.

† As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, the Company has not filed with this registration statement certain instruments defining the rights of holders of long-term debt of the Company and its subsidiaries because the total amount of securities authorized under any such instruments does not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of any such agreement to the Commission upon request.

†† Confidential treatment has been requested for portions of this document.





**THE COMPANIES LAW  
EXEMPTED COMPANY LIMITED BY SHARES  
AMENDED AND RESTATED MEMORANDUM OF ASSOCIATION  
OF  
GDS Holdings Limited**

**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 Depository Shares on the NASDAQ Stock Market LLC**

1. The name of the Company is **GDS Holdings Limited**.
2. The Registered Office of the Company shall be at the offices of Codan trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. 2681, Grand Cayman KY1-1111, Cayman Islands.
3. Subject to the following provisions of this Memorandum, the objects for which the Company is established are unrestricted.
4. Subject to the following provisions of this Memorandum, 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 by Section 27(2) of the Companies Law.
5. Nothing in this Memorandum shall permit the Company to carry on a business for which a licence is required under the laws of the Cayman Islands unless duly licensed.
6. The Company shall 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; provided that nothing in this clause shall be construed as to prevent the Company effecting and concluding contracts in the Cayman Islands, and exercising in the Cayman Islands all of its powers necessary for the carrying on of its business outside the Cayman Islands.
7. The liability of each member is limited to the amount from time to time unpaid on such member's shares.
8. 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.

9. The Company may exercise the power contained in the Companies Law to deregister in the Cayman Islands and be registered by way of continuation in another jurisdiction.
- 

The Companies Law (Revised)  
Company Limited by Shares

THE AMENDED AND RESTATED

ARTICLES OF ASSOCIATION

OF

**GDS Holdings Limited**

(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 Depository Shares on the NASDAQ Global Market)

---

I N D E X

<u>SUBJECT</u>	<u>Article No.</u>
Table A	1
Interpretation	2
Share Capital	3
Alteration Of Capital	4-7
Share Rights	8-9
Variation Of Rights	10-11
Shares	12-15
Share Certificates	16-21
Lien	22-24
Calls On Shares	25-33
Forfeiture Of Shares	34-42
Register Of Members	43-44
Record Dates	45
Transfer Of Shares	46-51
Transmission Of Shares	52-54
Untraceable Members	55
General Meetings	56-58
Notice Of General Meetings	59-60
Proceedings At General Meetings	61-65
Voting	66-77
Proxies	78-83
Corporations Acting By Representatives	84
No Action By Written Resolutions Of Members	85
Board Of Directors	86
Retirement of Directors	87-88
Disqualification Of Directors	89
Alternate Directors	90-93
Directors' Fees And Expenses	94-97
Directors' Interests	98-101
General Powers Of The Directors	102-107
Borrowing Powers	108-111
Proceedings Of The Directors	112-121
Audit Committee	122-124
Officers	125-128
Register of Directors and Officers	129
Minutes	130
Seal	131
Authentication Of Documents	132
Destruction Of Documents	133
Dividends And Other Payments	134-143
Reserves	144
Capitalisation	145-146
Subscription Rights Reserve	147

Winding Up	163-164
Indemnity	165
Amendment To Memorandum and Articles of Association And Name of Company	166
Information	167

INTERPRETATION

TABLE A

1. The regulations in Table A in the Schedule to the Companies Law (Revised) do not apply to the Company.

INTERPRETATION

2. (1) In these Articles, unless the context otherwise requires, the words standing in the first column of the following table shall bear the meaning set opposite them respectively in the second column.

<u>WORD</u>	<u>MEANING</u>
“Articles”	these Articles in their present form or as supplemented or amended or substituted from time to time.
“affiliate”	for the purposes of Article 58(2), shall have the meaning given to it in Rule 405 of the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.
“as converted basis”	the number of votes to which the holder of the Class B Ordinary Shares would be entitled if such holder converted the Class B Ordinary Shares at the then effective Conversion Rate on the record date in respect of the meeting at which any poll is taken or, if no record date is established, the date any poll is taken.
“Audit Committee”	the audit committee of the Company formed by the Board pursuant to Article 124) hereof, or any successor audit committee.
“Auditor”	the independent auditor of the Company which shall be an internationally recognized firm of independent accountants.
“Automatic Conversion Date”	the Business Day on which the first Automatic Conversion Event occurs.
“Automatic Conversion Event”	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 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.

“Beneficial Ownership”	shall have the meaning given to such term as defined in Rule 13d-3 under the Securities Exchange Act and Form 20-F issued under the Securities Exchange Act, and be calculated on an as converted basis. The terms “Beneficially Own”, “Beneficially Owned” and “Beneficial Owner” shall each have a correlative meaning.
“Board” or “Directors”	the board of directors of the Company or the directors present at a meeting of directors of the Company at which a quorum is present.
“Business Day”	shall mean a day on which the Designated Stock Exchange generally is open for the business of dealing in securities in the United States of America.
“capital”	the share capital from time to time of the Company.
“Class A Ordinary Shares”	class A ordinary shares of par value US\$0.00005 each of the Company having the rights set out in these Articles.
“Class B Ordinary Shares”	class B ordinary shares of par value US\$0.00005 each of the Company having the rights set out in these Articles.
“clear days”	in relation to the period of a notice, that period excluding the day when the notice is given or deemed to be given and the day for which it is given or on which it is to take effect.
“clearing house”	a clearing house recognised by the laws of the jurisdiction in which the shares of the Company (or depositary receipts therefor) are listed or quoted on a stock exchange or interdealer quotation system in such jurisdiction.
“Company”	GDS Holdings Limited.
“competent regulatory	a competent regulatory authority in the territory where

authority”	the shares of the Company (or depositary receipts therefor) are listed or quoted on a stock exchange or interdealer quotation system in such territory.
“Conversion Date”	in respect of a Conversion Notice means the Business Day on which that Conversion Notice is delivered.
“Conversion Notice”	a written notice delivered to the Company at its Office (and as otherwise stated therein) stating that a holder of Class B Ordinary Shares elects to convert the number of Class B Ordinary Shares specified therein pursuant to <u>Article 9</u> .
“Conversion Number”	in relation to any Class B Ordinary Shares, such number of Class A Ordinary Shares as may, upon exercise of the Conversion Right, be issued at the Conversion Rate in force on the relevant Conversion Date.
“Conversion Rate”	at any time, on a 1 : 1 basis, subject to adjustment in accordance with Article 9(b).
“Conversion Right”	in respect of a Class B Ordinary Share means the right of its holder, subject to the provisions of the Articles and to any applicable fiscal or other laws or regulations including the Law, to convert all or any of its Class B Ordinary Shares, into the Conversion Number of Class A Ordinary Shares.
“control”	for the purposes of Article 58(2), shall have the meaning given to it in Rule 405 of the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, and the term “controlled by” shall have a correlative meaning.
“debenture” and “debenture holder”	include debenture stock and debenture stockholder respectively.
“Designated Stock	the Nasdaq Global Market.

“Exchange”	
“Designated Stock Exchange Rules”	the Nasdaq Global Market listing rules.
“dollars” and “\$”	dollars, the legal currency of the United States of America.
“FIL”	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.
“head office”	such office of the Company as the Directors may from time to time determine to be the principal office of the Company.

“Independent Director”	as defined in the Designated Stock Exchange Rules and in Rule 10A-3 under the Exchange Act, including for purposes of serving on an audit committee, and in respect of whom the Board has determined constitutes an Independent Director for purposes of compliance with applicable law or the Company’s listing requirements.
“Law”	The Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.
“Member”	a duly registered holder from time to time of the shares in the capital of the Company.
“month”	a calendar month.
“Notice”	written notice unless otherwise specifically stated and as further defined in these Articles.
“Office”	the registered office of the Company for the time being.
“ordinary resolution”	a resolution shall be an ordinary resolution when it has been passed by a simple majority of votes cast by such Members as, being entitled so to do, vote in person or, in the case of any Member being a corporation, by its duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than ten (10) clear days’ Notice has been duly given.
“paid up”	paid up or credited as paid up.
“PRC”	the People’s Republic of China.
“PRC Business”	such businesses as the Company or any of its subsidiaries or otherwise controlled entities have carried out or contemplate to carry out in the PRC.
“Register”	the principal register and where applicable, any branch register of Members of the Company to be maintained at such place within or outside the Cayman Islands as the Board shall determine from time to time.
“Registration Office”	in respect of any class of share capital such place as the Board may from time to time determine to keep a branch register of Members in respect of that class of share capital and where (except in cases where the Board otherwise directs) the transfers or other documents of title for such class of share capital are to be lodged for registration and are to be registered.

“SEC”	the United States Securities and Exchange Commission.
“Securities Exchange Act”	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.
“Seal”	common seal or any one or more duplicate seals of the Company (including a securities seal) for use in the Cayman Islands or in any place outside the Cayman Islands.
“Secretary”	any person, firm or corporation appointed by the Board to perform any of the duties of secretary of the Company and includes any assistant, deputy, temporary or acting secretary.
“special resolution”	a resolution shall be a special resolution when it has been passed by a majority of not less than seventy-five per cent. (75%) of 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 respective duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than ten (10) clear days’ Notice, specifying (without prejudice to the power contained in these Articles to amend the same) the intention to propose the resolution as a special resolution, has been duly given.  A special resolution shall be effective for any purpose for which an ordinary resolution is expressed to be required under any provision of these Articles or the Statutes.
“Statutes”	the Law and every other law of the Legislature of the Cayman Islands for the time being in force applying to or affecting the Company, its Memorandum of Association and/or these Articles.
“STT”	STT GDC Pte. Ltd., a company incorporated with limited liability in Singapore.
“VIE Entities”	variable interest entities, including Beijing Wanguo Chang’an Science & Technology Co., Ltd., Shanghai Shu’an Data Services Co., Ltd. and their subsidiaries.
“STT Director”	has the meaning set out in Article 86(2).
“William Wei Huang”	William Wei Huang, the founder, a director and the Chairman of the Company.

“year”	a calendar year.
(2)	In these Articles, unless there be something within the subject or context inconsistent with such construction:
(a)	words importing the singular include the plural and vice versa;
(b)	words importing a gender include both gender and the neuter;
(c)	words importing persons include companies, associations and bodies of persons whether corporate or not;
(d)	the words:
(i)	“may” shall be construed as permissive;
(ii)	“shall” or “will” shall be construed as imperative;
(e)	expressions referring to writing shall, unless the contrary intention appears, be construed as including printing, lithography, photography and other modes of representing words or figures in a visible form, and including where the representation takes the form of electronic display, provided that both the mode of service of the relevant document or notice and the Member’s election comply with all applicable Statutes, rules and regulations;
(f)	references to any law, ordinance, statute or statutory provision shall be interpreted as relating to any statutory modification or re-enactment thereof for the time being in force;
(g)	save as aforesaid words and expressions defined in the Statutes shall bear the same meanings in these Articles if not inconsistent with the subject in the context;

- (h) references to a document being executed include references to it being executed under hand or under seal or by electronic signature or by any other method and references to a notice or document include a notice or document recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form whether having physical substance or not;
- (i) Section 8 of the Electronic Transactions Law (2003) of the Cayman Islands, as amended from time to time, shall not apply to these Articles to the extent it imposes obligations or requirements in addition to those set out in these Articles.

6

#### SHARE CAPITAL

3. (1) The share capital of the Company at the date on which these Articles come into effect shall be divided into shares of a par value of US\$0.00005 each.
- (2) Subject to the Law, the Company's Memorandum and Articles of Association and, where applicable, the rules of the Designated Stock Exchange and/or any competent regulatory authority, any power of the Company to purchase or otherwise acquire its own shares shall be exercisable by the Board in such manner, upon such terms and subject to such conditions as it thinks fit.
- (3) No share shall be issued to bearer.

#### ALTERATION OF CAPITAL

4. The Company may from time to time by ordinary resolution in accordance with the Law alter the conditions of its Memorandum of Association to:
- (a) increase its capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;
- (b) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (c) without prejudice to the powers of the Board under Article 12, divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by the Company in general meeting, as the Directors may determine provided always that, for the avoidance of doubt, where a class of shares has been authorized by the Company no resolution of the Company in general meeting is required for the issuance of shares of that class and the Directors may issue shares of that class and determine such rights, privileges, conditions or restrictions attaching thereto as aforesaid, and further provided that where the Company issues shares which do not carry voting rights, the words "non-voting" shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words "restricted voting" or "limited voting";
- (d) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum of Association (subject, nevertheless, to the Law), and may by such resolution determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred, deferred or other rights or be subject to any such restrictions as compared with the other or others as the Company has power to attach to unissued or new shares;

7

- (e) cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled or, in the case of shares, without par value, diminish the number of shares into which its capital is divided.
5. The Board may settle as it considers expedient any difficulty which arises in relation to any consolidation and division under the last preceding Article and in particular but without prejudice to the generality of the foregoing may issue certificates in respect of fractions of shares or arrange for the sale of the shares representing fractions and the distribution of the net proceeds of sale (after deduction of the expenses of such sale) in due proportion amongst the Members who would have been entitled to the fractions, and for this purpose the Board may authorise some person to transfer the shares representing fractions to their purchaser or resolve that such net proceeds be paid to the Company for the Company's benefit. Such purchaser will not be bound to see to the application of the purchase money nor will his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.
6. The Company may from time to time by special resolution, subject to any confirmation or consent required by the Law, reduce its share capital or any capital redemption reserve in any manner permitted by law.
7. Except so far as otherwise provided by the conditions of issue, or by these Articles, any capital raised by the creation of new shares shall be treated as if it formed part of the original capital of the Company, and such shares shall be subject to the provisions contained in these Articles with reference to the payment of calls and instalments, transfer and transmission, forfeiture, lien, cancellation, surrender, voting and otherwise.

#### SHARE RIGHTS

8. (1) Subject to the provisions of the Law, the rules of the Designated Stock Exchange and the Memorandum and Articles of Association and to any special rights conferred on the holders of any shares or class of shares, and without prejudice to Article 12 hereof, any share in the Company (whether forming part of the present capital or not) may be issued with or have attached thereto such rights or restrictions whether in regard to dividend, voting, return of capital or otherwise as the Board may determine, including without limitation on terms that they may be, or at the option of the Company or the holder are, liable to be redeemed on such terms and in such manner, including out of capital, as the Board may deem fit.
- (2) Subject to the Law, any preferred shares may be issued or converted into shares that, at a determinable date or at the option of the Company or the holder thereof, are to be redeemed or are liable to be redeemed on such terms and in such manner as the Directors may in their absolute discretion determine.
9. Subject to Article 8(1), the Memorandum of Association and any resolution of the Members to the contrary and without prejudice to any special rights conferred thereby on the holders of any other shares or class of shares, the share capital of the Company shall be divided into shares of three classes, Class A Ordinary Shares, Class B Ordinary Shares and preferred shares. The Class A Ordinary Shares and Class B Ordinary Shares

8

shall carry equal rights and rank *pari passu* with one another other than as set out below.

- (a) *As regards conversion from Class B Ordinary Shares to Class A Ordinary Shares*
- (i) Subject to the provisions hereof (including, without limitation, Article 9(a)(vii) and to compliance with all fiscal and other laws and regulations applicable thereto, including the Law), (A) the Class B Ordinary Shares shall be subject to automatic conversion on the Automatic Conversion Date; and (B) a holder of Class B Ordinary Shares shall have the Conversion Right in respect of each Class B Ordinary Share. Any and all taxes and stamp, issue and registration duties (if any) arising on any conversion (whether automatic or optional) shall be borne by the Company.
- (ii) Subject to the provisions hereof (including, without limitation, Article 9(a)(vii) and to compliance with all fiscal and other laws and regulations applicable thereto, including the Law), each Class B Ordinary Share shall be converted at any time after issue and without the payment of any additional sum, into such number of fully paid Class A Ordinary Shares calculated at the Conversion Rate then in effect EITHER :
- (A) *at the option of the holder.* Such conversion shall take effect on the Conversion Date. A Conversion Notice shall not be effective if it is not accompanied by the share certificates in respect of the relevant Class B Ordinary Shares and such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising such right (or, if such certificates have been lost or destroyed, such evidence of title and such indemnity as the Directors may reasonably require); OR
- (B) *automatically.* Such conversion shall take effect on the Automatic Conversion Date, and a Conversion Notice shall not be required to be delivered to the Company give effect to such automatic conversion,
- (iii) To the extent the Conversion Rate is one Class A Ordinary Share for one Class B Ordinary Share, on the Conversion Date or the Automatic Conversion Date, as the case may be, every Class B Ordinary Share shall automatically be re-designated and re-classified as a Class A Ordinary Share with such rights and restrictions attached to and shall rank *pari passu* in all respects with the Class A Ordinary Shares then in issue.
- (iv) If the Conversion Rate is not on a one for one basis, the conversion shall take effect in such manner permitted by law (including, without limitation, by way of repurchase set out in Section 37 of the Companies Law Cap. 22 of the Cayman Islands) as any one Independent Director ,

9

considers appropriate without the further authorization of the Board and any one Independent Director shall have all such power and take all actions necessary to give effect to such conversion.

- (v) Subject to the provisions hereof (including, without limitation, Article 9(a)(vii) and to compliance with all fiscal and other laws and regulations applicable thereto, including the Law), on the Conversion Date or the Automatic Conversion Date, as the case may be, the Company shall allot and issue the relevant Class A Ordinary Shares to the converting Shareholder, repurchase and cancel the relevant Class B Ordinary Shares, enter or procure the entry of the name of the relevant holder of Class B Ordinary Shares as the holder of the relevant number of Class A Ordinary Shares resulting from the conversion of the Class B Ordinary Shares in, and make any other necessary and consequential changes to, the Register of Members and shall procure that certificates in respect of the relevant Class A Ordinary Shares, together with a new certificate for any unconverted Class B Ordinary Shares comprised in the certificate(s) surrendered by the holder of the Class B Ordinary Shares, are issued to the holders of the Class A Ordinary Shares and Class B Ordinary Shares, as the case may be.
- (vi) Until such time as the Class B Ordinary Shares have been converted into Class A Ordinary Shares the Company shall:
- (1) at all times keep available for issue and free of all liens, charges, options, mortgages, pledges, claims, equities, encumbrances and other third-party rights of any nature, and not subject to any preemptive rights out of its authorized but unissued share capital, such number of authorized but unissued Class A Ordinary Shares as would enable all Class B Ordinary Shares to be converted into Class A Ordinary Shares and any other rights of conversion into, subscription for or exchange into Class A Ordinary Shares to be satisfied in full;
  - (2) maintain such amounts standing to the credit of its share premium and share capital accounts as to permit the conversion of the Class B Ordinary Shares into Class A Ordinary Shares by way of repurchase pursuant to Section 37 of the Companies Law Cap. 22 of the Cayman Islands; and
  - (3) not make any issue, grant or distribution or take any other action if the effect would be that on the conversion of the Class B Ordinary Shares to Class A Ordinary Shares it would be required to issue Class A Ordinary Shares at a price lower than the par value thereof.
- (vii) The Class B Ordinary Shares shall not be converted into Class A Ordinary Shares, either on the Conversion Date or the Automatic Conversion Date if the Board of Directors resolves by way of a super majority vote of 75% of the members of the Board that such conversion

10

shall, in their opinion, result in the Company and/or any of the VIE Entities failing to comply with any foreign ownership restrictions applicable to the Company.

(b) *Adjustments of Conversion Rate and/or Conversion Price*

- (i) Subject as herein provided, the Conversion Rate shall from time to time be adjusted in accordance with the following relevant provisions.
- (ii) If and whenever a Class A Ordinary Share by reason of any consolidation or sub-division becomes of a different nominal amount, the Conversion Rate in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount. Within two (2) Business Days of any such adjustment the Company will send to the holder of Class B Ordinary Shares a certificate signed by a Director of the Company setting forth brief particulars of the event giving rise to the adjustment, the Conversion Rate in effect prior to such adjustment, the adjusted Conversion Rate on the effective date of the adjustment. Each such adjustment shall be effective from the close of business in Hong Kong on the day preceding the date on which the consolidation or sub-division becomes effective.

(c) *As regards Voting Rights*

(i) At all times during the period from the coming into effect of these Articles, each Class B Ordinary Share shall carry the right to one (1) vote per Class B Ordinary Share at a meeting of Members, 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 at a meeting of the Members: (a) the appointment or removal of a majority of the Directors of the Company in accordance with the provisions of, *inter alia*, Articles 86(4) and 86(5); and (b) any amendment of these Articles or the provisions of the Memorandum of Association that would adversely affect the rights of the holders of the Class B Ordinary Shares.

(ii) At all times during the period from the coming into effect of these Articles, each Class A Ordinary Share shall carry the right to one (1) vote per Class A Ordinary Share at a meeting of Members.

(d) *As regards Transfers of Class B Ordinary Shares*

The Class B Ordinary Shares may not be assigned or transferred in whole or in part by William Wei Huang or any of the entities in whose name any Class B Ordinary Shares are registered as at the effective date of these Articles. Class B Ordinary Shares must be converted into Class A Ordinary Shares prior to any such assignment or transfer.

11

(e) *As regards conversion of Class A Ordinary Shares and the acquisition of additional Class B Ordinary Shares by William Wei Huang*

- (i) Class A Ordinary Shares are not convertible into Class B Ordinary Shares at any time other than pursuant to the provisions of Article 9(e)(ii).
- (ii) William Wei Huang shall only acquire Class A Ordinary Shares in his own name or through an entity established or controlled by him and through which William Wei Huang Beneficially Owns all of the Class A Ordinary Shares registered in the name of such entity. Any Class A Ordinary Shares so acquired from time to time (whether by allotment and issue of new shares or the acquisition of issued Class A Ordinary Shares) will be automatically converted into Class B Ordinary Shares at the Conversion Rate and the provisions of Articles 9(a) and 9(b) shall apply, *mutatis mutandis*, to any such conversion of Class A Ordinary Shares into Class B Ordinary Shares.

VARIATION OF RIGHTS

10. Subject to the Law and without prejudice to Article 8, all or any of the special rights for the time being attached to the shares or any class of shares may, unless otherwise provided by the terms of issue of the shares of that class, from time to time (whether or not the Company is being wound up) be varied, modified or abrogated 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, all the provisions of these Articles relating to general meetings of the Company shall, *mutatis mutandis*, apply, but so that:

- (a) the necessary quorum (whether at a separate general meeting or at its adjourned meeting) shall be a person or persons (or in the case of a Member being a corporation, its duly authorized representative) together holding or representing by proxy not less than one-third in nominal value of the issued shares of that class;
- (b) every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him; and
- (c) any holder of shares of the class present in person or by proxy or authorised representative may demand a poll.

11. The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied, modified or abrogated by the creation or issue of further shares ranking *pari passu* therewith.

SHARES

12. (1) Subject to the Law, these Articles (including without limitation 102(4)(b)) and, where applicable, the rules of the Designated Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, the unissued shares of the Company (whether forming part of the original or any increased capital) shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise

12

dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as the Board may in its absolute discretion determine but so that no shares shall be issued at a discount. In particular and without prejudice to the generality of the foregoing, the Board is hereby 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.

(2) Neither the Company nor the Board shall be 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. Except as otherwise expressly provided in the resolution or resolutions providing for the establishment of any class or series of preferred shares, no vote of the holders of preferred shares or of ordinary shares shall be a prerequisite to the issuance of any shares of any class or series of the preferred shares authorized by and complying with the conditions of the Memorandum and Articles of Association.

(3) The Board may issue options, warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for, purchase or receive any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

13. The Company may in connection with the issue of any shares exercise all powers of paying commission and brokerage conferred or permitted by the Law. Subject to the Law, the commission may be satisfied by the payment of cash or by the allotment of fully or partly paid shares or partly in one and partly in the other.

14. Except as required by law, no person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or required in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or any fractional part of a share or (except only as otherwise provided by these Articles or by law) any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder.

15. Subject to the Law and these Articles, the Board may at any time after the allotment of shares but before any person has been entered in the Register as the holder, recognise a renunciation thereof by the allottee in favour of some other person and may accord

13

to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Board considers fit to impose.

#### SHARE CERTIFICATES

16. Every share certificate shall be issued under the Seal or a facsimile thereof and shall specify the number and class and distinguishing numbers (if any) of the shares to which it relates, and the amount paid up thereon and may otherwise be in such form as the Directors may from time to time determine. No certificate shall be issued representing shares of more than one class. The Board may by resolution determine, either generally or in any particular case or cases, that any signatures on any such certificates (or certificates in respect of other securities) need not be autographic but may be affixed to such certificates by some mechanical means or may be printed thereon.

17. (1) In the case of a share held jointly by several persons, the Company shall not be bound to issue more than one certificate therefor and delivery of a certificate to one of several joint holders shall be sufficient delivery to all such holders.

(2) Where a share stands in the names of two or more persons, the person first named in the Register shall as regards service of notices and, subject to the provisions of these Articles, all or any other matters connected with the Company, except the transfer of the shares, be deemed the sole holder thereof.

18. Every person whose name is entered, upon an allotment of shares, as a Member in the Register shall be entitled, without payment, to receive one certificate for all such shares of any one class or several certificates each for one or more of such shares of such class upon payment for every certificate after the first of such reasonable out-of-pocket expenses as the Board from time to time determines.

19. Share certificates shall be issued within the relevant time limit as prescribed by the Law or as the Designated Stock Exchange may from time to time determine, whichever is the shorter, after allotment, or, except in the case of a transfer which the Company is for the time being entitled to refuse to register and does not register, after lodgment of a transfer with the Company.

20. (1) Upon every transfer of shares the certificate held by the transferor shall be given up to be cancelled, and shall forthwith be cancelled accordingly, and a new certificate shall be issued to the transferee in respect of the shares transferred to him at such fee as is provided in paragraph (2) of this Article. If any of the shares included in the certificate so given up shall be retained by the transferor a new certificate for the balance shall be issued to him at the aforesaid fee payable by the transferor to the Company in respect thereof.

(2) The fee referred to in paragraph (1) above shall be an amount not exceeding the relevant maximum amount as the Designated Stock Exchange may from time to time determine provided that the Board may at any time determine a lower amount for such fee.

21. If a share certificate shall be damaged or defaced or alleged to have been lost, stolen or destroyed a new certificate representing the same shares may be issued to the relevant

14

Member upon request and on payment of such fee as the Company may determine and, subject to compliance with such terms (if any) as to evidence and indemnity and to payment of the costs and reasonable out-of-pocket expenses of the Company in investigating such evidence and preparing such indemnity as the Board may think fit and, in case of damage or defacement, on delivery of the old certificate to the Company provided always that where share warrants have been issued, no new share warrant shall be issued to replace one that has been lost unless the Board has determined that the original has been destroyed.

#### LIEN

22. The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys (whether presently payable or not) called or payable at a fixed time in respect of that share. The Company shall also have a first and paramount lien on every share (not being a fully paid share) registered in the name of a Member (whether or not jointly with other Members) for all amounts of money presently payable by such Member or his estate to the Company whether the same shall have been incurred before or after notice to the Company of any equitable or other interest of any person other than such member, and whether the period for the payment or discharge of the same shall have actually arrived or not, and notwithstanding that the same are joint debts or liabilities of such Member or his estate and any other person, whether a Member of the Company or not. The Company's lien on a share shall extend to all dividends or other moneys payable thereon or in respect thereof. The Board may at any time, generally or in any particular case, waive any lien that has arisen or declare any share exempt in whole or in part, from the provisions of this Article.

23. Subject to these Articles, the Company may sell in such manner as the Board determines any share on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable, or the liability or engagement in respect of which such lien exists is liable to be presently fulfilled or discharged nor until the expiration of fourteen (14) clear days after a notice in writing, stating and demanding payment of the sum presently payable, or specifying the liability or engagement and demanding fulfillment or discharge thereof and giving notice of the intention to sell in default, has been served on the registered holder for the time being of the share or the person entitled thereto by reason of his death or bankruptcy.

24. The net proceeds of the sale shall be received by the Company and applied in or towards payment or discharge of the debt or liability in respect of which the lien exists, so far as the same is presently payable, and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the share prior to the sale) be paid to the person entitled to the share at the time of the sale. To give effect to any such sale the Board may authorise some person to transfer the shares sold to the purchaser thereof. The purchaser shall be registered as the holder of the shares so transferred and he shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

15

#### CALLS ON SHARES

25. Subject to these Articles and to the terms of allotment, the Board may from time to time make calls upon the Members in respect of any moneys unpaid on their shares (whether on account of the nominal value of the shares or by way of premium), and each Member shall (subject to being given at least fourteen (14) clear days' Notice specifying the time and place of payment) pay to the Company as required by such notice the amount called on his shares. A call may be extended, postponed or revoked in whole or in part as the Board determines but no member shall be entitled to any such extension, postponement or revocation except as a matter of grace and favour.

26. A call shall be deemed to have been made at the time when the resolution of the Board authorising the call was passed and may be made payable either in one lump sum or by instalments.

27. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the shares in respect of which the call was made. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect thereof or other moneys due in respect thereof.

28. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the amount unpaid from the day appointed for 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 in its absolute discretion waive payment of such interest wholly or in part.

29. No Member shall be entitled to receive any dividend or bonus or to be present and vote (save as proxy for another Member) at any general meeting either personally or by proxy, or be reckoned in a quorum, or exercise any other privilege as a Member until all calls or instalments due by him to the Company, whether alone or jointly with any other person, together with interest and expenses (if any) shall have been paid.

30. On the trial or hearing of any action or other proceedings for the recovery of any money due for any call, it shall be sufficient to prove that the name of the Member sued is entered in the Register as the holder, or one of the holders, of the shares in respect of which such debt accrued, that the resolution making the call is duly recorded in the minute book, and that notice of such call was duly given to the Member sued, in pursuance of these Articles; and it shall not be necessary to prove the appointment of the Directors who made such call, nor any other matters whatsoever, but the proof of the matters aforesaid shall be conclusive evidence of the debt.

31. Any amount payable in respect of a share upon allotment or at any fixed date, whether in respect of nominal value or premium or as an instalment of a call, shall be deemed to be a call duly made and payable on the date fixed for payment and if it is not paid the provisions of these Articles shall apply as if that amount had become due and payable by virtue of a call duly made and notified.

32. On the issue of shares the Board may differentiate between the allottees or holders as to the amount of calls to be paid and the times of payment.

16

33. The Board may, if it thinks fit, receive from any Member willing to advance the same, and either in money or money's worth, all or any part of the moneys uncalled and unpaid or instalments payable upon any shares held by him and upon all or any of the moneys so advanced (until the same would, but for such advance, become presently payable) pay interest at such rate (if any) as the Board may decide. The Board may at any time

repay the amount so advanced upon giving to such Member not less than one month's Notice of its intention in that behalf, unless before the expiration of such notice the amount so advanced shall have been called up on the shares in respect of which it was advanced. Such payment in advance shall not entitle the holder of such share or shares to participate in respect thereof in a dividend subsequently declared.

#### FORFEITURE OF SHARES

34. (1) If a call remains unpaid after it has become due and payable the Board may give to the person from whom it is due not less than fourteen (14) clear days' Notice:
- (a) requiring payment of the amount unpaid together with any interest which may have accrued and which may still accrue up to the date of actual payment; and
  - (b) stating that if the Notice is not complied with the shares on which the call was made will be liable to be forfeited.
- (2) If the requirements of any such Notice are not complied with, any share in respect of which such Notice has been given may at any time thereafter, before payment of all calls and interest due in respect thereof has been made, be forfeited by a resolution of the Board to that effect, and such forfeiture shall include all dividends and bonuses declared in respect of the forfeited share but not actually paid before the forfeiture.
35. When any share has been forfeited, notice of the forfeiture shall be served upon the person who was before forfeiture the holder of the share. No forfeiture shall be invalidated by any omission or neglect to give such Notice.
36. The Board may accept the surrender of any share liable to be forfeited hereunder and, in such case, references in these Articles to forfeiture will include surrender.
37. Any share so forfeited shall be deemed the property of the Company and may be sold, re-allotted or otherwise disposed of to such person, upon such terms and in such manner as the Board determines, and at any time before a sale, re-allotment or disposition the forfeiture may be annulled by the Board on such terms as the Board determines.
38. A person whose shares have been forfeited shall cease to be a Member in respect of the forfeited shares but nevertheless shall remain liable to pay the Company all moneys which at the date of forfeiture were presently payable by him to the Company in respect of the shares, with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate (not exceeding twenty per cent. (20%) per annum) as the Board determines. The Board may enforce payment thereof if it thinks fit, and without any deduction or allowance for the value of the forfeited shares, at the date of forfeiture, but his liability shall cease if and when the Company shall have received payment in

17

---

full of all such moneys in respect of the shares. For the purposes of this Article any sum which, by the terms of issue of a share, is payable thereon at a fixed time which is subsequent to the date of forfeiture, whether on account of the nominal value of the share or by way of premium, shall notwithstanding that time has not yet arrived be deemed to be payable at the date of forfeiture, and the same shall become due and payable immediately upon the forfeiture, but interest thereon shall only be payable in respect of any period between the said fixed time and the date of actual payment.

39. A declaration by a Director or the Secretary that a share has been forfeited on a specified date shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share, and such declaration shall (subject to the execution of an instrument of transfer by the Company if necessary) constitute a good title to the share, and the person to whom the share is disposed of shall be registered as the holder of the share and shall not be bound to see to the application of the consideration (if any), nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings in reference to the forfeiture, sale or disposal of the share. When any share shall have been forfeited, notice of the declaration shall be given to the Member in whose name it stood immediately prior to the forfeiture, and an entry of the forfeiture, with the date thereof, shall forthwith be made in the register, but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or make any such entry.
40. Notwithstanding any such forfeiture as aforesaid, the Board may at any time, before any shares so forfeited shall have been sold, re-allotted or otherwise disposed of, permit the shares forfeited to be bought back upon the terms of payment of all calls and interest due upon and expenses incurred in respect of the share, and upon such further terms (if any) as it thinks fit.
41. The forfeiture of a share shall not prejudice the right of the Company to any call already made or instalment payable thereon.
42. The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

#### REGISTER OF MEMBERS

43. (1) The Company shall keep in one or more books a Register of its Members and shall enter therein the following particulars, that is to say:
- (a) the name and address of each Member, the number and class of shares held by him and the amount paid or agreed to be considered as paid on such shares;
  - (b) the date on which each person was entered in the Register; and
  - (c) the date on which any person ceased to be a Member.

18

- 
- (2) The Company may keep an overseas or local or other branch register of Members resident in any place, and the Board may make and vary such regulations as it determines in respect of the keeping of any such register and maintaining a Registration Office in connection therewith.

44. 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.

#### RECORD DATES

45. For the purpose of determining the Members entitled to notice of or to vote at any general meeting, or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of shares or for the purpose of any other lawful action, the Board may fix, in advance, a date as the record date for any such determination of Members, which date shall not be more than sixty (60) days nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other such action.

If the Board does not fix a record date for any general meeting, the record date for determining the Members entitled to a notice of or to vote at such meeting shall be at the close of business on the day next preceding the day on which notice is given, or, if in accordance with these Articles notice is waived, at the close of business on the day next preceding the day on which the meeting is held. The record date for determining the Members for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

A determination of the Members of record entitled to notice of or to vote at a meeting of the Members shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

#### TRANSFER OF SHARES

46. Subject to these Articles including, without limitation, in the case of Class B Ordinary Shares, Article 9(d), any Member may transfer all or any of his shares by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in any other form approved by the Board and may be under hand or, if the transferor or transferee is a clearing house or a central depository 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.

19

---

47. 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 in any case which it thinks fit in its discretion to do so. Without prejudice to the last preceding Article, the Board may also resolve, either generally or in any particular case, upon request by either the transferor or transferee, to accept mechanically executed transfers. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register in respect thereof. Nothing in these Articles shall preclude the Board from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person.

48. (1) The Board may, in its absolute discretion, and without giving any reason therefor, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve, or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also, without prejudice to the foregoing generality, refuse to register a transfer of any share to more than four joint holders or a transfer of any share (not being a fully paid up share) on which the Company has a lien.

(2) The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the Register to any branch register or any share on any branch register to the Register or any other branch register. In the event of any such transfer, the shareholder requesting such transfer shall bear the cost of effecting the transfer unless the Board otherwise determines.



(3) Unless the Board otherwise agrees (which agreement may be on such terms and subject to such conditions as the Board in its absolute discretion may from time to time determine, and which agreement the Board shall, without giving any reason therefor, be entitled in its absolute discretion to give or withhold), no shares upon the Register shall be transferred to any branch register nor shall shares on any branch register be transferred to the Register or any other branch register and all transfers and other documents of title shall be lodged for registration, and registered, in the case of any shares on a branch register, at the relevant Registration Office, and, in the case of any shares on the Register, at the Office or such other place at which the Register is kept in accordance with the Law.

49. Without limiting the generality of the last preceding Article, the Board may decline to recognise any instrument of transfer unless:-

- (a) a fee of such maximum sum as the Designated Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof;
- (b) the instrument of transfer is in respect of only one class of share;
- (c) the instrument of transfer is lodged at the Office or such other place at which the Register is kept in accordance with the Law or the Registration Office (as the case may be) accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor

20

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); and

- (d) if applicable, the instrument of transfer is duly and properly stamped.

50. If the Board refuses to register a transfer of any share, it shall, within three months after the date on which the transfer was lodged with the Company, send to each of the transferor and transferee notice of the refusal.

51. The registration of transfers of shares or of any class of shares may, after compliance with any notice requirement of the Designated Stock Exchange, be suspended at such times and for such periods (not exceeding in the whole thirty (30) days in any year) as the Board may determine.

#### TRANSMISSION OF SHARES

52. If a Member dies, the survivor or survivors where the deceased was a joint holder, and his legal personal representatives where he was a sole or only surviving holder, will be the only persons recognised by the Company as having any title to his interest in the shares; but nothing in this Article will release the estate of a deceased Member (whether sole or joint) from any liability in respect of any share which had been solely or jointly held by him.

53. Any person becoming entitled to a share in consequence of the death or bankruptcy or winding-up of a Member may, upon such evidence as to his title being produced as may be required by the Board, elect either to become the holder of the share or to have some person nominated by him registered as the transferee thereof. If he elects to become the holder he shall notify the Company in writing either at the Registration Office or Office, as the case may be, to that effect. If he elects to have another person registered he shall execute a transfer of the share in favour of that person. The provisions of these Articles relating to the transfer and registration of transfers of shares shall apply to such notice or transfer as aforesaid as if the death or bankruptcy of the Member had not occurred and the notice or transfer were a transfer signed by such Member.

54. A person becoming entitled to a share by reason of the death or bankruptcy or winding-up of a Member shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share. However, the Board may, if it thinks fit, withhold the payment of any dividend payable or other advantages in respect of such share until such person shall become the registered holder of the share or shall have effectually transferred such share, but, subject to the requirements of Article 75(2) being met, such a person may vote at meetings.

#### UNTRACEABLE MEMBERS

55. (1) Without prejudice to the rights of the Company under paragraph (2) of this Article, the Company may cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques for

21

dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered.

- (2) The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a Member who is untraceable, but no such sale shall be made unless:
  - (a) all cheques or warrants in respect of dividends of the shares in question, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorised by the Articles of the Company have remained uncashed;
  - (b) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the Member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and
  - (c) the Company, if so required by the rules governing the listing of shares on the Designated Stock Exchange, has given notice to, and caused advertisement in newspapers to be made in accordance with the requirements of, the Designated Stock Exchange of its intention to sell such shares in the manner required by the Designated Stock Exchange, and a period of three months or such shorter period as may be allowed by the Designated Stock Exchange has elapsed since the date of such advertisement.

For the purpose of the foregoing, the "relevant period" means the period commencing twelve (12) years before the date of publication of the advertisement referred to in paragraph (c) of this Article and ending at the expiry of the period referred to in that paragraph.

(3) To give effect to any such sale the Board may authorise some person to transfer the said shares and an instrument of transfer signed or otherwise executed by or on behalf of such person shall be as effective as if it had been executed by the registered holder or the person entitled by transmission to such shares, and the purchaser shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale. The net proceeds of the sale will belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former Member for an amount equal to such net proceeds. No trust shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any sale under this Article shall be valid and effective notwithstanding that the Member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

#### GENERAL MEETINGS

56. An annual general meeting of the Company shall be held in each year other than the year in which these Articles were adopted at such time and place as may be determined by the Board.

22

57. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting. General meetings may be held at such times and in any location in the world as may be determined by the Board.

58. (1) 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.

- (2) In addition to the powers to call meetings set out in Article 58(1):

- (i) for so long as either STT or the holders of the Class B Ordinary Shares and William Wei Huang have the right to nominate or appoint Directors contained in Articles 86(2) and Article 86(4), respectively, STT and/or William Wei 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 58(2)(ii), 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.

(3) 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.

NOTICE OF GENERAL MEETINGS

59. (1) 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.
- (2) 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.
60. The accidental omission to give Notice of a meeting or (in cases where instruments of proxy are sent out with the Notice) to send such instrument of proxy to, or the non-receipt of such Notice or such instrument of proxy by, any person entitled to receive such Notice shall not invalidate any resolution passed or the proceedings at that meeting.

23

PROCEEDINGS AT GENERAL MEETINGS

61. (1) All business shall be deemed special that is transacted at an extraordinary general meeting, and also all business that is transacted at an annual general meeting, with the exception of the election of Directors.
- (2) No business other than the appointment of a chairman of a meeting shall be transacted at any general meeting unless a quorum is present at the commencement of the business. At any general meeting of the 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 the Company throughout the meeting shall form a quorum for all purposes.
62. If within thirty (30) minutes (or such longer time not exceeding one hour as the chairman of the meeting may determine to wait) after the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to the same day in the next week at the same time and place or to such time and place as the Board may determine. If at such adjourned meeting a quorum is not present within half an hour from the time appointed for holding the meeting, the meeting shall be dissolved.
63. The chairman of the Company shall preside as chairman at every general meeting. If at any meeting the chairman is not present within fifteen (15) minutes after the time appointed for holding the meeting, or is not willing to act as chairman, the Directors present shall choose one of their number to act, or if one Director only is present he shall preside as chairman if willing to act. If no Director is present, or if each of the Directors present declines to take the chair, or if the chairman chosen shall retire from the chair, the Members present in person or by proxy and entitled to vote shall elect one of their number to be chairman.
64. The chairman may adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business which might lawfully have been transacted at the meeting had the adjournment not taken place. When a meeting is adjourned for fourteen (14) days or more, at least seven (7) clear days' notice of the adjourned meeting shall be given specifying the time and place of the adjourned meeting but it shall not be necessary to specify in such notice the nature of the business to be transacted at the adjourned meeting and the general nature of the business to be transacted. Save as aforesaid, it shall be unnecessary to give notice of an adjournment.
65. If an amendment is proposed to any resolution under consideration but is in good faith ruled out of order by the chairman of the meeting, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling. In the case of a resolution duly proposed as a special resolution, no amendment thereto (other than a mere clerical amendment to correct a patent error) may in any event be considered or voted upon.

24

VOTING

66. Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles including, without limitation, Article 9(c) and Article 102(4), 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 instalments is treated for the foregoing purposes as paid up on the share.
67. A resolution put to the vote of a meeting shall 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. For purposes of this Article, procedural and administrative matters are those that (i) are not on the agenda of the general meeting or in any supplementary circular that may be issued by the Company to its Members; and (ii) relate to the chairman's duties to maintain the orderly conduct of the meeting and/or allow the business of the meeting to be properly and effectively dealt with, whilst allowing all Members a reasonable opportunity to express their views.
68. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded:
- (a) by at least three Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (b) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or
- (c) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a Member or in the case of a Member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by the Member.

69. [intentionally omitted].

25

70. Where a resolution is voted on by a show of hands, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution. The result of the poll shall be deemed to be the resolution of the meeting. The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the rules of the Designated Stock Exchange.
71. On a poll votes may be given either personally or by proxy.
72. A person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.
73. Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles including, without limitation, Article 9(c) and Article 102(4), all questions submitted to a general meeting shall be decided by a simple majority of votes except where a greater majority is required by these Articles or by the Law. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of such general meeting shall not be entitled to a second or casting vote in addition to any other vote he may have.
74. Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register in respect of the joint holding. Several executors or administrators of a deceased Member in whose name any share stands shall for the purposes of this Article be deemed joint holders thereof.
75. (1) A Member who is a patient for any purpose relating to mental health or in respect of whom an order has been made by any court having jurisdiction for the protection or management of the affairs of persons incapable of managing their own affairs may vote, whether on a show of hands or on a poll, by his receiver, committee, curator bonis or other person in the nature of a receiver, committee or curator bonis appointed by such court, and such receiver, committee, curator bonis or other person may vote on a poll by proxy, and may otherwise act and be treated as if he were the registered holder of such shares for the purposes of general meetings, provided that such evidence as the Board may require of the authority of the person claiming to vote shall have been deposited at the Office, head office or Registration Office, as appropriate, not less than forty-eight (48) hours before the time appointed for holding the meeting, or adjourned meeting or poll, as the case may be.
- (2) Any person entitled under Article 53 to be registered as the holder of any shares may vote at any general meeting in respect thereof in the same manner as if he were the registered holder of such shares, provided that forty-eight (48) hours at least before the time of

26

the holding of the meeting or adjourned meeting, as the case may be, at which he proposes to vote, he shall satisfy the Board of his entitlement to such shares, or the Board shall have previously admitted his right to vote at such meeting in respect thereof.

76. No Member shall, unless the Board otherwise determines, be entitled to attend and vote and to be reckoned in a quorum at any general meeting unless he is duly registered and all calls or other sums presently payable by him in respect of shares in the Company have been paid.

77. If:

- (a) any objection shall be raised to the qualification of any voter; or
- (b) any votes have been counted which ought not to have been counted or which might have been rejected; or
- (c) any votes are not counted which ought to have been counted;

the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless the same is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error shall be referred to the chairman of the meeting and shall only vitiate the decision of the meeting on any resolution if the chairman decides that the same may have affected the decision of the meeting. The decision of the chairman on such matters shall be final and conclusive.

#### PROXIES

78. Any Member entitled to attend and vote at a meeting of the Company shall be 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. In addition, a proxy or proxies representing either a Member who is an individual or a Member which is a corporation shall be entitled to exercise the same powers on behalf of the Member which he or they represent as such Member could exercise.

79. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the facts.

80. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the

27

meeting (or, if no place is so specified at the Registration Office or the Office, as may be appropriate) not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than twenty-four (24) hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of twelve (12) months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve (12) months from such date. Delivery of an instrument appointing a proxy shall not preclude a Member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

81. Instruments of proxy shall be in any common form or in such other form as the Board may approve (provided that this shall not preclude the use of the two-way form) and the Board may, if it thinks fit, send out with the notice of any meeting forms of instrument of proxy for use at the meeting. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates.

82. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the instrument of proxy or of the authority under which it was executed, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Office or the Registration Office (or such other place as may be specified for the delivery of instruments of proxy in the notice convening the meeting or other document sent therewith) two hours at least before the commencement of the meeting or adjourned meeting, or the taking of the poll, at which the instrument of proxy is used.

83. Anything which under these Articles a Member may do by proxy he may likewise do by his duly appointed attorney and the provisions of these Articles relating to proxies and instruments appointing proxies shall apply mutatis mutandis in relation to any such attorney and the instrument under which such attorney is appointed.

#### CORPORATIONS ACTING BY REPRESENTATIVES

84. (1) Any corporation which is a Member may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or at any meeting of any class of Members. The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual Member and such corporation shall for the purposes of these Articles be deemed to be present in person at any such meeting if a person so authorised is present thereat.

- (2) If a clearing house (or its nominee(s)) or a central depository entity, being a corporation, is a Member, it may authorise such persons as it thinks fit to act as its

28

representatives at any meeting of the Company or at any meeting of any class of Members provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of this Article shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the clearing house or central depository entity (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by the clearing house or a central depository entity (or its nominee(s)) including the right to vote individually on a show of hands.

- (3) Any reference in these Articles to a duly authorised representative of a Member being a corporation shall mean a representative authorised under the provisions of this Article.

#### NO ACTION BY WRITTEN RESOLUTIONS OF MEMBERS

85. Any action required or permitted to be taken at any annual or extraordinary general meetings of the Company may be taken only upon the vote of the Members at an annual or extraordinary general meeting duly noticed and convened in accordance with these Articles and the Law and may not be taken by written resolution of Members without a meeting.

#### BOARD OF DIRECTORS

86. (1) Unless otherwise determined by special resolution of the Members in general meeting, the number of Directors shall be not be less than two (2). There shall be no maximum number of Directors unless otherwise determined from time to time by special resolution of the Members in general meeting. Subject to Article 86(10), at the effective date of these Articles, the number of Directors shall be up to eleven (11). The Directors shall be elected or appointed in accordance with this Article 86 and Article 87 and shall hold office until their successors are elected or appointed. 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. The term of office of Class I shall expire at the first annual meeting of Members following the effectiveness of these Articles, and each third annual meeting of Members thereafter; the term of office of Class II shall expire at the second annual meeting of Members following the effectiveness of these Articles, and each third annual meeting of Members thereafter; and the term of office of Class III shall expire at the third annual meeting of Members following the effectiveness of these Articles, and each third annual meeting of Members thereafter. As soon as practicable following the effectiveness of these Articles, the Directors then in office shall by resolution of the Board of Directors select which of such Directors shall be Class I Directors, Class II Directors and Class III Directors. Directors added to the Board of Directors between annual general meetings of Members by reason of an increase in the authorized number of directors shall belong to the class designated by the Board of Directors; provided however that the number of board seats designated to belong to Class I, Class II and Class III must be as nearly equal in number as possible.

- (2) (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, by written notice to the Company, appoint three (3) directors (each an "STT

29

Director") and may in like manner remove, with or without cause, any STT Director so appointed and may in like manner appoint any person in their place. Where STT ceases 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, but continues to have Beneficial Ownership in not less than fifteen per cent. (15%) of the then issued share capital of the Company on an as converted basis, then (i) the foregoing right shall cease and terminate, (ii) the provisions of Article 86(2)(B) shall apply, (iii) such STT Director as determined by STT, or failing which, the STT Director who has been longest in office since their last re-election or appointment, shall retire from office by rotation at the appropriate annual general meeting of Members in accordance with the terms of their appointment, and (iv) at the relevant annual general meeting, their replacement as a Director shall be nominated and appointed pursuant to the provisions of Article 86(6).

(B) For so long as STT continues to have 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, by written notice to the Company, appoint two (2) STT Directors and may in like manner remove, with or without cause, the STT Director so appointed and may in like manner appoint any person in their place. Where STT ceases to have Beneficial Ownership in not less than fifteen per cent. (15%) of the then issued share capital of the Company on an as converted basis, but continues to have Beneficial Ownership in not less than eight per cent. (8%), of the then issued share capital of the Company on an as converted basis, then (i) the foregoing right shall cease and terminate, (ii) the provisions of Article 86(2)(C) shall apply, (iii) such STT

Director as determined by STT, or failing which, the STT Director who has been longest in office since their last re-election or appointment, shall retire from office by rotation at the appropriate annual general meeting of Members in accordance with the terms of their appointment, and (iv) at the relevant annual general meeting, their replacement as a Director shall be nominated and appointed pursuant to the provisions of Article 86(6).

(C) For so long as STT continues to have Beneficial Ownership in less than fifteen per cent. (15%) but not less than eight per cent. (8%) of the issued share capital of the Company on an as converted basis, STT may, by written notice to the Company, appoint one (1) STT Director and may in like manner remove, with or without cause, the STT Director so appointed and may in like manner appoint any person in their place. Where STT ceases to have Beneficial Ownership in not less than eight per cent. (8%) of the then issued share capital of the Company on an as converted basis, then (i) the foregoing right shall cease and terminate, (ii) any STT Director then in office shall retire from office at the next annual general meeting of Members, and (iii) at such annual general meeting, their replacement as a Director shall be nominated and appointed pursuant to the provisions of Article 86(6).

(3) [intentionally omitted].

(4) (A) 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 in accordance with the provisions of this Article 86(4)(A). 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).

30

(B) In the circumstances where either (i) any person nominated by the holders of the Class B Ordinary Shares to be appointed as a Director pursuant to Article 86(4)(A) is not elected as a Director by the Members pursuant to the provisions of Article 86(4)(A); or (ii) any Director appointed as a Director pursuant to Article 86(4)(A) ceases to be a Director in accordance with the provisions of Article 89, then the holders of the Class B Ordinary Shares may, by written notice to the Company, appoint another person as Director in their stead. Any such person so appointed shall hold office only until the first general meeting of Members after their appointment and be subject to retirement and re-election at such meeting. At any such general meeting, the provisions of Article 86(4)(A) shall apply, *mutatis mutandis*, to the election of such Directors.

(C) 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 ceasing to have 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:

(i) (a) the nomination and appointment rights set out in Article 86(4)(A) shall cease and terminate, (b) any Directors (other than William Wei Huang) appointed pursuant to the provisions of Article 86(4) then in office 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 relevant annual general meeting, their replacement as a Director shall be nominated and appointed pursuant to the provisions of Article 86(6); and

(ii) William Wei Huang may, by written notice to the Company, appoint one (1) Director (which is intended to be William Wei Huang) and may in like manner remove, with or without cause, the Director so appointed and may in like manner appoint any person in their place.

(D) Upon William Wei Huang ceasing to have Beneficial Ownership in less than two per cent. (2%) of the then issued share capital of the Company on an as converted basis, (a) the appointment right set out in Article 86(4)(C)(ii) shall cease and terminate, (b) any Director appointed pursuant to the provisions of Article 86(4)(C)(ii) then in office 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 relevant annual general meeting, their replacement as a Director shall be nominated and appointed pursuant to the provisions of Article 86(6).

(5) (A) The Nominating and Corporate Governance Committee shall have the right to nominate one (1) Director (being an Independent Director) for appointment as a Director in accordance with the provisions of this Article 86(5). 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).

(B) In the circumstances where either (i) any person nominated by the Nominating and Corporate Governance Committee to be appointed as an Independent Director pursuant to Article 86(5)(A) is not elected as a Director by the Members pursuant to the provisions of Article 86(5)(A), or (ii) any Director appointed as a Director pursuant to

31

Article 86(5)(A) ceases to be a Director in accordance with the provisions of Article 89, then the holders of the Class B Ordinary Shares may, by written notice to the Company, appoint another person as Director (being an Independent Director) in their stead. Any such person so appointed shall hold office only until the first general meeting of Members after their appointment and be subject to retirement and re-election at such meeting. At any such general meeting, the provisions of Article 86(5)(A) shall apply, *mutatis mutandis*, to the election of such Directors.

(6) (A) The Nominating and Corporate Governance Committee shall have the right to nominate the remaining Directors (being, at the effective date of these Articles, two (2) Independent Directors) for appointment as Directors in accordance with the provisions of this Article 86(6). 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).

(B) In the circumstances where either (i) any person nominated by the Nominating and Corporate Governance Committee to be appointed as an Independent Director pursuant to Article 86(6)(A) is not elected as a Director by the Members pursuant to the provisions of Article 86(6)(A); or (ii) any Director appointed as a Director pursuant to Article 86(6)(A) ceases to be a Director in accordance with the provisions of Article 89, then the Nominating and Corporate Governance Committee, by affirmative vote of a simple majority of the members of the Nominating and Corporate Governance Committee, may appoint another person as Director in their stead. Any such person so appointed shall hold office only until the first general meeting of Members after their appointment and be subject to retirement and re-election at such meeting. At any such general meeting, the provisions of Article 86(6)(A) shall apply, *mutatis mutandis*, to the election of such Directors.

(7) No Director shall be required to hold any shares of the Company by way of qualification and a Director who is not a Member shall be entitled to receive notice of and to attend and speak at any general meeting of the Company and of all classes of shares of the Company.

(8) Any Director (other than William Wei 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 these Articles or in any agreement between the Company and such Independent Director (but without prejudice to any claim for damages under any such agreement).

(9) A vacancy on the Board created by the removal of a Director under the provisions of subparagraph (8) above 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.

(10) 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.

32

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 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, William Wei 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 pursuant to Article 86(4) and Article 86(5).

#### RETIREMENT OF DIRECTORS

87. Notwithstanding any other provisions in the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater 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.

88. A retiring Director shall be eligible for re-appointment or re-election in accordance with the relevant provisions of Article 86. The Director to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

#### DISQUALIFICATION OF DIRECTORS

89. The office of a Director shall be vacated if the Director:

- (1) resigns his office by notice in writing delivered to the Company at the Office or tendered at a meeting of the Board;
- (2) becomes of unsound mind or dies;
- (3) without special leave of absence from the Board, is absent from meetings of the Board for six consecutive months and the Board resolves that his office be vacated; or
- (4) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (5) is prohibited by law from being a Director; or
- (6) ceases to be a Director by virtue of any provision of the Statutes or is removed from office pursuant to these Articles.

ALTERNATE DIRECTORS

90. Any Director may at any time by Notice delivered to the Office or head office or at a meeting of the Directors appoint any person (including another Director) to be his alternate Director. Any person so appointed shall have all the rights and powers of the Director or Directors for whom such person is appointed in the alternative provided that such person shall not be counted more than once in determining whether or not a quorum is present. An alternate Director may be removed at any time by the body which appointed him and, subject thereto, the office of alternate Director shall continue until the happening of any event which, if he were a Director, would cause him to vacate such office or if his appointer ceases for any reason to be a Director. Any appointment or removal of an alternate Director shall be effected by Notice signed by the appointor and delivered to the Office or head office or tendered at a meeting of the Board. An alternate Director may also be a Director in his own right and may act as alternate to more than one Director. An alternate Director shall, if his appointor so requests, be entitled to receive notices of meetings of the Board or of committees of the Board to the same extent as, but in lieu of, the Director appointing him and shall be entitled to attend and vote as a Director at any such meeting at which the Director appointing him is not personally present and generally at such meeting to exercise and discharge all the functions, powers and duties of his appointor as a Director and for the purposes of the proceedings at such meeting the provisions of these Articles shall apply as if he were a Director save that as an alternate for more than one Director his voting rights shall be cumulative.

91. An alternate Director shall only be a Director for the purposes of the Law and shall only be subject to the provisions of the Law insofar as they relate to the duties and obligations of a Director when performing the functions of the Director for whom he is appointed in the alternative and shall alone be responsible to the Company for his acts and defaults and shall not be deemed to be the agent of or for the Director appointing him. An alternate Director shall be entitled to contract and be interested in and benefit from contracts or arrangements or transactions and to be repaid expenses and to be indemnified by the Company to the same extent mutatis mutandis as if he were a Director but he shall not be entitled to receive from the Company any fee in his capacity as an alternate Director except only such part, if any, of the remuneration otherwise payable to his appointor as such appointor may by Notice to the Company from time to time direct.

92. Every person acting as an alternate Director shall have one vote for each Director for whom he acts as alternate (in addition to his own vote if he is also a Director). If his appointor is for the time being absent from the People's Republic of China or otherwise not available or unable to act, the signature of an alternate Director to any resolution in writing of the Board or a committee of the Board of which his appointor is a member shall, unless the notice of his appointment provides to the contrary, be as effective as the signature of his appointor.

93. An alternate Director shall ipso facto cease to be an alternate Director if his appointor ceases for any reason to be a Director, however, such alternate Director or any other person may be re-appointed by the Directors to serve as an alternate Director PROVIDED

always that, if at any meeting any Director retires but is re-elected at the same meeting, any appointment of such alternate Director pursuant to these Articles which was in force immediately before his retirement shall remain in force as though he had not retired.

DIRECTORS' FEES AND EXPENSES

94. Subject to the rules of the Designated Exchange, the Directors shall receive such remuneration as the Board may from time to time determine.

95. Each Director shall be entitled to be repaid or prepaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by him in attending meetings of the Board or committees of the Board or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of his duties as a Director.

96. 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 (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Article.

97. 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).

DIRECTORS' INTERESTS

98. A Director may:

- (a) hold any other office or place of profit with the Company (except that of Auditor) in conjunction with his office of Director for such period and upon such terms as the Board may determine. Any remuneration (whether by way of salary, commission, participation in profits or otherwise) paid to any Director in respect of any such other office or place of profit shall be in addition to any remuneration provided for by or pursuant to any other Article;
- (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;
- (c) continue to be or become a director, or other officer or member of any other company promoted by the Company or in which the Company may be interested as a vendor, shareholder or otherwise and (unless otherwise agreed)

no such Director shall be accountable for any remuneration, profits or other benefits received by him as a director, or other officer or member of or from his interests in any such other company. Subject as otherwise provided by these Articles the Directors may exercise or cause to be exercised the voting powers conferred by the shares in any other company held or owned by the Company, or exercisable by them as Directors of such other company in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, or other officers of such company) or voting or providing for the payment of remuneration to the director, or other officers of such other company and any Director may vote in favour of the exercise of such voting rights in manner aforesaid notwithstanding that he may be, or about to be, appointed a director, or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid.

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.

99. Subject to the Law and to these Articles, no Director or proposed or intending 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 whatever, 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 of 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.

100. 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 this Article, 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.

101. Following a declaration being made pursuant to the last preceding two 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.

GENERAL POWERS OF THE DIRECTORS

102. (1) Subject to these Articles including, without limitation, Article 102(4), and further to obtaining any Executive Committee approval (which approval must include the affirmative vote of the STT Director serving on the Executive Committee) as may be required prior to the incurring or refinancing of any borrowing or indebtedness above certain levels, the business of the Company shall be managed and conducted by the Board, which may pay all expenses incurred in forming and registering the Company and may exercise all powers of the Company (whether relating to the management of the business of the Company or otherwise) which are not by the Statutes or by these Articles required to be exercised by the Company in general meeting, subject nevertheless to the provisions of the Statutes and of these Articles and to such regulations being not inconsistent with such

provisions, as may be prescribed by the Company in general meeting, but no regulations made by the Company in general meeting shall invalidate any prior act of the Board which would have been valid if such regulations had not been made. The general powers given by this Article shall not be limited or restricted by any special authority or power given to the Board by any other Article (other than as set out in Article 9(c)).

(2) Any person contracting or dealing with the Company in the ordinary course of business shall be entitled to rely on any written or oral contract or agreement or deed, document or instrument entered into or executed as the case may be by any two of the Directors acting jointly on behalf of the Company and the same shall be deemed to be validly entered into or executed by the Company as the case may be and shall, subject to any rule of law, be binding on the Company.

(3) Without prejudice to the general powers conferred by these Articles it is hereby expressly declared that the Board shall have the following powers:

- (a) To give to any person the right or option of requiring at a future date that an allotment shall be made to him of any share at par or at such premium as may be agreed.
- (b) To give to any Directors, officers or employees of the Company an interest in any particular business or transaction or participation in the profits thereof or in

37

the general profits of the Company either in addition to or in substitution for a salary or other remuneration.

(c) To resolve that the Company be deregistered in the Cayman Islands and continued in a named jurisdiction outside the Cayman Islands subject to the provisions of the Law.

(4) Notwithstanding anything to the contrary in these 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 any of the following matters:

- (a) the election of not less than two (2) Independent Directors in accordance with the provisions of Article 86(6);
- (b) allot or issue 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; or
- (c) authorise, enter 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 this Article 102(4)(c) being assets or undertakings representing ten per cent. (10%) or more of the net tangible assets of the Company in its latest audited accounts).

103. The Board may establish any regional or local boards or agencies for managing any of the affairs of the Company in any place, and may appoint any persons to be members of such local boards, or any agents, and may fix their remuneration (either by way of salary or by commission or by conferring the right to participation in the profits of the Company or by a combination of two or more of these modes) and pay the working expenses of any staff employed by them upon the business of the Company. The Board may delegate to any regional or local board, manager or agent any of the powers, authorities and discretions vested in or exercisable by the Board (other than its powers to make calls and forfeit shares), with power to sub-delegate, and may authorise the members of any of them to fill any vacancies therein and to act notwithstanding vacancies. Any such appointment or delegation may be made upon such terms and subject to such conditions as the Board may think fit, and the Board may remove any person appointed as aforesaid, and may revoke or vary such delegation, but no person dealing in good faith and without notice of any such revocation or variation shall be affected thereby.

104. The Board may by power of attorney appoint any company, firm or person or any fluctuating body of persons, whether nominated directly or indirectly by the Board, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities

38

and discretions (not exceeding those vested in or exercisable by the Board under these Articles) and for such period and subject to such conditions as it may think fit, and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board may think fit, and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions vested in him. Such attorney or attorneys may, if so authorised under the Seal of the Company, execute any deed or instrument under their personal seal with the same effect as the affixation of the Company's Seal.

105. The Board may entrust to and confer upon any Director any of the powers exercisable by it upon such terms and conditions and with such restrictions as it thinks fit, and either collaterally with, or to the exclusion of, its own powers, and may from time to time revoke or vary all or any of such powers but no person dealing in good faith and without notice of such revocation or variation shall be affected thereby.

106. All cheques, promissory notes, drafts, bills of exchange and other instruments, whether negotiable or transferable or not, and all receipts for moneys paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, in such manner as the Board shall from time to time by resolution determine. The Company's banking accounts shall be kept with such banker or bankers as the Board shall from time to time determine.

107. (1) 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 moneys 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 ex-Director who may hold or have held any executive office or any office of profit under the Company or any of its subsidiary companies) and ex-employees of the Company and their dependants or any class or classes of such person.

(2) The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as mentioned in the last preceding 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, and may be subject or not subject to any terms or conditions as the Board may determine.

39

#### BORROWING POWERS

108. Subject to the provisions of these Articles, including without limitation Article 102(4), the Board may exercise all the powers of the Company to raise or borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Law, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

109. Debentures, bonds and other securities may be made assignable free from any equities between the Company and the person to whom the same may be issued.

110. Any debentures, bonds or other securities may be issued at a discount (other than shares), premium or otherwise and with any special privileges as to redemption, surrender, drawings, allotment of shares, attending and voting at general meetings of the Company, appointment of Directors and otherwise.

111. (1) Where any uncalled capital of the Company is charged, all persons taking any subsequent charge thereon shall take the same subject to such prior charge, and shall not be entitled, by notice to the Members or otherwise, to obtain priority over such prior charge.

(2) The Board shall cause a proper register to be kept, in accordance with the provisions of the Law, of all charges specifically affecting the property of the Company and of any series of debentures issued by the Company and shall duly comply with the requirements of the Law in regard to the registration of charges and debentures therein specified and otherwise.

#### PROCEEDINGS OF THE DIRECTORS

112. 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 any equality of votes the chairman of the meeting shall have an additional or casting vote.

113. A meeting of the Board may be convened by the Secretary on request of a Director or by any Director. The Secretary shall convene a meeting of the Board of which notice may be given in writing or by telephone or in such other manner as the Board may from time to time determine whenever he shall be required so to do by the president or chairman, as the case may be, or any Director.

114. (1) 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 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) two (2) Directors appointed pursuant to the provisions of Article 86(4) 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. An alternate Director shall be counted in a quorum in

40

the case of the absence of a Director for whom he is the alternate provided that he shall not be counted more than once for the purpose of determining whether or not a quorum is present.

(2) Directors may participate in any meeting of the Board by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.

(3) Any Director who ceases to be a Director at a Board meeting may continue to be present and to act as a Director and be counted in the quorum until the termination of such Board meeting if no other Director objects and if otherwise a quorum of Directors would not be present.

115. The continuing Directors or a sole continuing Director may act notwithstanding any vacancy in the Board but, if and so long as the number of Directors is reduced below the minimum number fixed by or in accordance with these Articles, the continuing Directors or Director, notwithstanding that the number of Directors is below the number fixed by or in accordance with these Articles as the quorum or that there is only one continuing Director, may act for the purpose of filling vacancies in the Board or of summoning general meetings of the Company but not for any other purpose.

116. The Chairman of the Board shall be the chairman of all meetings of the Board. If the Chairman of the Board is not present at any meeting within five (5) minutes after the time appointed for holding the same, the vice-chairman of the Board shall be the chairman of such meeting. If the vice-chairman of the Board is not present at any meeting within ten (10) minutes after the time appointed for holding the same, the Directors present may choose one of their number to be chairman of the meeting.

117. A meeting of the Board at which a quorum is present shall be competent to exercise all the powers, authorities and discretions for the time being vested in or exercisable by the Board.

118. (1) The Board may delegate any of its powers, authorities and discretions to committees (including, without limitation, the Audit Committee), consisting of such Director or Directors and other persons as it thinks fit, and they 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. Any committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations which may be imposed on it by the Board.

(2) All acts done by any such committee in conformity with such regulations, and in fulfilment of the purposes for which it was appointed, but not otherwise, shall have like force and effect as if done by the Board, and the Board (or if the Board delegates such power, the committee) shall have power to remunerate the members of any such committee, and charge such remuneration to the current expenses of the Company.

119. The meetings and proceedings of any committee consisting of two or more members shall be governed by the provisions contained in these Articles for regulating the

41

meetings and proceedings of the Board so far as the same are applicable and are not superseded by any regulations imposed by the Board under the last preceding Article, indicating, without limitation, any committee charter adopted by the Board for purposes or in respect of any such committee.

120. A resolution in writing signed by all the Directors except such as are temporarily unable to act through ill-health or disability shall (provided that such number is sufficient to constitute a quorum and further provided that a copy of such resolution has been given or the contents thereof communicated to all the Directors for the time being entitled to receive notices of Board meetings in the same manner as notices of meetings are required to be given by these Articles) be as valid and effectual as if a resolution had been passed at a meeting of the Board duly convened and held. Such resolution may be contained in one document or in several documents in like form each signed by one or more of the Directors and for this purpose a facsimile signature of a Director shall be treated as valid.

121. All acts bona fide done by the Board or by any committee or by any person acting as a Director or members of a committee, shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any member of the Board or such committee or person acting as aforesaid or that they or any of them were disqualified or had vacated office, be as valid as if every such person had been duly appointed and was qualified and had continued to be a Director or member of such committee.

#### AUDIT COMMITTEE, COMPENSATION COMMITTEE, NOMINATING AND CORPORATE GOVERNANCE COMMITTEE AND EXECUTIVE COMMITTEES

122. (1) Without prejudice to the freedom of the Directors to establish any other committees, for so long as the shares of the Company (or depositary receipts therefor) are listed or quoted on the Designated Stock Exchange, the Board shall establish and maintain:

(i) an Audit Committee as a committee of the Board, the composition and responsibilities of which shall comply with the Designated Stock Exchange Rules and the rules and regulations of the SEC. The Audit Committee shall consist of three (3) Directors, each of whom shall be an Independent Director (howsoever appointed);

(ii) a Compensation Committee as a committee of the Board, the composition and responsibilities of which shall comply with the Designated Stock Exchange Rules and the rules and regulations of the SEC. The Compensation Committee shall consist of such members as required by the formal written committee charter governing the Compensation Committee, among which one (1) of whom shall be an Independent Director elected pursuant to the provisions of Article 86(6);

(iii) a Nominating and Corporate Governance Committee as a committee of the Board, the composition and responsibilities of which shall comply with the Designated Stock Exchange Rules and the rules and regulations of the SEC. The Nominating and Corporate Governance Committee shall consist of such members as required by the formal written committee charter governing the Nominating and Corporate Governance Committee, among which one (1) of whom shall be an Independent Director elected pursuant to the provisions of Article 86(6); and

42

(iv) an Executive Committee as a committee of the Board, the composition and responsibilities of which shall comply with the Designated Stock Exchange Rules and the rules and regulations of the SEC. The Executive Committee shall consist of such members as required by the formal written committee charter governing the Executive Committee.

123. (1) The Board shall adopt a formal written committee charter in respect of each of the above committees and review and assess the adequacy of the formal written charter on an annual basis.

(2) The Audit Committee shall meet at least once every financial quarter, or more frequently as circumstances dictate. The other committees shall meet at least once every financial year, or more frequently as circumstances dictate.

124. For so long as the shares of the Company (or depositary receipts therefor) are listed or quoted on the Designated Stock Exchange, the Company shall conduct an appropriate review of all related party transactions on an ongoing basis and shall utilize the Audit Committee for the review and approval of potential conflicts of interest. Specially, the Audit Committee shall approve any transaction or transactions between the Company and any of the following parties: (i) any shareholder owning an interest in the voting power of the Company or any subsidiary of the Company that gives such shareholder significant influence over the Company or any subsidiary of the Company, (ii) any director or executive officer of the Company or any subsidiary of the Company and any relative of such director or executive officer, (iii) any person in which a substantial interest in the voting power of the Company is owned, directly or indirectly, by any person described in (i) or (ii) or over which such a person is able to exercise significant influence, and (iv) any affiliate (other than a subsidiary) of the Company.

#### OFFICERS

125. (1) The officers of the Company shall consist of the Chairman of the Board, the vice-chairman of the Board, the Directors and Secretary and such additional officers (who may or may not be Directors) as the Board may from time to time determine, all of whom shall be deemed to be officers for the purposes of the Law and these Articles.

(2) The Directors shall, as soon as may be after each appointment or election of Directors, elect amongst the Directors a chairman and if more than one Director is proposed for this office, the election to such office shall take place in such manner as the Directors may determine. Unless and until this Article is rescinded, altered or amended by a special resolution of the Members, Mr. William Wei Huang shall be appointed as chairman of the Company and of the Board. For so long as STT continues to have Beneficial Ownership in not less than eight (8%) of the issued share capital of the Company on an as converted basis, STT may, by written notice to the Company, appoint the vice-chairman of the Company and of the Board.

(3) The officers shall receive such remuneration as the Directors may from time to time determine.

43

126. (1) The Secretary and additional officers, if any, shall be appointed by the Board and shall hold office on such terms and for such period as the Board may determine. If thought fit, two or more persons may be appointed as joint Secretaries. The Board may also appoint from time to time on such terms as it thinks fit one or more assistant or deputy Secretaries.

(2) The Secretary shall attend all meetings of the Members and shall keep correct minutes of such meetings and enter the same in the proper books provided for the purpose. He shall perform such other duties as are prescribed by the Law or these Articles or as may be prescribed by the Board.

127. The officers of the Company shall have such powers and perform such duties in the management, business and affairs of the Company as may be delegated to them by the Directors from time to time.

128. A provision of the Law or of these Articles requiring or authorising a thing to be done by or to a Director and the Secretary shall not be satisfied by its being done by or to the same person acting both as Director and as or in place of the Secretary.

#### REGISTER OF DIRECTORS AND OFFICERS

129. The Company shall cause to be kept in one or more books at its Office a Register of Directors and Officers in which there shall be entered the full names and addresses of the Directors and Officers and such other particulars as required by the Law or as the Directors may determine. The Company shall send to the Registrar of Companies in the Cayman Islands a copy of such register, and shall from time to time notify to the said

MINUTES

130. (1) The Board shall cause minutes to be duly entered in books provided for the purpose:
- (a) of all elections and appointments of officers;
  - (b) of the names of the Directors present at each meeting of the Directors and of any committee of the Directors;
  - (c) of all resolutions and proceedings of each general meeting of the Members, or of all meetings of the Board and meetings of committees of the Board.
- (2) Minutes shall be kept by the Secretary at the Office.

44

SEAL

131. (1) The Company shall have one or more Seals, as the Board may determine. For the purpose of sealing documents creating or evidencing securities issued by the Company, the Company may have a securities seal which is a facsimile of the Seal of the Company with the addition of the word "Securities" on its face or in such other form as the Board may approve. The Board shall provide for the custody of each Seal and no Seal shall be used without the authority of the Board or of a committee of the Board authorised by the Board in that behalf. Subject as otherwise provided in these Articles, any instrument to which a Seal is affixed shall be signed autographically by one Director and the Secretary or by two Directors or by such other person (including a Director) or persons as the Board may appoint, either generally or in any particular case, save that as regards any certificates for shares or debentures or other securities of the Company the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature. Every instrument executed in manner provided by this Article shall be deemed to be sealed and executed with the authority of the Board previously given.

(2) Where the Company has a Seal for use abroad, the Board may by writing under the Seal appoint any agent or committee abroad to be the duly authorised agent of the Company for the purpose of affixing and using such Seal and the Board may impose restrictions on the use thereof as may be thought fit. Wherever in these Articles reference is made to the Seal, the reference shall, when and so far as may be applicable, be deemed to include any such other Seal as aforesaid.

AUTHENTICATION OF DOCUMENTS

132. Any Director or the Secretary or any person appointed by the Board for the purpose may authenticate any documents affecting the constitution of the Company and any resolution passed by the Company or the Board or any committee, and any books, records, documents and accounts relating to the business of the Company, and to certify copies thereof or extracts therefrom as true copies or extracts, and if any books, records, documents or accounts are elsewhere than at the Office or the head office the local manager or other officer of the Company having the custody thereof shall be deemed to be a person so appointed by the Board. A document purporting to be a copy of a resolution, or an extract from the minutes of a meeting, of the Company or of the Board or any committee which is so certified shall be conclusive evidence in favour of all persons dealing with the Company upon the faith thereof that such resolution has been duly passed or, as the case may be, that such minutes or extract is a true and accurate record of proceedings at a duly constituted meeting.

DESTRUCTION OF DOCUMENTS

133. (1) The Company shall be entitled to destroy the following documents at the following times:
- (a) any share certificate which has been cancelled at any time after the expiry of one (1) year from the date of such cancellation;
  - (b) any dividend mandate or any variation or cancellation thereof or any notification of change of name or address at any time after the expiry of two (2)

45

years from the date such mandate variation cancellation or notification was recorded by the Company;

- (c) any instrument of transfer of shares which has been registered at any time after the expiry of seven (7) years from the date of registration;
- (d) any allotment letters after the expiry of seven (7) years from the date of issue thereof; and
- (e) copies of powers of attorney, grants of probate and letters of administration at any time after the expiry of seven (7) years after the account to which the relevant power of attorney, grant of probate or letters of administration related has been closed;

and it shall conclusively be presumed in favour of the Company that every entry in the Register purporting to be made on the basis of any such documents so destroyed was duly and properly made and every share certificate so destroyed was a valid certificate duly and properly cancelled and that every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and that every other document destroyed hereunder was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company. Provided always that: (1) the foregoing provisions of this Article shall apply only to the destruction of a document in good faith and without express notice to the Company that the preservation of such document was relevant to a claim; (2) nothing contained in this Article shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any case where the conditions of proviso (1) above are not fulfilled; and (3) references in this Article to the destruction of any document include references to its disposal in any manner.

(2) Notwithstanding any provision contained in these Articles, the Directors may, if permitted by applicable law, authorise the destruction of documents set out in sub-paragraphs (a) to (e) of paragraph (1) of this Article and any other documents in relation to share registration which have been microfilmed or electronically stored by the Company or by the share registrar on its behalf provided always that this Article shall apply only to the destruction of a document in good faith and without express notice to the Company and its share registrar that the preservation of such document was relevant to a claim.

DIVIDENDS AND OTHER PAYMENTS

134. Subject to the Law, the Board may from time to time declare dividends in any currency to be paid to the Members.

135. Dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. The Board may also declare and pay dividends out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Law.

136. Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide:

46

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for the purposes of this Article as paid up on the share; and
- (b) all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

137. 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.

138. The Board may deduct from any dividend or other moneys payable to a Member by the Company on 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.

139. No dividend or other moneys payable by the Company on or in respect of any share shall bear interest against the Company.

140. 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 in respect of the shares at his address as appearing in the Register or addressed to such person and at such address 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 notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. 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.

141. All dividends or bonuses unclaimed for one (1) year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. Any dividend or bonuses unclaimed after a period of six (6) years from the date of declaration shall be forfeited and shall revert to the Company. The payment by the Board of



any unclaimed dividend or other sums payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof.

142. 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 and in particular of paid up shares, debentures or warrants to subscribe securities of the Company or any other company, or in any one or more of such ways, and where any difficulty arises in regard to the distribution the Board may settle the same as it thinks expedient, and in particular may issue certificates in respect of fractions of shares, disregard fractional entitlements or round the same up or down, and may fix the value for distribution of such specific assets, or any part thereof, and may determine that cash payments shall be made to any Members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Board and may appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend, and such appointment shall be effective and binding on the Members. The Board may resolve that no such assets shall be made available to Members with registered addresses in any particular territory or territories where, in the absence of a registration statement or other special formalities, such distribution of assets would or might, in the opinion of the Board, be unlawful or impracticable and in such event the only entitlement of the Members aforesaid shall be to receive cash payments as aforesaid. 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.

143. (1) Whenever the Board has resolved that a dividend be paid or declared on any class of 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 Members entitled thereto will be entitled to elect to receive such dividend (or part thereof if the Board so determines) in cash in lieu of such allotment. In such case, the following provisions shall apply:
- (i) the basis of any such allotment shall be determined by the Board;
- (ii) the Board, after determining the basis of allotment, shall give not less than ten (10) days' Notice to the holders of the relevant shares of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective;
- (iii) the right of election may be exercised in respect of the whole or part of that portion of the dividend in respect of which the right of election has been accorded; and
- (iv) the dividend (or that part of the dividend to be satisfied by the allotment of shares as aforesaid) shall not be payable in cash on shares in respect whereof the cash election has not been duly exercised ("the non-elected shares") and in satisfaction thereof shares of the relevant class shall be

48

allotted credited as fully paid up to the holders of the non-elected shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserves or other special account, share premium account, capital redemption reserve other than the Subscription Rights Reserve) as the Board may determine, such sum as may be required to pay up in full the appropriate number of shares of the relevant class for allotment and distribution to and amongst the holders of the non-elected shares on such basis; or

- (b) that the Members entitled to such dividend shall 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. In such case, the following provisions shall apply:
- (i) the basis of any such allotment shall be determined by the Board;
- (ii) the Board, after determining the basis of allotment, shall give not less than ten (10) days' Notice to the holders of the relevant shares of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective;
- (iii) the right of election may be exercised in respect of the whole or part of that portion of the dividend in respect of which the right of election has been accorded; and
- (iv) the dividend (or that part of the dividend in respect of which a right of election has been accorded) shall not be payable in cash on shares in respect whereof the share election has been duly exercised ("the elected shares") and in lieu thereof shares of the relevant class shall be allotted credited as fully paid up to the holders of the elected shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserves or other special account, share premium account, capital redemption reserve other than the Subscription Rights Reserve) as the Board may determine, such sum as may be required to pay up in full the appropriate number of shares of the relevant class for allotment and distribution to and amongst the holders of the elected shares on such basis.
- (2) (a) The shares allotted pursuant to the provisions of paragraph (1) of this Article shall rank *pari passu* in all respects with shares of the same class (if any) then in issue save only as regards participation in the relevant dividend or in any other distributions, bonuses or rights paid, made, declared or announced prior to or contemporaneously with the payment

49

or declaration of the relevant dividend unless, contemporaneously with the announcement by the Board of their proposal to apply the provisions of sub-paragraph (a) or (b) of paragraph (2) of this Article in relation to the relevant dividend or contemporaneously with their announcement of the distribution, bonus or rights in question, the Board shall specify that the shares to be allotted pursuant to the provisions of paragraph (1) of this Article shall rank for participation in such distribution, bonus or rights.

- (b) The Board may do all acts and things considered necessary or expedient to give effect to any capitalisation pursuant to the provisions of paragraph (1) of this Article, with full power to the Board to make such provisions as it thinks fit in the case of shares becoming distributable in fractions (including provisions whereby, in whole or in part, fractional entitlements are aggregated and sold and the net proceeds distributed to those entitled, or are disregarded or rounded up or down or whereby the benefit of fractional entitlements accrues to the Company rather than to the Members concerned). The Board may authorise any person to enter into on behalf of all Members interested, an agreement with the Company providing for such capitalisation and matters incidental thereto and any agreement made pursuant to such authority shall be effective and binding on all concerned.
- (3) The Company may upon the recommendation of the Board by ordinary resolution resolve in respect of any particular dividend of the Company that notwithstanding the provisions of paragraph (1) of this Article a dividend 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.
- (4) The Board may on any occasion determine that rights of election and the allotment of shares under paragraph (1) of this Article shall not be made available or made to any shareholders with registered addresses in any territory where, in the absence of a registration statement or other special formalities, the circulation of an offer of such rights of election or the allotment of shares would or might, in the opinion of the Board, be unlawful or impracticable, and in such event the provisions aforesaid shall be read and construed subject to such determination. 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.
- (5) Any resolution of the Board declaring a dividend on shares of any class, may specify that the same shall be payable or distributable to the persons registered as the holders of such shares at the close of business on a particular date, notwithstanding that it may be a date prior to that on which the resolution is passed, and thereupon the dividend shall be payable or distributable to them in accordance with their respective holdings so registered, but without prejudice to the rights inter se in respect of such dividend of transferors and transferees of any such shares. The provisions of this Article shall *mutatis mutandis* apply to bonuses, capitalisation issues, distributions of realised capital profits or offers or grants made by the Company to the Members.

50

#### RESERVES

144. (1) The Board shall establish an account to be called the share premium account and shall carry to the credit of such account from time to time a sum equal to the amount or value of the premium paid on the issue of any share in the Company. Unless otherwise provided by the provisions of these Articles, the Board may apply the share premium account in any manner permitted by the Law. The Company shall at all times comply with the provisions of the Law in relation to the share premium account.

(2) Before recommending any dividend, the Board may set aside out of the profits of the Company such sums as it determines as reserves which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied and pending such application may, also at such discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit and so that it shall not be necessary to keep any investments constituting the reserve or reserves separate or distinct from any other investments of the Company. The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute.

#### CAPITALISATION

145. The Board may, at any time and from time to time, pass a resolution to the effect that it is desirable to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and capital redemption reserve and the profit and loss account) whether or not the same is available for distribution and accordingly that such amount be set free for distribution among the Members or any class of Members who would be entitled thereto if it were distributed by way of dividend and in the same proportions, on the footing that the same is not paid in cash but is applied either in or towards paying up the amounts for the time being unpaid on any shares in the Company held by such Members respectively or in paying up in full unissued shares, debentures or other obligations of the Company, to be allotted and distributed

credited as fully paid up among such Members, or partly in one way and partly in the other, and the Board shall give effect to such resolution provided that, for the purposes of this Article, a share premium account and any capital redemption reserve or fund representing unrealised profits, may be applied only in paying up in full unissued shares of the Company to be allotted to such Members credited as fully paid.

146. The Board may settle, as it considers appropriate, any difficulty arising in regard to any distribution under the last preceding Article and in particular may issue certificates in respect of fractions of shares or authorise any person to sell and transfer any fractions or may resolve that the distribution should be as nearly as may be practicable in the correct proportion but not exactly so or may ignore fractions altogether, and may determine that cash payments shall be made to any Members in order to adjust the rights of all parties, as may seem expedient to the Board. The Board may appoint any person to sign on behalf of the persons entitled to participate in the distribution any contract necessary or desirable for giving effect thereto and such appointment shall be effective and binding upon the Members.

51

#### SUBSCRIPTION RIGHTS RESERVE

147. The following provisions shall have effect to the extent that they are not prohibited by and are in compliance with the Law:

- (1) If, so long as any of the rights attached to any warrants issued by the Company to subscribe for shares of the Company shall remain exercisable, the Company does any act or engages in any transaction which, as a result of any adjustments to the subscription price in accordance with the provisions of the conditions of the warrants, would reduce the subscription price to below the par value of a share, then the following provisions shall apply:
  - (a) as from the date of such act or transaction the Company shall establish and thereafter (subject as provided in this Article) maintain in accordance with the provisions of this Article a reserve (the "Subscription Rights Reserve") the amount of which shall at no time be less than the sum which for the time being would be required to be capitalised and applied in paying up in full the nominal amount of the additional shares required to be issued and allotted credited as fully paid pursuant to sub-paragraph (c) below on the exercise in full of all the subscription rights outstanding and shall apply the Subscription Rights Reserve in paying up such additional shares in full as and when the same are allotted;
  - (b) the Subscription Rights Reserve shall not be used for any purpose other than that specified above unless all other reserves of the Company (other than share premium account) have been extinguished and will then only be used to make good losses of the Company if and so far as is required by law;
  - (c) upon the exercise of all or any of the subscription rights represented by any warrant, the relevant subscription rights shall be exercisable in respect of a nominal amount of shares equal to the amount in cash which the holder of such warrant is required to pay on exercise of the subscription rights represented thereby (or, as the case may be the relevant portion thereof in the event of a partial exercise of the subscription rights) and, in addition, there shall be allotted in respect of such subscription rights to the exercising warrant holder, credited as fully paid, such additional nominal amount of shares as is equal to the difference between:
    - (i) the said amount in cash which the holder of such warrant is required to pay on exercise of the subscription rights represented thereby (or, as the case may be, the relevant portion thereof in the event of a partial exercise of the subscription rights); and
    - (ii) the nominal amount of shares in respect of which such subscription rights would have been exercisable having regard to the provisions of the conditions of the warrants, had it been possible for such subscription rights to represent the right to subscribe for shares at less than par and immediately upon such exercise so much of the sum standing to the credit of the Subscription Rights Reserve as is required to pay up in full such additional nominal amount of shares shall be capitalised and

52

applied in paying up in full such additional nominal amount of shares which shall forthwith be allotted credited as fully paid to the exercising warrant holders; and

- (d) if, upon the exercise of the subscription rights represented by any warrant, the amount standing to the credit of the Subscription Rights Reserve is not sufficient to pay up in full such additional nominal amount of shares equal to such difference as aforesaid to which the exercising warrant holder is entitled, the Board shall apply any profits or reserves then or thereafter becoming available (including, to the extent permitted by law, share premium account) for such purpose until such additional nominal amount of shares is paid up and allotted as aforesaid and until then no dividend or other distribution shall be paid or made on the fully paid shares of the Company then in issue. Pending such payment and allotment, the exercising warrant holder shall be issued by the Company with a certificate evidencing his right to the allotment of such additional nominal amount of shares. The rights represented by any such certificate shall be in registered form and shall be transferable in whole or in part in units of one share in the like manner as the shares for the time being are transferable, and the Company shall make such arrangements in relation to the maintenance of a register therefor and other matters in relation thereto as the Board may think fit and adequate particulars thereof shall be made known to each relevant exercising warrant holder upon the issue of such certificate.
- (2) Shares allotted pursuant to the provisions of this Article shall rank *pari passu* in all respects with the other shares allotted on the relevant exercise of the subscription rights represented by the warrant concerned. Notwithstanding anything contained in paragraph (1) of this Article, no fraction of any share shall be allotted on exercise of the subscription rights.
- (3) The provision of this Article as to the establishment and maintenance of the Subscription Rights Reserve shall not be altered or added to in any way which would vary or abrogate, or which would have the effect of varying or abrogating the provisions for the benefit of any warrant holder or class of warrant holders under this Article without the sanction of a special resolution of such warrant holders or class of warrant holders.
- (4) A certificate or report by the auditors for the time being of the Company as to whether or not the Subscription Rights Reserve is required to be established and maintained and if so the amount thereof so required to be established and maintained, as to the purposes for which the Subscription Rights Reserve has been used, as to the extent to which it has been used to make good losses of the Company, as to the additional nominal amount of shares required to be allotted to exercising warrant holders credited as fully paid, and as to any other matter concerning the Subscription Rights Reserve shall (in the absence of manifest error) be conclusive and binding upon the Company and all warrant holders and shareholders.

#### ACCOUNTING RECORDS

148. 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

53

all other matters required by the Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

149. The accounting records shall be kept at the Office or, at such other place or places as the Board decides and shall always be open to inspection by the Directors. No Member (other than a Director) shall have any right of inspecting 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.

150. Subject to Article 153, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the Auditors' report, shall be sent to each person entitled thereto at least ten (10) days before the date of the general meeting and laid before the Company at the annual general meeting held in accordance with Article 56 provided that this Article shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or more than one of the joint holders of any shares or debentures.

151. Subject to due compliance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Article 152 shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Statutes, a summary financial statement derived from the Company's annual accounts and the directors' report which shall be in the form and containing the information required by applicable laws and regulations, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

152. The requirement to send to a person referred to in Article 152 the documents referred to in that article or a summary financial report in accordance with Article 153 shall be deemed satisfied where, in accordance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, the Company publishes copies of the documents referred to in Article 152 and, if applicable, a summary financial report complying with Article 153, on the Company's computer network or in any other permitted manner (including by sending any form of electronic communication), and that person has agreed or is deemed to have agreed to treat the publication or receipt of such documents in such manner as discharging the Company's obligation to send to him a copy of such documents.

#### AUDIT

153. 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

54

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.
154. Subject to the Law the accounts of the Company shall be audited at least once in every year.
155. The remuneration of the Auditor shall be fixed by the Board.
156. If the office of auditor becomes vacant by the resignation or death of the Auditor, or by his becoming incapable of acting by reason of illness or other disability at a time when his services are required, the Directors shall fill the vacancy and determine the remuneration of such Auditor.
157. The Auditor shall at all reasonable times have access to all books kept by the Company and to all accounts and vouchers relating thereto; and he may call on the Directors or officers of the Company for any information in their possession relating to the books or affairs of the Company.
158. The statement of income and expenditure and the balance sheet provided for by these Articles shall be examined by the Auditor and compared by him with the books, accounts and vouchers relating thereto; and he shall make a written report thereon stating whether such statement and balance sheet are drawn up so as to present fairly the financial position of the Company and the results of its operations for the period under review and, in case information shall have been called for from Directors or officers of the Company, whether the same has been furnished and has been satisfactory. The financial statements of the Company shall be audited by the Auditor in accordance with generally accepted auditing standards. The Auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the Auditor shall be submitted to the Members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the Auditor should disclose this act and name such country or jurisdiction.

#### NOTICES

159. Any Notice or document, whether or not, to be given or issued under these Articles from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in

55

---

appropriate newspapers in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company's website and giving to the member a notice stating that the notice or other document is available there (a "notice of availability"). The notice of availability may be given to the Member by any of the means set out above. In the case of joint holders of a share all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.

160. Any Notice or other document:
- (a) if served or delivered by post, shall where appropriate be sent by airmail and shall be deemed to have been served or delivered on the day following that on which the envelope containing the same, properly prepaid and addressed, is put into the post; in proving such service or delivery it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly addressed and put into the post and a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board that the envelope or wrapper containing the notice or other document was so addressed and put into the post shall be conclusive evidence thereof;
- (b) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A notice placed on the Company's website is deemed given by the Company to a Member on the day following that on which a notice of availability is deemed served on the Member;
- (c) if served or delivered in any other manner contemplated by these Articles, shall be deemed to have been served or delivered at the time of personal service or delivery or, as the case may be, at the time of the relevant despatch or transmission; and in proving such service or delivery a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board as to the act and time of such service, delivery, despatch or transmission shall be conclusive evidence thereof; and
- (d) may be given to a Member in the English language or such other language as may be approved by the Directors, subject to due compliance with all applicable Statutes, rules and regulations.
161. (1) Any Notice or other document delivered or sent by post to or left at the registered address of any Member in pursuance of these Articles shall, notwithstanding that such Member is then dead or bankrupt or that any other event has occurred, and whether or not the Company has notice of the death or bankruptcy or other event, be deemed to have been duly served or delivered in respect of any share registered in the name of such Member as sole or joint holder unless his name shall, at the time of the service or delivery of the notice or document, have been removed from the Register as the holder of the share, and such service or delivery shall for all purposes be deemed a sufficient service or delivery of such Notice or document on all persons interested (whether jointly with or as claiming through or under him) in the share.

56

---

(2) A notice may be given by the Company to the person entitled to a share in consequence of the death, mental disorder or bankruptcy of a Member by sending it through the post in a prepaid letter, envelope or wrapper addressed to him by name, or by the title of representative of the deceased, or trustee of the bankrupt, or by any like description, at the address, if any, supplied for the purpose by the person claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death, mental disorder or bankruptcy had not occurred.

(3) Any person who by operation of law, transfer or other means whatsoever shall become entitled to any share shall be bound by every notice in respect of such share which prior to his name and address being entered on the Register shall have been duly given to the person from whom he derives his title to such share.

#### SIGNATURES

162. For the purposes of these Articles, a cable or telex or facsimile or electronic transmission message purporting to come from a holder of shares or, as the case may be, a Director, or, in the case of a corporation which is a holder of shares from a director or the secretary thereof or a duly appointed attorney or duly authorised representative thereof for it and on its behalf, shall in the absence of express evidence to the contrary available to the person relying thereon at the relevant time be deemed to be a document or instrument in writing signed by such holder or Director in the terms in which it is received.

#### WINDING UP

163. (1) 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.
- (2) A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.
164. (1) 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 shall be 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 shall be 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, a nearly as may be, the losses shall be borne by the Members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.
- (2) If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction

57

---

required by the Law, divide among the Members in specie or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of properties of one kind or shall consist of properties to be divided as aforesaid of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of the Members as the liquidator with the like authority shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

#### INDEMNITY

165. (1) The Directors, Secretary and other officers and the liquidator or trustees (if any) for the time being acting in relation to any of the affairs of the Company and every one of them, and every one of their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; PROVIDED THAT this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.
- (2) Each Member agrees to waive any claim or right of action he might have, whether individually or by or in the right of the Company, against any Director on account of any action taken by such Director, or the failure of such Director to take any action in the performance of his duties with or for the Company; PROVIDED THAT such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director.

AMENDMENT TO MEMORANDUM AND ARTICLES OF ASSOCIATION  
AND NAME OF COMPANY

166. (1) Subject to the provisions of Article 9(c) and Articles 166(2) and 166(3), 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. Subject to the provisions of Article 9(c) and Articles 166(2) and 166(3), 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 special resolution pursuant to this Article 166(1).

58

---

(2) For so long as William Wei 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 this Article 166 shall be rescinded, altered or amended (either directly or by the inclusion of any new Articles herein) without the affirmative vote of William Wei Huang and/or the holders of the Class B Ordinary Shares as the case may be.

(3) 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 this Article 166 shall be rescinded, altered or amended (either directly or by the inclusion of any new Articles herein) without the affirmative vote of STT.

INFORMATION

167. No Member shall be entitled to require discovery of or any information respecting any detail of the Company's trading or any matter which is or may be in the nature of a trade secret or secret process which may relate to the conduct of the business of the Company and which in the opinion of the Directors it will be inexpedient in the interests of the Members of the Company to communicate to the public.

59

---

Incorporated in the Cayman Islands  
**GDS Holdings Limited**

This is to certify that

is / are the registered shareholders of:

No. of Shares	Type of Share	Par Value
	Class A ordinary Certificate Number	USD 0.001
Date of Record		% Paid 100.00

The above shares are subject to the Memorandum and Articles of Association of the Company and transferable in accordance therewith.

Director / Secretary

19 October 2016

Matter No.:822558  
Doc Ref: RH/102783594

GDS Holdings Limited  
Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

Dear Sirs,

**GDS Holdings Limited (the "Company")**

We have acted as special legal counsel in the Cayman Islands to the Company in connection with a registration statement on form F-1 to be filed with the U.S. Securities and Exchange Commission (the "**Commission**") on or about 19 October 2016 (the "**Registration Statement**", which term does not include any other document or agreement whether or not specifically referred to therein or attached as an exhibit or schedule thereto) relating to the registration under the U.S. Securities Act of 1933, as amended, (the "**Securities Act**") of class A ordinary shares, par value US\$0.00005 each (the "**Class A Ordinary Shares**") of the Company.

For the purposes of giving this opinion, we have examined a copy of the Registration Statement. We have also reviewed (1) the currently adopted amended and restated memorandum and articles of association of the Company provided to us on 19 October 2016, (2) minutes of meetings of the board of directors of the Company held on each of 26 September 2016, 29 September 2016, 3 October 2016 and 18 October 2016 (the "**Director Resolutions**"), and unanimous written resolutions of the members of the Company passed on 18 October 2016 (the "**Member Resolutions**"), (3) the latest drafts of the amended and restated memorandum of association and the amended and restated articles of association of the Company proposed to become effective upon the consummation of the Company's initial public offering of Class A Ordinary Shares represented by American Depositary Shares (the "**Listing M&As**"), (4) a Certificate of Good Standing issued by the Registrar of Companies in relation to the Company on 18 October 2016 (the "**Certificate Date**"), and (5) such other documents and made such enquiries as to questions of law as we have deemed necessary in order to render the opinion set forth below.

We have assumed (a) the genuineness and authenticity of all signatures and the conformity to the originals of all copies (whether or not certified) examined by us and the authenticity and completeness of the originals from which such copies were taken, (b) that where a document has been examined by us in draft form, it will be or has been executed and/or filed in the form of that draft, and where a number of drafts of a document have been examined by us all changes thereto have been marked or otherwise drawn to our attention, (c) the accuracy and completeness of all factual representations made in the Registration Statement and other documents reviewed by us, (d) that the Director Resolutions were passed at one or more duly convened, constituted and quorate meetings, remain in full force and effect and have not been rescinded or amended and the Member Resolutions will be passed at one or more duly convened, constituted and quorate meetings or by unanimous written resolutions, will remain in full force and effect and will not be rescinded or amended, (e) that the Listing M&As will have been duly adopted by all corporate authority of the Company prior to the issue of any Class A Ordinary Shares by the Company, (f) that there is no provision of the law of any jurisdiction, other than the Cayman Islands, which would have any implication in relation to the opinions expressed herein, (g) that upon issue of any Class A Ordinary Shares to be sold by the Company, the Company will receive consideration for the full issue price thereof which shall be equal to at least the par value thereof, and (h) the validity and binding effect under the laws of the United States of America of the Registration Statement and that the Registration Statement will be duly filed with the Commission.

We have made no investigation of and express no opinion in relation to the laws of any jurisdiction other than the Cayman Islands. This opinion is to be governed by and construed in accordance with the laws of the Cayman Islands and is limited to and is given on the basis of the current law and practice in the Cayman Islands.

On the basis of and subject to the foregoing, we are of the opinion that:

1. The Company is duly incorporated and existing under the law of the Cayman Islands and, based on the Certificate of Good Standing, is in good standing as at the Certificate Date. Pursuant to the Companies Law (the "Law"), a company is deemed to be in good standing if all fees and penalties under the Law have been paid and the Registrar of Companies has no knowledge that the Company is in default under the Law.
2. When issued and paid for as contemplated by the Registration Statement, the Class A Ordinary Shares will be validly issued, fully paid and non-assessable (which term means when used herein that no further sums are required to be paid by the holders thereof in connection with the issue of such shares or in connection with any assessments or calls on such shares by the Company or its creditors).

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the references to our firm under the captions "Enforceability of Civil Liabilities", "Taxation" and "Legal Matters" in the prospectus forming a part of the Registration Statement. In giving this consent, we do not hereby admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act or the Rules and Regulations of the Commission promulgated thereunder.

Yours faithfully,

/s/ Conyers Dill &amp; Pearman

---

**Conyers Dill & Pearman**

19 October 2016

Matter No.:822558  
Doc Ref: RH/102857687

GDS Holdings Limited  
Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

Dear Sirs,

**GDS Holdings Limited (the "Company")**

We have acted as special legal counsel in the Cayman Islands to the Company in connection with a registration statement on form F-1 to be filed with the U.S. Securities and Exchange Commission (the "**Commission**") on or about 19 October 2016 (the "**Registration Statement**", which term does not include any other document or agreement whether or not specifically referred to therein or attached as an exhibit or schedule thereto) relating to the registration under the U.S. Securities Act of 1933, as amended, (the "**Securities Act**") of class A ordinary shares, par value US\$0.00005 each of the Company.

For the purposes of giving this opinion, we have examined and relied upon copies of the following documents:

- (i) the Registration Statement; and
- (ii) a draft of the prospectus (the "**Prospectus**") contained in the Registration Statement which is in substantially final form.

We have also reviewed and relied upon (1) the currently adopted amended and restated memorandum of association and articles of association of the Company, (2) the latest drafts of the amended and restated memorandum of association and articles of association of the Company, to be adopted by the Company and to become effective upon the effectiveness of the Registration Statement, and (3) such other documents and made such enquiries as to questions of law as we have deemed necessary in order to render the opinion set forth below.

We have assumed (a) the genuineness and authenticity of all signatures, stamps and seals and the conformity to the originals of all copies of documents (whether or not certified) examined by us and the authenticity and completeness of the originals from which such copies were taken; (b) the accuracy and completeness of all factual representations made in the Prospectus and Registration Statement reviewed by us; (c) the validity and binding effect under the laws of the United States of America of the

1

---

Registration Statement and the Prospectus and that the Registration Statement will be duly filed with or declared effective by the Commission; and (d) that the Prospectus, when published, will be in substantially the same form as that examined by us for purposes of this opinion.

We have made no investigation of and express no opinion in relation to the laws of any jurisdiction other than the Cayman Islands. This opinion is to be governed by and construed in accordance with the laws of the Cayman Islands and is limited to and is given on the basis of the current law and practice in the Cayman Islands.

On the basis of and subject to the foregoing, we are of the opinion that the statements under the caption "**Taxation — Cayman Islands Taxation**" in the Prospectus forming part of the Registration Statement, to the extent that they constitute statements of Cayman Islands law, are accurate in all material respects and that such statements constitute our opinion.

We hereby consent to the use of this opinion in, and the filing hereof as an exhibit to, the Registration Statement and further consent to the reference of our name in the Prospectus forming part of the Registration Statement. In giving this consent, we do not hereby admit that we are experts within the meaning of Section 11 of the Securities Act or that we are within the category of persons whose consent is required under Section 7 of the Securities Act or the Rules and Regulations of the Commission promulgated thereunder.

Yours faithfully,

/s/ Conyers Dill &amp; Pearman

---

**Conyers Dill & Pearman**

2

To: **GDS Holdings Limited**  
2/F, Tower 2, Youyou Century Place,  
428 South Yanggao Road, Pudong  
Shanghai 200127  
People's Republic of China

Re: **Tax Matters in connection with the Listing of GDS Holdings Limited**

October 19, 2016

Dear Sirs,

We are qualified lawyers of the People's Republic of China (the "PRC", for the purpose of this opinion, excluding the Hong Kong Special Administrative Region, Macao Special Administrative Region and the region of Taiwan) and as such are qualified to issue legal opinions on the PRC laws, regulations or rules effective on the date hereof (the "PRC Laws").

We are acting as the PRC counsel to GDS Holdings Limited (the "Company"), a company incorporated under the laws of the Cayman Islands in connection with the proposed listing of the Company's American depository shares (the "ADSs") on the New York Stock Exchange or the NASDAQ Global Market (the "Listing").

This legal opinion (the "Opinion") is furnished pursuant to the instructions of the Company on the captioned matters, and is delivered to the Company for the purposes of the Listing.

As used herein, "Prospectuses" means the prospectus, including all amendments or supplements thereto, that form parts of the Registration Statement.

金杜律师事务所国际联盟成员办公室  
北京 | 布里斯班 | 布鲁塞尔 | 堪培拉 | 成都 | 迪拜 | 法兰克福 | 广州 | 杭州 | 香港 | 济南 | 伦敦 | 卢森堡 | 马德里 | 墨尔本 | 米兰 | 慕尼黑 | 纽约 | 巴黎 | 珀斯 | 青岛  
利雅得 | 三亚 | 上海 | 深圳 | 硅谷 | 苏州 | 悉尼 | 新加坡 | 东京

Member firm of the King & Wood Mallesons network. See www.kwm.com for more information.

Beijing | Brisbane | Brussels | Canberra | Chengdu | Dubai | Frankfurt | Guangzhou | Hangzhou | Hong Kong | Jinan | London | Luxembourg | Madrid | Melbourne | Milan | Munich New York | Paris | Perth | Qingdao | Riyadh | Sanya | Shanghai | Shenzhen | Silicon Valley | Suzhou | Sydney | Singapore | Tokyo

Our Opinion is subject to the following qualifications:

- (a) this Opinion is limited to matters of the PRC Laws effective as the date hereof. We have not investigated, and we do not express or imply any opinion on accounting, auditing, or laws of any other jurisdiction.
- (b) this Opinion is intended to be used in the context which is specially referred to herein and each section should be considered as a whole and no part should be extracted and referred to independently.
- (c) for the purpose of the Listing, we consent to the filing with the SEC of this letter as an exhibit to the Registration Statement. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the regulations promulgated thereunder.

Based on the foregoing and subject to the qualifications set out above, as of the issuance date of this Opinion:

1. we are of the opinion that, as of the date hereof, the discussions of PRC taxation in the Prospectuses are true and accurate based on the PRC Laws; and
2. the statements of law and legal conclusions in the Registration Statement under the caption "Taxation—People's Republic of China Taxation" constitute our opinion as to the material tax consequences of an investment in the ADSs under the PRC Laws.

Sincerely yours,

/s/ King & Wood Mallesons  
King & Wood Mallesons



**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
GDS Holdings Limited:

We consent to the use of our report dated May 20, 2016, with respect to the consolidated balance sheets of GDS Holdings Limited as of December 31, 2014 and 2015, and the related consolidated statements of operations, comprehensive loss, changes in shareholders' deficit and cash flows for the years then ended, included herein and to the reference to our firm under the heading "Experts" in the registration statement.

/s/ KPMG Huazhen LLP

Shanghai, China  
October 19, 2016

---

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
EDC Holding Limited:

We consent to the use of our report dated May 20, 2016, with respect to the consolidated statement of comprehensive loss and the consolidated statement of cash flows of EDC Holding Limited for the six-month period ended June 30, 2014, included herein and to the reference to our firm under the heading "Experts" in the registration statement.

/s/ KPMG Huazhen LLP

Shanghai, China  
October 19, 2016

---

**GDS Holdings Limited**  
**2/F, Tower 2, Youyou Century Place**  
**428 South Yanggao Road**  
**Pudong, Shanghai 200127**  
**People's Republic of China**

October 18, 2016

Ladies and Gentlemen:

Pursuant to Rule 438 promulgated under the Securities Act of 1933, as amended, I hereby consent to be named in the Registration Statement on Form F-1 (the "Registration Statement") of GDS Holdings Limited (the "Company"), and any amendments thereto, as a person about to become a director of the Company and agree that following the effectiveness of the Registration Statement and commencing at the time the Securities and Exchange Commission declares the registration statement on Form 8-A under Section 12(b) of the Securities Exchange Act of 1934, as amended, effective, I will serve as a member of the board of directors of the Company.

Sincerely yours,

/s/ Bin Yu

Name: Bin Yu

---

**GDS Holdings Limited**  
**2/F, Tower 2, Youyou Century Place**  
**428 South Yanggao Road**  
**Pudong, Shanghai 200127**  
**People's Republic of China**

October 18, 2016

Ladies and Gentlemen:

Pursuant to Rule 438 promulgated under the Securities Act of 1933, as amended, I hereby consent to be named in the Registration Statement on Form F-1 (the "Registration Statement") of GDS Holdings Limited (the "Company"), and any amendments thereto, as a person about to become a director of the Company and agree that following the effectiveness of the Registration Statement and commencing at the time the Securities and Exchange Commission declares the registration statement on Form 8-A under Section 12(b) of the Securities Exchange Act of 1934, as amended, effective, I will serve as a member of the board of directors of the Company.

Sincerely yours,

/s/ Zulkifli Baharudin

Name: Zulkifli Baharudin

---

**CODE OF BUSINESS CONDUCT  
OF GDS HOLDINGS LIMITED**

*Overview*

The Code of Business Conduct of GDS (hereinafter referred to as “the Code”) applies to all directors, officers, executives and employees (hereinafter referred to as “employees” or “you”) of GDS Holdings Limited, its consolidated subsidiaries, consolidated Variable Interest Entities and other affiliated companies (hereinafter collectively referred to as “GDS” or the “company”), regardless of full-time, part-time or temporary (including the employees outsourced from the agency providing employment services or other entities).

GDS is committed to following the highest standard of code of business conduct for the business relationship between GDS employees, users, customers, suppliers, shareholders and other related parties, which means that we shall follow the highest standard of code of business conduct while complying with national laws and regulations. This Code defines the basic principles, important policies and procedures to be followed in business activities. GDS has full power to explain and elaborate all provisions herein.

It is the policy of GDS that any employee who violates this Code will be subject to discipline, which may include termination of employment. If your conduct as an employee of GDS does not comply with the law or with this Code, there may be serious, adverse consequences for both you and GDS.

Unless otherwise provided in the Code, the following terms shall be defined as follows:

- “Compliance Officer” refers to the head of GDS Internal Control and Compliance Department.

“Affiliated person” refers to:

1. Lineal and collateral relatives by blood and relations by marriage (including the identity relations formed by adoption, each called “family member” respectively) of any employee, such as parents, brothers and sisters, cousins, brother-in law and sister-in-law; as well as lovers and persons with economic dependency or other stakes; or
2. Any entity as follows: (a) Entity separately or jointly owned by the employee individual and/or its family members or other interested parties; (b) Entity with the employee individual, its family members or other interested parties as the director, executive or trustee; or (c) the affiliated company of the entity in (a)-(b).

“Own” herein refers to the equity with the voting right of no lower than 5% of the entity held by the shareholder, partner or member directly or indirectly (including but not limited to held on behalf) or other economic interest. “Affiliated company”, for any entity, means that another entity directly or indirectly controls the mentioned entity through one or more intermediate

organizations or agencies, or is controlled by the entity, or is jointly controlled with the entity by others, including but not limited to the subsidiary and parent company of the entity or the other subsidiaries of the parent company of the entity. “Control” (including “being controlled” and “being jointly controlled”) refers to have the power to guide the management and policy of the entity through the shares with voting right, through the contract or other means.

- “Connected transaction” refers to any transaction or any series transactions between the company and/or its any subsidiary as one party and the employee and/or affiliated person as the other party.
- “Relevant policies and guidelines of GDS” refers to relevant policies and guidelines modified from time to time in Appendix 1 to the Code, as well as other policies and guidelines promulgated by GDS from time to time.

The Code contains general guidelines of GDS for business conduct and complies with the highest standard of the code of business ethics and applicable laws, regulations and rules. If the standard of this Code is higher than local business practice or applicable laws, regulations or rules, the former shall prevail.

*Bear our common responsibilities*

Each GDS employee is liable for learning and understanding the policies contained in the Code. Ask any problem and propose any matter of business ethics concerned. The officer responsible for supervising implementation of the Code and other persons designated in the Code will solve your problems and provide guidance on how to comply with the code of conduct of GDS and how to report suspicious misconduct.

Our conduct shall reflect the GDS values, reflect the highest standard of business ethics, promote good work environment and maintain and improve good business reputation of “incorruptness and integrity” of GDS. For this purpose, GDS and all employees shall:

- Understand and promise to abide by the Code.
- Take the lead to comply with the provisions of the Code and implement the spirit and always act in correct manner, even though some alternatives are convenient or fast.
- Understand and act according to all policies, guidelines and procedures of GDS.
- Never place personal interests above GDS interests and never make use of the position in GDS or the information obtained from the position in GDS for the purposes unrelated to GDS.
- Perform work and business legally and rightfully.
- Provide necessary training or guidance for each team or department staff of GDS to ensure understanding of and compliance with the Code.

2

- Seek help, guidance or explanation from the supervisor, legal department, human resource department or the Compliance Officer in case of difficult business ethics or legal problems.
- Report immoral or illegal suspicious events to the Compliance Officer or other persons stipulated in the Code.
- Immediately take appropriate corrective measures after verification of any immoral or illegal accusal.
- Create a work environment encouraging frank, open and constructive communication and allow each employee to propose the problems, to provide recommendations and to report fault and error without fear of retribution.

**1. EMPLOYEE AND WORK ENVIRONMENT**

**1. Mutual respect**

GDS is committed to provide a work environment culturing honesty, integrity, mutual respect and trust and prohibits the use of offensive or abusive works and tricks in the workplace or external communication.

**2. Employee privacy**

GDS respects the privacy and dignity of all individuals, collects and preserves employee and employment related information, including medical and welfare information, and takes special measures to restrict the access of GDS employees to such information only for legal purposes. Employees who are responsible for collecting and preserving personal information and have access to such information shall not disclose such private information in violation of applicable laws or GDS policies. The emails and other documents stored in GDS server are the property of GDS and can be read by GDS.

**3. Equal employment opportunity, non-discrimination and non-harassment**

GDS is committed to providing equal employment opportunities and work environment for all employees and does not allow discrimination or harassment based on race, religion, sex, age, nationality, or other discrimination or harassment prohibited by laws and regulations.

**4. Workplace safety**

**4.1. Workplace**

GDS is committed to providing the employees with a safe and healthy work environment. Each employee is responsible for maintaining a safe and healthy work environment, including complying with safety and health regulations and reporting accidents, unsafe equipment, operations and environment. Any violence, intimidation and other relevant conducts are not allowed in GDS workplaces or other places related to work.

3

#### 4.2 Alcoholic beverage and smoking

To respect non-smokers and protect personal health, GDS prohibits smoking in workplaces.

Except situations approved by GDS, the employees shall not drink alcohol or get drunk in GDS workplaces. Drinking is not allowed at lunchtime during work.

#### 4.3 Illicit drugs

The employees shall not use or hold any illicit drug in GDS workplaces or activities.

#### 5. No retaliation

You shall not retaliate any employee of GDS by means of your work, position and identity in GDS for any reason. You shall not retaliate any employee who may provide information or assistance in investigations or similar procedures for the actions considered as violations of applicable laws and regulations, the Code or any GDS policy. Retaliation of any employee is considered a serious violation of GDS policy, and GDS may give disciplinary sanction and even terminate labor relation to the extent permissible under applicable laws.

### II. COMPLY WITH LAW AND ETHICS

In addition to the Code and GDS relevant policies and guidelines, each employee must comply with the applicable laws and regulations. The employees shall not have any theft, encroachment, fraudulent, dishonest and immoral behaviors or other similar behaviors or any behavior with material adverse effect on the reputation, fame or interest of GDS.

### III. RESPONSIBILITIES TO GDS

GDS expects that you may spare no effort for GDS business and make the influential decisions on GDS with objective and independent standard.

#### 1. Conflict of interest

Conflict of interest is formed when your personal interest affects in any way or event may superficially affect the interest of GDS or when you are difficult to objectively, impartially and effectively perform the work or responsibility assigned by GDS due to your action taken or interest enjoyed. GDS employees shall be engaged in GDS business honestly and morally, including disposal of actual or potential conflict of interest between personal and company businesses in a moral manner.

In case of uncertainty about conflict of interest under specific circumstances, you are responsible for consulting the Compliance Officer by sending an e-mail to [ethics@gds-services.com](mailto:ethics@gds-services.com) or by calling the ethic hotline at +86 21 2033 0301 during the normal office hours (9:00 — 18:00, China Standard Time) Monday through Friday and fully disclosing all cases about conflict of interest to the Compliance Officer.

Some common actual or potential conflicts of interest are listed as follows:

4

#### 1.1 Financial interest of other companies

Except the interests lower than 5% of the issued rights through open securities exchange market, the funds held directly or indirectly more than half of the economic interest or the shares held through trust of non-beneficiary or affiliated person,

1. The employee or its affiliated person holds any right of any company competing with GDS;
2. The employee or its affiliated person holds any right of any company with business transactions with GDS (such as GDS customer, partner, agent, reseller or supplier) or of any economic entity established or owned by any employee leaving GDS.

Each employee must strictly comply with the terms and conditions in the non-competition agreement or other similar agreements with GDS, if any.

#### 1.2 Related party transaction

In case of possible occurrence of any potential related party transaction, you shall immediately give a prior written notice to the Compliance Officer and make detailed disclosure of possible related party transaction (except the case that you or your affiliated person purchase(s) the products not from another subsidiary of GDS where you are working at a fair price of market transaction) and GDS is entitled to further ask for the detailed and background information of the transaction. Related party transaction includes but is not limited to:

1. The employee or its affiliated person provides the loans for, obtains the loans from or obtains the loads under the assistance of any individual or agency having business transactions with GDS (such as GDS customer, partner, agent, reseller or supplier) (except reasonable transactions with the banks or other financial institutions);
2. The employee or its affiliated person establishes the joint-venture/partnership enterprise, forms a partnership or participates in other business arrangements with GDS; or
3. The employee or its affiliated person forms any form of business transaction with GDS, and/or promotes any affiliated person to form any form of business transaction with GDS, including but not limited to purchasing or selling the commodities, purchasing or selling the assets rather than commodities, providing or accepting the management services, labor services or agency services, leasing assets or equipment, providing assistance (including in cash or in kind), jointly researching and developing projects, signing the license agreement, gifting or reaching any non-monetary transaction, making the employee or its affiliated person become GDS customer, partner, agent, reseller or supplier or reaching any other transaction relationship or concealing the above situation to GDS.

Without the prior written approval from the Compliance Officer or company legal department, you may not participate in any purchase process, decision process or other similar processes

5

involving your affiliated person, even though these process do not necessarily constitute the related party transaction stipulated in the Code.

#### 1.3 External employment relationship or part-time activities

The employee or its affiliated person takes office in any company competing with GDS, any economic entity having business transaction with GDS or is associated with above-mentioned company or economic entity (including its affiliated party) in any manner (including but not limited to engaging in the part-time activities as a advisor, consultant, volunteer or other similar identifies or directly or indirectly participating in the specific project cooperation or affecting the specific project cooperation) or serves as its director and engages in other activities aiming to or reasonably expected to enhance the interest of the party involved.

GDS divides the common conflicts of interest as above into three categories of “prohibited”, “approved” and “reported”, as specifically shown in the Management Rules and Interpretation of Conflict of Interest of GDS Employees.

However, other forms of conflict of interest may exist in reality. You need to immediately consult, submit for approval or report the Compliance Officer of other possible, previous or existing conflict of interest. Conflict interest does not mean that this case will be prohibited. But if it should be prohibited as believed by the Compliance Officer, you should stop such behavior or take all possible measures to prevent such event.

#### 2. Corporate opportunity

In case of opportunity to increase the company’s legitimate interests, the employee is liable for enhancing the commercial interests of GDS. If obtaining any business or investment opportunity through GDS company property or information or through your position in GDS (such as through GDS competitor or existing or potential customer, supplier or business collaborator), you shall not take part in such opportunity directly or indirectly through your affiliated person or make an investment before full disclosure to GDS and prior written approval from GDS. Such opportunity shall be first deemed as the investment opportunity of GDS.

#### 3. Present, gift, recreation and other entertainments

Your business decision on behalf of GDS shall be made on the basis of independent, objective and independent judgment as well as maximum benefit of GDS, as shown in General Policies for Gifts.

#### 3.1 Acceptance of present, gift, recreation and other entertainments

You or your affiliated person shall not, by means of your work, position or identity in GSD, ask for or accept any private interest or gift, including but not limited to kickback, bribery, private commission, tourism, share, bonus, loan below market price, material object, cash or cash equivalents (including consumer card/voucher, redemption, shopping card, redemption voucher, rechargeable card, transportation card, phone card, telephone charge rechargeable card or other rechargeable cards and value cards for use or consumption and other forms of valuable gift certificates or securities) and property interests, except some small non-cash promotional gifts

6

conforming to local business practices obtained in business transactions, as shown in GDS Gift Handling Rule. Any employee violating the rule will be relieved from employment relationship.

The business etiquettes, social etiquettes and entertainment not conforming to local practices or excessively luxurious are strictly prohibited.

### 3.2 Provision of present, gift, recreation and other entertainments

You or your affiliated person is absolutely prohibited to provide or offer any private interest or gift, including but not limited to kickback, bribery, private commission, tourism, share, bonus, loan below market price, material object, cash or cash equivalents (including consumer card/voucher, redemption, shopping card, redemption voucher, rechargeable card, transportation card, phone card, telephone charge rechargeable card or other rechargeable cards and value cards for use or consumption and other forms of valuable gift certificates or securities) and property interests, except some small non-cash promotional gifts conforming to local business practices provided in business transactions. Any employee violating the regulations will be relieved from employment relationship.

The gift, repast, recreation and other entertainments, to be provided for a third party for the business of GDS, must be legal, reasonable and appropriate in specific cases and will not embarrass GDS, the supplier or the customer even if being disclosed to the public. You or your affiliated person shall not provide or express to provide the gifts or recreational activities beyond the symbolic value or beyond the general business etiquette related to local business practices. The expenses of gifts and recreational activities in the business activities shall be subject to proper budget, approval, document archiving and other processes.

GDS suppliers and customers may have the policies about present, gift and entertainment. You must act with prudence and shall not violate the policies of other companies about present, gift and entertainment.

Moreover, you or your affiliated person shall not give a gift or any valuable article to any government official, political party, political party official, cross-file, political party clerk or family members thereof on GDS related matters without prior written approval of the senior vice president of GDS in charge of government affairs or its authorized regional general manager.

To avoid violation of the Code, you are recommended to contact the Compliance Officer if you are uncertain about the compliance of collecting or providing any form of gift with the Code, as shown in Part 4 - Implementation of the Code.

### 4. Anti-corruption and anti-bribery laws

The company shall comply with the laws and regulations at the locality where its place of business locates. The Criminal Law of the People's Republic of China and the Law Against Unfair Competition are of high effectiveness rating in regard to definitions and liability rules of bribery, bribe acceptance and commercial bribery.

In accordance with the Criminal Law of the People's Republic of China (hereinafter referred to as the "Criminal Law"), providing the enterprise and national staff with a considerable amount of

7

properties, any form of kickback and handling charges to seek illegitimate benefits is deemed as bribery. As stipulated in the Criminal Law, corporate personnel, if asking for or illegally accepting the property from others, seeking a considerable amount of interests for others or accepting any form of kickback and handling charges for itself making use of the job convenience, shall be punished as acceptance of bribery. The company and the person directly responsible will be held criminally liable for bribery and/or acceptance of bribery. Therefore, the employees must comply with the Criminal Law to avoid heavy losses to the company and individuals.

According to the Law Against Unfair Competition, no organization or individual may sell or purchase commodities through bribery by property or other means. Providing secret kickbacks for the organization or individual of the opposite party without normal accounting records is punished as bribery; accepting the secret kickback by the unit or individual of the opposite party without normal accounting records shall be punished as acceptance of bribery.

The Law Against Unfair Competition allows express discount or commission given to the intermediary in sales or purchase of commodities under the premise of truthful accounting. The employees must comply with the Law Against Unfair Competition, so as not to bring criminal and administrative punishments to the company and individuals.

In addition, the Foreign Corrupt Practices Act (the "FCPA") prohibits the Company and its employees and agents from offering or giving money or any other item of value to win or retain business or to influence any act or decision of any governmental official, political party, candidate for political office or official of a public international organization. The FCPA prohibits the payment of bribes, kickbacks or other inducements to foreign officials. This prohibition also extends to payments to a sales representative or agent if there is reason to believe that the payment will be used indirectly for a prohibited payment to foreign officials. Violation of the FCPA is a crime that can result in severe fines and criminal penalties, as well as disciplinary action by the company, including termination of employment.

Certain small facilitation payments to foreign officials may be permissible under the FCPA if customary in the country or locality and intended to secure routine governmental action. Governmental action is "routine" if it is ordinarily and commonly performed by a foreign official and does not involve the exercise of discretion. For instance, "routine" functions would include setting up a telephone line or expediting a shipment through customs. To ensure legal compliance, all facilitation payments must receive a prior written approval from the Compliance Officer and must be clearly and accurately reported as a business expense.

### 5. Fulfilment of job responsibilities

You must perform the job responsibilities according to GDS requirements and comply with the reasonable command of higher authorities and the employment agreement signed with GDS. You may not seek illegitimate benefits, regardless of practical property interest or potential competitive advantages, for yourself or affiliated person by making use of your power and job convenience from GDS (including but not limited to GDS website resources and customer resources).

8

To ensure the faithful fulfilment of job responsibilities, you may not engage in any form of part-time activities in the any company competing with GDS or any economic entity having business transaction with GDS (including but not limited to supplier, agent, customer and partner). Even though engaging in other part-time activities, you may not make use of various properties or resources of the company or cause adverse effect on your proper performance of job responsibilities in GDS.

### 6. Protection and proper use of assets

Each employee is responsible for protecting GDS assets, including tangible and intangible assets and shall ensure the effective utilization of these assets. Theft, negligence and waste may directly affect the profitability of GDS. You shall take measures to protect GDS assets from damage, theft or improper use, and shall return all GDS properties to GDS when leaving the company. You shall consult the articles in related employee manual to ensure acting in accordance with the provisions on protection and proper use of corporate assets.

### 7. Significant information disclosure

The policy of GDS is fair, accurate, timely and complete disclosure in all premises of GDS according to local applicable laws and regulations (including the rules of securities exchange when necessary). You shall comply with the guidelines formulated by GDS on (internal and external) information disclosure. Any employee seriously violating the regulations will be relieved from employment relationship.

You must accurately, loyally and timely complete all documents reasonably required by GDS, including personal information, accounting record, expenses, invoices, vouchers, traveling and expense report, declaration/approval/recording/ authorization information, business information and any other business records. You must ensure that all kinds of documents and information provided are accurate, complete and latest. GDS never allows any falsification in above documents and information.

When necessary, all documents must be duly authorized. You must record the financial activities of GDS according to applicable laws and accounting standards. False or misleading record of entries, records or documents, and misrepresentation or omission of material facts related to GDS financial or business activities are strictly prohibited.

You must provide accurate, complete, objective, related, timely and digestible information on financial reports and audit based on integrity and responsibility, reasonable and prudent attitude and diligence within the scope of capacity to avoid misrepresentation or omission of material facts. You shall also properly control all GDS assets and resources used. You may neither exert any fraudulent impact on or other interference with the certified public accountants auditing and checking the company's financial reports, nor implement any behavior that may mislead GDS financial reports.

### 8. Business communication

All business records and communication shall be clear, true and accurate and may be disclosed due to litigation, government survey and media report. The employees shall try to avoid

9

exaggerated, renderable and speculative words, legal conclusions and pejorative or qualitative comments to the others or the company. This requirement applies to all communications, including email, instant messaging and "informal" records or memos. The records shall be kept or destroyed according to paragraph 8 (record retention) in Article 3 herein and the record retention policy developed by GDS in the future.

### 9. Record retention

GDS is committed to complying with all laws and regulations on record retention. GDS policy is to systematically and regularly define, maintain, protect, destroy or keep all records of GDS. In no case shall GDS records be destroyed selectively. Please contact the Compliance Officer if you are informed of any suspicious behavior of other employees in terms of record retention.

Immediately contact the legal department if you're informed of court summons, non-judged or possible litigation or government survey in the trial. Before being informed by the legal department of how to respond, you should keep and save all records possibly for response to suits, or related to litigation or survey and may not destroy or alter any such record held or controlled. You must take active measures for all related records (such as email and voice mail messages) that may be automatically destroyed or deleted without intervention to avoid destruction. Such records, if damaged even due to inadvertence, may seriously damage GDS benefits. For any question about whether a specific record is related to the occurrence or possible occurrence survey or litigation or whether it will be used for response to suits or which specific way shall be used to keep the record, you shall keep the record and consult the legal department.

You shall comply with GDS guidelines on how to deal with the survey or query of government and supervision organizations or law enforcement agencies.

## 10. Confidential information

As a general rule, all information related to GDS business shall be deemed as confidential information. You must strictly comply with the confidentiality agreement or non-disclosure agreement or other similar agreements signed when joining GDS.

You must:

- Not use such information for your personal interests and the interests of any person inside and outside of GDS;
- Not disclose such information to the person beyond GDS. For example, you shall neither discuss the information with your family members or in the business activities and social activities or in the public places such as taxi, public transport means, assembly room, elevator or restaurant, nor disclose such information via the Internet, including but not limited to microblog, WeChat, BBS, post bar, blog or chat room;
- You shall not disclose the confidential information to other GDS employees expect as otherwise required by the employees to performance the business responsibilities as GDS employees.

10

---

The confidentiality agreement or non-disclosure agreement is often used when GDS shall disclose confidential information to the supplier, consultant, joint venture partner or other related parties. The confidentiality agreement prompts that the person receiving the confidential information must keep such information confidential. If you expect to disclose the confidential information to any person rather than GDS employees in business transactions, you shall contact the legal department and discuss the necessity to sign the confidentiality or non-disclosure agreement.

Moreover, improper collection or use of the information on the competitor may make the employees and GDS bear criminal or civil responsibilities. You shall immediately consult the legal department if you're uncertain about whether to collect or use any information on the competitor.

For any question about the confidential information, please contact the legal department. Meanwhile, you shall also comply with related guidance related to (internal and external) disclosure of company information developed by GSD from time to time.

## 11. Intellectual property

Intellectual property (including copyright, patent, trademark, domain name, website and business secret) is important property of GDS. You shall ensure protection and proper use of GDS intellectual property according to relevant policies and procedures of the company, and strictly comply with the terms and conditions in any applicable proprietary information and invention agreement or similar agreements signed with GDS. Without the consent of the company, you shall not disclose the confidential information involving and/or belonging to GDS in GDS intellectual property. For any question about the intellectual property, please contact the legal department.

### 11.1 Trademark

You shall only use GDS trademark for the matters related to GDS business according to GDS trademark guide and related procedures. You must notify the legal department of application, registration and use of GDS sign, name or trademark or the tortious event of GDS sign, name or trademark (including part of domain name or website).

### 11.2 Copyright

Production of the duplicate or derivative works based on the works with copyright without authorization violates applicable laws and GDS policy. The works without copyright statement, available for self-download and copy or belonging to open source software does not mean that it is not subject to copyright protection.

The computer software used by GDS obtains the usage license from other companies and is subject to copyright protection in most cases. The employee shall not produce, obtain or use unauthorized computer software.

Moreover, any article or picture from the network may not be exempted from copyright protection even without copyright statement. The employee shall not copy, obtain or use

11

---

unauthorized article or picture at will. Contact the legal department for any problem about copyright.

### 11.3 Domain name and website (including general website and wireless website)

You shall only use GDS domain name and/or website for the matters related to GDS business according to GDS domain name guide and related procedures. You must notify the legal department of application, registration or use of GDS domain name and/or website (including part of domain name or website) constituting a tort.

### 11.4 Intellectual property of other parties

GDS policy is to respect the intellectual property of others and you shall not infringe with the intellectual property of others. You must properly use the name, trademark, sign, copyright work, data or software (including use on GDS website or other online and/or offline) of others according to applicable laws and related authorization of the intellectual property owner.

Consult the legal department for any question about authorization of permitting others to use GDS intellectual property or using the intellectual property of others.

## 12. Computer and communication resources

You must take all necessary measures to ensure the safety of your computer, computer password or voice mail password. If you are sure that the safety of your password or GDS computer or communication resources is damaged in any way for any reason, you must immediately change the password and report to the IT department.

All computer resources used for the whole computerized operation and network tie, as GDS properties, are available for GDS employees to engage in the company business. To the extent permitted by law, all emails, voice messages and personal documents stored in GDS computers are GDS properties and GDS has the right to unilaterally decide to review such documents or communication (including email and voice messages).

You shall not use GDS resources or transmit the comments, languages, images or other documents embarrassing the addressee or GDS in a destructive, offensive or illegal manner. Otherwise, GDS may give disciplinary sanction and even terminate labor contract to the extent permissible under applicable law.

## 13. Response to media and others

Except official spokesman of GDS, no employee shall make a speech to the media, communities or organizations with the identity of GDS representative or on GDS business issues without special authorization of GDS marketing department and shall make a speech to the financial community, securities analyst or shareholder without special authorization of GDS CFO. For all requirements for asking for GDS information, a referral shall be given to the marketing department or the investor relations department.

12

---

Meanwhile, you shall also comply with related guidance related to (internal and external) disclosure of company information developed by GSD from time to time.

## 14. Comply with GDS policy on signature and approval of authority

You must comply with GDS policy on signature and approval of authority, and shall not sign any contract or deploy any company resource without authorization according to the policy. Any employee's violation of the policy is not binding on GDS.

## 15. Prohibition of insider trading

The company has an insider trading policy, which may be obtained from the Compliance Officer. The following is a summary of some of the general principles relevant to insider trading, and should be read in conjunction with the aforementioned specific policy.

Employees are prohibited from trading in shares or other securities of the company while in possession of material, nonpublic information about the company. Prohibition on insider trading applies to members of the employees' family and anyone else sharing the home of the employees. Therefore, employees must use discretion when discussing work with friends or family members as well as other employees. In addition, employees are



prohibited from recommending, “tipping” or suggesting that anyone else buy or sell shares or other securities of the company on the basis of material, nonpublic information. Employees who obtain material nonpublic information about another company in the course of their employment are prohibited from trading in shares or securities of the other company while in possession of such information or “tipping” others to trade on the basis of such information. Violation of insider trading laws can result in severe fines and criminal penalties, as well as disciplinary action by the company, including termination of employment.

Information is “non-public” if it has not been made generally available to the public by means of a press release or other means of widespread distribution. Information is “material” if a reasonable investor would consider it important in a decision to buy, hold or sell stock or other securities. As a rule of thumb, any information that would affect the value of stock or other securities should be considered material. Examples of information that is generally considered “material” include:

- Financial results or forecasts, or any information that indicates the Company’s financial results may exceed or fall short of forecasts or expectations;
- Important new products or services;
- Pending or contemplated acquisitions or dispositions, including mergers, tender offers or joint venture proposals;
- Possible management changes or changes of control;
- Pending or contemplated public or private sales of debt or equity securities;
- Acquisition or loss of a significant customer or contract;

- Significant writeoffs;
- Initiation or settlement of significant litigation; and
- Changes in the Company’s auditors or a notification from its auditors that the Company may no longer rely on the auditor’s report.

The laws against insider trading are specific and complex. Any questions about information you may possess or about any dealings you have had in the company’s securities should be promptly brought to the attention of the Compliance Officer.

**16. Public communications and prevention of selective disclosure**

The company places a high value on its credibility and reputation in the community. What is written or said about the company in the news media and investment community directly impacts our reputation, positively or negatively. Our policy is to provide timely, accurate and complete information in response to public requests (e.g., media, analysts), consistent with our obligations to maintain the confidentiality of competitive and proprietary information and to prevent selective disclosure of marketsensitive financial data. To ensure compliance with this policy, all news media or other public requests for information regarding the company should be directed to the company’s investor relations department.

*Prevention of Selective Disclosure*

Preventing selective disclosure is necessary to comply with U.S. securities laws and to preserve the reputation and integrity of the Company as well as that of all persons affiliated with it. “Selective disclosure” occurs when any person provides potentially marketmoving information to selected persons before the news is available to the investing public generally. Selective disclosure is a crime under U.S. law and the penalties for violating the law are severe.

The following guidelines have been established to avoid improper selective disclosure. Every employee is required to follow these procedures:

- All contact by the company with investment analysts, the press and/or members of the media shall be made through the chief executive officer, chief financial officer or persons designated by them (collectively, the “Media Contacts”).
- Other than the Media Contacts, no officer, director or employee shall provide any potentially marketmoving information regarding the company or its business to any investment analyst or member of the press or media.
- All inquiries from persons such as industry analysts or members of the media about the company or its business should be directed to a Media Contact. All presentations to the investment community regarding the company will be made by us under the direction of a Media Contact.

- Other than the Media Contacts, any employee who is asked a question regarding the company or its business by a member of the press or media shall respond with “No comment” and forward the inquiry to a Media Contact.

These procedures do not apply to the routine process of making previously released information regarding the company available upon inquiries made by investors, investment analysts and members of the media.

Please contact the Compliance Officer if you have any questions about the scope or application of the company’s policies regarding selective disclosure.

**IV. IMPLEMENTATION OF THE CODE**

**1. Responsibility**

All GDS employees are responsible for giving play to the Code, but they are not helpless. With a vast amount of resources and personnel, GDS has developed related processes to answer the questions of employees and guide them to make decisions on complicated matters. The employees shall sign the statement of compliance with the Code.

**2. Seek guidance**

This Code cannot provide definite answers to all questions. For any question about any policy discussed in the Code or difficulty in making best decisions on how to act in specific circumstances, you shall seek guidance from your supervisor, Legal Department, HR Department, the Compliance Officer or other persons stipulated in the Code. For specific matters and corresponding contacts, see the table below.

You may contact the Compliance Officer by sending e-mail to ethics@gds-services.com or by calling the hotline at +86 21 2033 0301 during the normal office hours (9:00 — 18:00, China Standard Time) Monday through Friday, for compliance consultation, informing, approval and reporting. External persons may also contact or report to the Compliance Officer by sending e-mail to ethics@gds-services.com, as shown in the Whistle Blower Policy.

Classification	Matter	Contact party	Approach
Consultation	Whether there is conflict of interest	Compliance Officer	E-mail, hotline
	Whether an activity constitutes competition with GDS		
	Providing or accepting gift, recreation or other entertainments	Legal department	E-mail
	Whether a specific record is related to the occurrence or possible survey or litigation or whether it will be used for response to suits or which specific way shall be used to keep the record		
Whether to collect or use the information on any competitor	Compliance officer	E-mail, hotline	
On confidential information			
On intellectual property			
On copyright			
Report	Immoral or illegal suspicious events	Legal department	E-mail
	Suspicious act of other employees in record retention		
	Accounting items	Compliance officer	E-mail, hotline
	For GDS sign, name or trademark		
Application, registration or use and other torts without authorization	Legal department	E-mail	
For GDS domain name and website			
Declaration	Application, registration or use and other torts without authorization	Compliance officer	E-mail, hotline
	Possible occurrence of any potential connected transaction		
	Informed of non-judged or possible litigation or government survey in the court summons and trial	Legal department	E-mail
Expect to disclose the confidential information to any external person in business transactions			
	discuss the necessity to sign the confidentiality or non-disclosure agreement		

**3. Key principles**

If the correct way of doing things is always direct and clear, we believe that you can make a correct judgment through above introduction. However, whether the things are correct or not is not always simple and clear in the realistic business world. Ask yourself the following problems first if you cannot judge which are “correct” things or it is difficult for you to act correctly:

- Does my behavior reflect the core business values of GDS?
- Does my behavior conform to the maximum benefit of GDS?
- Is my behavior legal?
- Will a person with high integrity guidelines do this?
- Am I willing to make my behavior public?

When the answer to any question is no, this behavior may not be correct.

#### **4. Report of violation**

If you are informed of or suspicious of any violation of relevant laws and regulations, this Code or GDS related policy, you shall immediately report to the Compliance Officer, as shown in the Whistle Blower Policy. The department responsible for survey will follow up within a reasonable time and explain the progress to you. The specific information on survey shall be strictly confidential, you can still understand whether the survey is in progress or has finished. Report to appropriate personnel rather than privately survey the ascertained or suspicious violation. GDS

16

---

will directly contact you when necessary in the survey process. In any case, you shall keep confidential your information and do not discuss your problem with anyone else. GDS will cautiously deal with such information, only disclose it as required in dealing with relevant problems and make every effort to keep confidential your identity. Meanwhile, GDS will strictly punish attack and retaliation of truthful informer.

#### **5. Complaints and concern on accounting events**

GDS is committed to complying with all laws, regulations, accounting standards and internal accounting control systems. Each employee is responsible for timely reporting complaints or concerned matters on the accounting events, internal accounting control and audit matters (“accounting events”), as shown in the Whistle Blower Policy. GDS will cautiously deal with such information and only disclose it as required in dealing with relevant problems. The person complaining about or concerning on the accounting events for goodwill will not be revenged. The Compliance Officer may be complained on accounting events

#### **6. Commandment of violation**

This Code applies to the employees at all levels fairly and impartially.

GDS hopes to prevent violation of this Code and prevent illegal event after violation as far as possible. According to the applicable law, GDS has the right to survey any behavior in violation of this Code and other GDS policies and procedures. Any employee violating the Code and other GDS policies and procedures will be subject to disciplinary sanction and the ultimate disciplinary measures include relief or labor relation and civil or criminal prosecution. In addition, according to applicable law, the disciplinary sanction (the ultimate disciplinary measures include relief or labor relation and other disciplinary measures) also applies to the persons instigating, assisting or approving such violation or knowing such violation without timely report according to GDS policy, and the persons making false evidence or concealing the fact deliberately when GDS surveys the violation.

In case of deliberate violation of paragraph 4.1 (Workplace violence) in Article 1 or paragraph 1 (Conflict of interest), paragraph 3 (Present, gift, recreation and other entertainments), paragraph 4 (Performance of job responsibilities), paragraph 5 (Protection and proper use of assets), paragraph 6 (Significant information disclosure), paragraph 9 (Confidential information) and paragraph 10 (Intellectual property) in Article 3 or serious failure to comply with above terms, the employee will be relieved of labor relationship. Meanwhile, the company has the right to cancel all granted equity incentives and awards (if any) according to the employee equity incentive and award plan and/or the equity incentive and award agreement signed by the employee, buy back and/or confiscate all shares (if any) attributed due to equity incentives and awards and/or obtained from exercise of them, and confiscate and/or search for all earnings from sales of the shares involved in the equity incentives and awards.

#### **7. Waivers of the Code**

Waivers of this Code may be made only by the Board or the appropriate committee of the Board and will be promptly disclosed to the public as required by law or the rules of the Nasdaq.

17

---

Waivers of this Code will be granted on a case-by-case basis and only in extraordinary circumstances.

#### **8. Non-created rights**

As the statement of basic principle, key policy and procedures for GDS to standardize the company business, this Code, by no intention and by no means, creates any right for any employee, customer, supplier, competitor, shareholder or other persons or entities. Similarly, this Code is not a contract and this Code or any related information communicated to the employees before or after does not constitute any contract right. This Code may be modified from time to time and the updated version will be published on GDS intranet. You are responsible for keeping updated with and complying with the latest version of this Code. The notice of each update will be sent to each employee via the company’s e-mail system, bulletin, intranet or OA system.

#### **9. Notes**

**GDS provides region-specific employee manuals. For matters not covered in the Code, the employees shall comply with more detailed provisions in these manuals.**

**It is the ultimate responsibility of each GDS employee to ensure that GDS complies with laws & regulations and highest ethics standards applicable for the company’s business. Please well know and strictly implement the laws and standards, highest ethics standards and related GDS policy and guidelines.**

*This Code is revised and promulgated in November 2015.*

18

---