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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

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

For the month of January 2021
Commission File Number: 001-35126

21Vianet Group, Inc.

Guanjie Building, Southeast 1st Floor
10# Jiuxianqiao East Road
Chaoyang District
Beijing 100016
The People's Republic of China
(Address of principal executive office)

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

Form 20-F ☒ Form 40-F o

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

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

EXPLANATORY NOTE

Exhibit 99.2, Exhibit 99.3 and Exhibit 99.4 to this Current Report on Form 6-K are hereby incorporated by reference into the Registration Statement on Form F-3 of 21Vianet Group, Inc. (File No. 333-240044) and shall form a part thereof from the date on which this Current Report is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release—21Vianet Announces Proposed Offering of US$525 million Convertible Senior Notes
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations
	Exhibit 99.2 sets forth the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section included in the Registrant's preliminary offering memorandum dated January 20, 2021 in connection with the proposed offering of convertible senior notes
99.3	Business
	Exhibit 99.3 sets forth the description of the Registrant's business included in the Registrant's preliminary offering memorandum dated January 20, 2021 in connection with the proposed offering of convertible senior notes
99.4	Unaudited Interim Condensed Consolidated Financial Statements
	Exhibit 99.4 sets forth the unaudited interim condensed consolidated financial statements included in the Registrant's preliminary offering memorandum dated January 20, 2021 in connection with the proposed offering of convertible senior notes

SIGNATURES

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

21Vianet Group, Inc.

By: /s/ SHARON XIAO LIU

Name: Sharon Xiao Liu
Title: *Chief Financial Officer*

Date: January 20, 2021

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Exhibit 99.1

21Vianet Announces Proposed Offering of US$525 million Convertible Senior Notes

BEIJING, January 21, 2021 (GLOBE NEWSWIRE)—21Vianet Group, Inc. (Nasdaq: VNET) ("21Vianet" or the "Company"), a leading carrier-neutral and cloud-neutral data center services provider in China, today announced a proposed offering (the "Notes Offering") of US$525 million in aggregate principal amount of convertible senior notes due 2026 (the "Notes") subject to market conditions and other factors. The Company intends to grant the initial purchasers in the Notes Offering a 13-day option to purchase up to an additional US$75 million in aggregate principal amount of the Notes. The Company plans to use the net proceeds from the Notes Offering for expanding data center infrastructure, repaying the Company's outstanding senior notes due 2021 and other general corporate purposes.

When issued, the Notes will be general, unsecured obligations of 21Vianet. The Notes will be convertible into cash, the Company's American Depositary Shares (the "ADSs"), each currently representing six Class A ordinary shares of the Company, or a combination of cash and ADSs, at the Company's election. The interest rate, initial conversion rate and other terms of the Notes will be determined at the time of pricing of the Notes Offering.

The Notes will be offered in the United States to persons reasonably believed by the initial purchasers to be qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). The Notes, any ADSs deliverable upon conversion of the Notes and the Class A ordinary shares represented thereby have not been and will not be registered under the Securities Act or the securities laws of any other place, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

This press release shall not constitute an offer to sell or a solicitation of an offer to purchase any securities, nor shall there be a sale of the securities in any state or jurisdiction in which such an offer, solicitation or sale would be unlawful.

This press release contains information about the pending offering of the Notes, and there can be no assurance that the Notes Offering will be completed.

About 21Vianet

21Vianet Group, Inc. is a leading carrier- and cloud-neutral data center services provider in China. 21Vianet provides hosting and related services, including IDC services, cloud services, and VPN services to improve the reliability, security and speed of its customers' internet infrastructure. Customers may locate their servers and equipment in 21Vianet's data centers and connect to China's internet backbone. 21Vianet operates in more than 20 cities throughout China, servicing a diversified and loyal base of over 6,000 hosting and related enterprise customers that span numerous industries ranging from internet companies to government entities and blue-chip enterprises to small- to mid-sized enterprises.

Safe Harbor Statement

This announcement contains forward-looking statements. These forward-looking statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates" and similar statements. Statements that are not historical facts, including statements about 21Vianet's beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties. A number of factors could cause actual results to differ materially from those contained in any forward-looking statement. Information regarding these and other risks is included in 21Vianet's reports filed with, or furnished to, the SEC. All information provided in this press release is as of the date of this press release, and 21Vianet undertakes no duty to update such information, except as required under applicable law.

Investor Relations Contacts:

21Vianet Group, Inc.
Rene Jiang
+86 10 8456 2121
IR@21Vianet.com

Julia Jiang
+86 10 8456 2121
IR@21Vianet.com

ICR, Inc.
Xinran Rao
+1 (646) 405-4922
IR@21Vianet.com

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Exhibit 99.2

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

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this offering memorandum. This offering memorandum contains forward-looking statements. See "Cautionary Statement Regarding Forward-Looking Statements." In evaluating our business, you should carefully consider the information provided under the caption "Risk Factors" in this offering memorandum. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

Overview

We are a leading carrier-neutral and cloud-neutral data center services provider in China. We have one of the largest carrier-neutral data center networks in China with our 31 self-built data centers and 54 partnered data centers with an aggregate capacity of 51,476 cabinets under our management as of September 30, 2020.

We offer managed hosting services to host our customers' servers and networking equipment and provide interconnectivity to improve the performance, availability and security of their internet infrastructure. We also provide cloud services through partnerships to cover public, private and hybrid cloud scenarios. In addition, we provide customized enterprise VPN services and solutions, including SD-WAN, to enterprises across various industries. These value-added services strengthen our capability to provide quality services and meet our customers' additional demands.

We historically provided managed network services, consisting of CDN services, hosting area network services, route optimization and last-mile broadband services. In September 2017, we disposed of 66.67% of the equity interests in six wholly-owned subsidiaries engaged in the managed network services business, collectively referred as to the WiFire Entities. In September and December 2017, we disposed of all of our equity interests and shares in Sichuan Aipu Network Co., Ltd. and its affiliates, collectively referred as the Aipu Group, engaged in the last-mile broadband business. As a result of these transactions, we deconsolidated the financial results related to the managed network services business from our consolidated statements of operations starting from the fourth quarter of 2017.

General 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, which has grown rapidly in recent years. According to Frost & Sullivan, the total revenue of China's data center services market increased from RMB47.3 billion in 2015 to RMB75.3 billion in 2019, representing a CAGR of 12.3%, and is expected to grow at a CAGR of 9.5% from 2019 to 2024, reaching RMB118.8 billion by 2024. However, any adverse changes in the data center services market in China may harm our business and results of operations.

Specific Factors Affecting Our Results of Operations

While our business is generally influenced by factors affecting the data center services market in China, we believe that our results of operations are more directly affected by company-specific factors, including the number of cabinets under management and cabinet utilization rate, monthly recurring revenues and churn rate, pricing, growth in complementary markets and optimization of our cost structure.

Number of Cabinets under Management and Cabinet Utilization Rate

Our revenues are directly affected by the number of cabinets under management and the utilization rates of these cabinet spaces. We had 29,080, 30,654, 36,291 and 51,476 cabinets under management as of December 31, 2017, 2018, 2019 and September 30, 2020, respectively. Our average monthly cabinet utilization rate was 75.3%, 70.6%, 66.0% and 62.2% in 2017, 2018, 2019 and the nine months ended September 30, 2020, respectively. We calculate the average monthly cabinet utilization rate in a given period by dividing the sum of the number of billable cabinets as of the end of each month during the period by the sum of the number of cabinet capacity as of the end of each month during the same period. Our average monthly cabinet utilization rate fluctuates due to the continuous changes in both the number of our billable cabinets and cabinet capacity. Our future results of operations and growth prospects will largely depend on our ability to increase the number of cabinets under management while maintaining optimal cabinet utilization rate.

With the rapid growth of China's internet industry, demand for cabinet spaces has increased significantly and we do not always have sufficient self-built data center capacity to meet such demand. It usually takes twelve to eighteen months to build a data center together with cabinets and equipment installed. To meet our customers' immediate demand, we partner with China Telecom, China Unicom or other parties and lease cabinets from them. Due to the time needed to build data centers and the long-term nature of these investments, if we overestimate the market demand for cabinets, it will lower our cabinet utilization rate and negatively affect our results of operations.

Monthly Recurring Revenues and Churn Rate

Our average monthly recurring revenues and churn rate directly affect our results of operations. Our hosting and related services are based on a recurring revenue model. We consider these services recurring as we generally bill our customers and recognize revenues on a fixed and recurring basis each month during the terms of our service contracts with them, generally ranging from one to three years. Our non-recurring revenues are primarily comprised of fees charged for installation services, additional bandwidth used by customers beyond the contracted amount and other value-added services. These services are considered to be non-recurring as they are billed and recognized over the period of the customer service agreement.

We use "monthly recurring revenues" to measure the revenues we recognize from our managed hosting services on a recurring basis each month. In 2017, 2018, 2019 and the nine months ended September 30, 2020, our recurring revenues were consistently over 90% of our net revenues. Our average monthly recurring revenues from hosting and related services were RMB235.9 million, RMB275.4 million, RMB289.1 million and RMB368.1 million (US$54.2 million) in 2017, 2018, 2019 and the nine months ended September 30, 2020. Our average monthly recurring revenues per cabinet for managed retail services were RMB7,678, RMB8,258, RMB8,747 and RMB8,931 (US$1,315) for the year ended December 31, 2017, 2018 and 2019 and nine months ended September 30, 2020.

We use the churn rate to measure the reduction of monthly revenues that is attributable to the termination of customer contracts as a percentage of total monthly recurring revenues of the previous month. Our average monthly churn rate for our managed hosting services was 0.5%, 0.3%, 0.5% and 0.3% in 2017, 2018, 2019 and the nine months ended September 30, 2020.

Pricing

Our results of operations also depend on the price level of our services. Due to the quality of our services and our optimized interconnectivity among carriers and networks, we are generally able to command premium pricing for our services. Nonetheless, because we are generally regarded as a premium data center and network service provider, many customers only place their mission critical servers and equipment, but not other non-critical functions, in our data centers. As we try to acquire more business from new and existing customers, expand into new markets, or try to adapt to changing market conditions, we may need to lower our prices or provide other incentives to compete effectively.

Growth in Complementary Markets

Our results of operations also depend on the growth of our cloud service business and VPN service business that complement our core managed hosting service business.

Cloud services, largely through our partnerships with Microsoft and other cloud service providers, have continually contributed to our results of operations since 2013. While our cloud computing platforms are now supporting a significant number of customers, we believe the cloud computing market in China is still in its early stage. Key factors for growth in this market include signing up services from new customers, improving utilization rates of cloud computing resources with existing customers introducing well-developed applications to improve cloud computing adoption rates, and partnering with more cloud providers to offer a comprehensive cloud-neutral platform.

As one of the largest enterprise VPN service providers in the Asia Pacific region, we have experienced and expect continual growth in this market to meet customers' growing demand for enterprise-grade VPN services with secure, dedicated connections. Key growth drivers include adding new customers, increasing the number of connections with existing customers and realizing revenue synergies with our other business groups.

Our Cost Structure

Our ability to maintain and improve our gross margins depends on our ability to effectively manage our cost of revenues, which consist of telecommunications costs and other data center related costs. Telecommunications costs consist of (i) expenses associated with acquiring bandwidth and related resources from carriers for our data centers, and (ii) rentals, utilities and other costs in connection with the cabinets we lease from our partnered data centers. Other data center related costs include utilities and rental expenses for our self-built data centers, employee payroll, depreciation and amortization of our property and equipment, and other related costs. The changes in these costs usually reflect the changes in the number of cabinets under management and our headcount.

The mix of self-built data centers and partnered data centers also affects our cost structure. The gross margin for cabinets located in our partnered data centers is generally lower than that of cabinets located in our self-built data centers. This is because telecommunication carriers who lease cabinet spaces to us for our partnered data centers typically demand a profit on top of their costs in connection with the leasing of cabinet spaces to us. We plan to continue to lease data centers from such carriers or purchase data center facilities to meet the immediate market demand while building new or expanding existing our self-built data centers in Beijing, Shanghai and Yangtze Delta, Shenzhen, Guangzhou, and the Greater Bay Area. If we cannot effectively manage the market demand and increase the number of cabinets located in self-built data centers relative to partnered data centers, we may not be able to improve our gross margins.

Key Components of Results of Operations

Net Revenues

The following table sets forth our revenues by segment, both in an absolute amount and as a percentage of total net revenues, for the periods presented.

	For the Year Ended December 31,						For the Nine Months Ended September 30,				
	2017		2018		2019		2019		2020		
	RMB	% of total	RMB	% of total	RMB	% of total	RMB	% of total	RMB	US$	% of total
	(in thousands, except percentages)										
							(unaudited)		(unaudited)		
Net revenues:											
Hosting and related services	2,975,178	87.7	3,401,037	100.0	3,788,967	100.0	2,740,848	100.0	3,480,652	512,645	100.0
Managed network services	417,527	12.3	—	—	—	—	—	—	—	—	—
Total net revenues	**3,392,705**	**100.0**	**3,401,037**	**100.0**	**3,788,967**	**100.0**	**2,740,848**	**100.0**	**3,480,652**	**512,645**	**100.0**

Hosting and Related Services

We provide retail managed hosting services to house our customers' servers and networking equipment in our data centers, and wholesale managed hosting services to deliver customized data center sites to our customers based on their unique requirements. We also provide cloud services and VPN services as part of our hosting and related services business. Revenues from our hosting and related services were RMB2,975.2 million, RMB3,401.0 million, RMB3,789.0 million and RMB3,480.7 million (US$512.6 million) in 2017, 2018, 2019 and the nine months ended September 30, 2020, respectively. Since the completion of the disposal of the managed network services in September 2017, we have generated all of our revenues from the hosting and related services business.

The contracts with our wholesale customers generally have terms ranging from eight to ten years. The contracts with our retail customers generally have terms ranging from one to three years and most of these contracts have an automatic renewal provision. Our customers are generally billed on a monthly basis according to the services used in the previous month.

Managed Network Services

In 2017, we completed the disposal of the managed network services business segment, including CDN services, hosting area network services, route optimization business and last-mile broadband business, and deconsolidated the financial results related to the managed network services business segment in our consolidated financial statements starting from the fourth quarter of 2017.

Revenues from our managed network services were RMB417.5 million in 2017. From 2018, we no longer generated revenues from the managed network services business and our net revenues were all generated from the hosting and related services.

Cost of Revenues

Our cost of revenues primarily consists of telecommunications cost, and other costs. The following table sets forth, for the periods indicated, our cost of revenues, in absolute amounts and as a percentage of our total net revenues:

	For the Year Ended December 31,						For the Nine Months Ended September 30,				
	2017		2018		2019		2019		2020		
	RMB	% of Net Revenues	RMB	% of Net Revenues	RMB	% of Net Revenues	RMB	% of Net Revenues	RMB	US$	% of Net Revenues
	(in thousands, except percentages)										
							(unaudited)		(unaudited)		
Cost of revenues:											
Telecommunications costs	1,533,615	45.2	1,332,280	39.2	1,570,825	41.5	1,100,940	40.2	1,533,578	225,872	44.1
Others	1,100,680	32.4	1,123,886	33.0	1,278,693	33.7	948,330	34.6	1,165,488	171,657	33.5
Total cost of revenues	2,634,295	77.6	2,456,166	72.2	2,849,518	75.2	2,049,270	74.8	2,699,066	397,529	77.6

Telecommunications costs refer to expenses incurred in acquiring telecommunication resources from carriers for our data centers, including bandwidth and cabinet leasing costs. Cabinet leasing costs cover rentals, utilities and other costs associated with the cabinets we lease from our partnered data centers. Our other costs of revenues include utilities costs for our self-built data centers, depreciation and amortization, employee payroll and other compensation costs and other miscellaneous items related to our service offerings.

The following table sets forth, for the periods indicated, our cost of revenues by segment, in absolute amounts and as a percentage of the net revenues of the relevant segment:

	For the Year Ended December 31,						For the Nine Months Ended September 30,				
	2017		2018		2019		2019		2020		
	RMB	% of Net Revenues	RMB	% of Net Revenues	RMB	% of Net Revenues	RMB	% of Net Revenues	RMB	US$	% of Net Revenues
	(in thousands, except percentages)										
							(unaudited)		(unaudited)		
Cost of revenues:											
Hosting and related services	2,130,279	71.6	2,456,166	72.2	2,849,518	75.2	2,049,270	74.8	2,699,066	397,529	77.6
Managed network services	504,016	120.7	—	—	—	—	—	—	—	—	—

We expect that our cost of revenues of hosting and related services will continue to increase as our business expands, both organically and as a result of acquisitions.

Operating Expenses

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

	For the Year Ended December 31,						For the Nine Months Ended September 30,				
	2017		2018		2019		2019		2020		
	RMB	% of Net Revenues	RMB	% of Net Revenues	RMB	% of Net Revenues	RMB	% of Net Revenues	RMB	US$	% of Net Revenues
	(in thousands, except percentages)										
							(unaudited)		(unaudited)		
Operating expenses:											
Sales and marketing expenses[1]	256,682	7.6	172,176	5.1	206,309	5.4	143,121	5.2	146,122	21,521	4.2
Research and development expenses[1]	149,143	4.4	92,109	2.7	88,792	2.3	63,872	2.3	70,727	10,417	2.0
General and administrative expenses[1]	519,950	15.3	462,637	13.5	415,277	11.0	305,293	11.1	372,242	54,825	10.7
Allowance/(reversal) for doubtful debt	37,427	1.1	(598)	(0.0)	1,557	0.0	485	0.0	1,072	158	0.0
Changes in the fair value of contingent purchase consideration payable	937	0.0	(13,905)	(0.4)	—	—	—	—	—	—	—
Impairment[2]	1,168,248	34.4	—	—	52,142	1.4	—	—	—	—	—
Other operating income	(5,439)	(0.2)	(5,027)	(0.1)	(6,862)	(0.1)	—	—	—	—	—
Total Operating Expenses[1]	2,126,948	62.6	707,392	20.8	757,215	20.0	512,771	18.6	590,163	86,921	16.9

(1) Includes share-based compensation expense as follows:

	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2017	2018	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
				(unaudited)	(unaudited)	
Allocation of share-based compensation expenses						
Sales and marketing expenses	(681)	2,139	354	(290)	3,385	499
Research and development expenses	142	1,385	1,177	806	341	50
General and administrative expenses	47,945	53,346	40,501	33,414	45,675	6,727
Total share-based compensation expenses	47,406	56,870	42,032	33,930	49,401	7,276

(2) Impairment consisted of (i) impairment of long-lived assets, (ii) impairment of goodwill, and (iii) impairment of receivables from equity investees. Impairment of long-lived assets was RMB401.8 million in 2017 and we did not incur any impairment of long-lived assets in 2018, 2019 and the nine months ended September 30, 2020. Impairment of goodwill was RMB766.4 million in 2017 and we did not incur any impairment of goodwill in 2018, 2019 and the nine months ended September 30, 2020. Impairment of receivables from equity investees was RMB52.1 million in 2019 and we did not incur any impairment of receivables from equity investees in 2017, 2018 and the nine months ended September 30, 2020.

Sales and Marketing Expenses

Our sales and marketing expenses primarily consist of compensation and benefit expenses for our sales and marketing staff, including share-based compensation expenses, as well as advertisement and agency service fees. Our sales and marketing expenses also include office-related expenses and business development expenses associated with our sales and marketing activities. To a lesser extent, our sales and marketing expenses include depreciation of equipment used associated with our selling and marketing activities.

Research and Development Expenses

Our research and development expenses primarily include salaries, employee benefits, share-based compensation expenses and other expenses incurred in connection with our technological innovations, such as our proprietary smart routing technology and cloud computing infrastructure service technologies. We anticipate that our research and development expenses will continue to increase as we devote more resources to develop and improve technologies, improve operating efficiencies and enhance our service offerings.

General and Administrative Expenses

Our general and administrative expenses primarily consist of compensation and benefits paid to our management and administrative staff, including share-based compensation expenses, the cost of third-party professional services, and depreciation and amortization of property and equipment used in our administrative activities. Our general and administrative expenses, to a lesser extent, also include office rent, office-related expenses, and expenses associated with training and team building activities. We expect that our other general and administrative expense items, such as salaries paid to our management and administrative staff as well as professional services fees, will increase as we expand our business, both organically and as a result of acquisitions.

Share-Based Compensation Expenses

We recorded share-based compensation expenses in connection with share options and restricted share units, or RSUs, granted under our 2010 share incentive plan, or 2010 Plan, 2014 share incentive plan, or 2014 Plan, and 2020 share incentive plan, or 2020 Plan. As of September 30, 2020, options to purchase 518,058 ordinary shares and 3,465,676 RSUs have been granted to our employees, directors and consultants. We recorded share-based compensation expenses in the amount of RMB47.4 million, RMB56.9 million, RMB42.0 million and RMB49.4 million (US$7.3 million) for the year ended December 31, 2017, 2018, 2019 and the nine months ended September 30, 2020, respectively, in connection with our share-based incentive grants.

Taxation

Cayman Islands

The Cayman Islands currently does not levy 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. There are no other taxes likely to be material to our company levied by the government of the Cayman Islands, except for stamp duties that may be applicable on instruments executed in, or after execution brought within the jurisdiction of, the Cayman Islands. The Cayman Islands is not a party to any double taxation treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands. Additionally, upon payments of dividends by our company to the shareholders, no Cayman Islands withholding tax will be imposed.

BVI

The Company and all dividends, interest, rents, royalties, compensation and other amounts paid by the Company to persons who are not resident in the BVI and any capital gains realized with respect to any shares, debt obligations, or other securities of the Company by persons who are not resident in the BVI are exempt from all provisions of the Income Tax Ordinance in the BVI. Additionally, upon payments of dividends by the Company to its shareholders, no British Virgin Islands withholding tax will be imposed.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not resident in the BVI with respect to any shares, debt obligation or other securities of the Company.

All instruments relating to transfers of property to or by the Company and all instruments relating to transactions in respect of the shares, debt obligations or other securities of the Company and all instruments relating to other transactions relating to the business of the Company are exempt from payment of stamp duty in the BVI. This assumes that the Company does not hold an interest in real estate in the BVI.

There are currently no withholding taxes or exchange control regulations in the BVI applicable to the Company or its members.

Hong Kong

Subsidiaries in Hong Kong are subject to Hong Kong profits tax rate of 16.5% for the years ended December 31, 2017, 2018, 2019 and the nine months ended September 30, 2020. They may be exempted from income tax on their foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

Taiwan

DYX Taiwan branch is incorporated in Taiwan and is subject to Taiwan profits tax rate of 17%, 20%, 20% and 20% for the years ended December 31, 2017, 2018, 2019 and the nine months ended September 30, 2020, respectively.

PRC

The Company's PRC subsidiaries are incorporated in the PRC and subject to the statutory rate of 25% on the taxable income in accordance with the Enterprise Income Tax Law, or the EIT Law, which was effective on January 1, 2008 and amended on December 29, 2018, except for certain entities eligible for preferential tax rates.

Dividends, interests, rent or royalties payable by the Company's PRC subsidiaries to any non-PRC resident enterprise and proceeds from any such non-PRC resident enterprise investor's disposition of assets (after deducting the net value of such assets) are subject to a 10% withholding tax, unless the corresponding non-PRC resident enterprise's jurisdiction of incorporation has a tax treaty or arrangement with China that provides a reduced withholding tax rate or an exemption from withholding tax.

21Vianet Beijing was qualified as a High and New Technology Enterprise, or HNTE, since 2008 and is eligible for a 15% preferential tax rate. In October 2014, 21Vianet Beijing obtained a new certificate and renewed the certificate in October 2017, with a validity term of three years. In accordance with the PRC Income Tax Law, an enterprise awarded with the HNTE certificate may enjoy a reduced EIT rate of 15%. For the years ended December 31, 2017, 2018, 2019 and the nine months ended September 30, 2020, the tax rate for 21Vianet Beijing was 15%, 15%, 15% and 25%, respectively.

In April 2011, Xi'an Sub, a subsidiary of 21Vianet Beijing located in Shaanxi Province, was qualified for a preferential tax rate of 15% and started to apply this rate from then on. The preferential tax rate is awarded to companies that are located in West Regions of China which operate in certain encouraged industries. For the years ended December 31, 2017, 2018, 2019 and the nine months ended September 30, 2020, the tax rate assessed for Xi'an Sub was 25%, 15%, 15% and 15%, respectively.

In 2013, BJ iJoy was qualified as a software enterprise, which makes it eligible for exemption of the enterprise income tax for the years ended December 31, 2013 and 2014 and a half-reduced enterprise income tax for the years ended December 31, 2015, 2016 and 2017. For the years ended December 31, 2018, 2019 and the nine months ended September 30, 2020, BJ iJoy was subject to the statutory rate of 25% for the taxable income.

In October 2015, SH Blue Cloud, a subsidiary located in Shanghai, was qualified for a HNTE and became eligible for a 15% preferential tax rate. The HNTE certificate has been renewed in November 2018, with a validity term of three years. For the years ended December 31, 2017, 2018, 2019 and the nine months ended September 30, 2020, SH Blue Cloud enjoyed a preferential tax rate of 15%.

In November 2016, SZ DYX, a subsidiary located in Guangdong Province, was qualified for a HNTE and became eligible for a 15% preferential tax rate effective for three consecutive years. The HNTE certificate has been renewed in November 2019, with a validity term of three years. For the years ended December 31, 2017, 2018, 2019 and the nine months ended September 30, 2020, SZ DYX enjoyed a preferential tax rate of 15%.

The EIT Law also provides that enterprises established under the laws of foreign countries or regions and whose "place of effective management" is located within the PRC are considered PRC tax resident enterprises and subject to PRC income tax at the rate of 25% on worldwide income. The definition of "place of effective management" refers to an establishment that exercises, in substance, overall management and control over the production and business, personnel, accounting, properties, etc. of an enterprise. As of September 30, 2020, the administrative practice associated with interpreting and applying the concept of "place of effective management" is unclear. If the Company is deemed as a PRC tax resident, it will be subject to PRC income tax at the rate of 25% on its worldwide income under the EIT Law, meanwhile the dividends it receives from another PRC tax resident company will be exempted from 25% PRC income tax. The Company will continue to monitor changes in the interpretation or guidance of this law.

PRC VAT. In November 2011, the Ministry of Finance and the State Administration of Taxation jointly issued two circulars setting out the details of the pilot value-added tax, or VAT, reform program, which changed the charge of sales tax from business tax to VAT for certain pilot industries. The pilot VAT reform program initially applied only to the pilot industries in Shanghai, and was expanded to eight additional regions, including, among others, Beijing and Guangdong province, in 2012. In August 2013, the program was further expanded nationwide. In May 2016, the program was expanded to cover additional industry sectors such as construction, real estate, finance and consumer services. In November 2017, PRC State Counsel issued State Counsel Order 691 to abolish business tax, and issued the amendment to Interim Regulations of PRC Value Added Taxes, or the VAT Regulation, pursuant to which enterprises and individuals that (i) sell goods or labor services of processing, repair or replacement of goods, (ii) sell services, intangible assets, or immovables, or (iii) import goods within the territory of the PRC are subject to VAT.

Effective from September 2012, all services provided by 21Vianet China and certain services provided by 21Vianet Technology and 21Vianet Beijing were subject to a VAT of 6%.

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

Results of Operations

The following table sets forth our consolidated results of operations for the periods indicated, both in absolute amount and as a percentage of our total net revenues. This information should be read together with our consolidated financial statements and related notes included elsewhere in this Offering Memorandum. The results of operations in any period are not necessarily indicative of the results you may expect for future periods.

	For the Year Ended December 31,						For the Nine Months Ended September 30,				
	2017		2018		2019		2019		2020		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)										
							(unaudited)		(unaudited)		
Net revenues:											
Hosting and related services	2,975,178	87.7	3,401,037	100.0	3,788,967	100.0	2,740,848	100.0	3,480,652	512,645	100.0
Managed network services	417,527	12.3	—	—	—	—	—	—	—	—	—
Total net revenues	3,392,705	100.0	3,401,037	100.0	3,788,967	100.0	2,740,848	100.0	3,480,652	512,645	100.0
Cost of revenues											
Hosting and related services	(2,130,279)	(62.7)	(2,456,166)	(72.2)	(2,849,518)	(75.2)	(2,049,270)	(74.8)	(2,699,066)	(397,529)	(77.6)
Managed network services	(504,016)	(14.9)	—	—	—	—	—	—	—	—	—
Total cost of revenues	(2,634,295)	(77.6)	(2,456,166)	(72.2)	(2,849,518)	(75.2)	(2,049,270)	(74.8)	(2,699,066)	(397,529)	(77.6)
Gross profit	758,410	22.4	944,871	27.8	939,449	24.8	691,578	25.2	781,586	115,116	22.4
Operating expenses:											
Sales and marketing expenses	(256,682)	(7.6)	(172,176)	(5.1)	(206,309)	(5.4)	(143,121)	(5.2)	(146,122)	(21,521)	(4.2)
Research and development expenses	(149,143)	(4.4)	(92,109)	(2.7)	(88,792)	(2.3)	(63,872)	(2.3)	(70,727)	(10,417)	(2.0)
General and administrative expenses	(519,950)	(15.3)	(462,637)	(13.5)	(415,277)	(11.0)	(305,293)	(11.1)	(372,242)	(54,825)	(10.7)
(Allowance)/reversal for doubtful debt	(37,427)	(1.1)	598	(0.0)	(1,557)	(0.0)	(485)	(0.0)	(1,072)	(158)	(0.0)
Changes in the fair value of contingent purchase consideration payable	(937)	(0.0)	13,905	0.4	—	—	—	—	—	—	—
Impairment(1)	(1,168,248)	(34.4)	—	—	(52,142)	(1.4)	—	—	—	—	—
Other operating income	5,439	0.2	5,027	0.1	6,862	0.1	—	—	—	—	—
Total Operating Expenses	(2,126,948)	(62.6)	(707,392)	(20.8)	(757,215)	(20.0)	(512,771)	(18.6)	(590,163)	(86,921)	(16.9)
Operating (loss)/profit	(1,368,538)	(40.2)	237,479	7.0	182,234	4.8	178,807	6.5	191,423	28,195	5.5
Interest income	32,925	1.0	45,186	1.3	54,607	1.4	39,619	1.4	27,535	4,055	0.8
Interest expense	(185,313)	(5.5)	(236,066)	(6.9)	(345,955)	(9.1)	(257,580)	(9.4)	(301,366)	(44,386)	(8.7)
Impairment of long-term investment	(20,258)	(0.6)	—	—	—	—	—	—	—	—	—
Gain on disposal of subsidiaries	497,036	14.7	4,843	0.1	—	—	—	—	—	—	—
Debt extinguishment loss	—	—	—	—	(18,895)	(0.5)	(18,773)	(0.7)	—	—	—
Other income	16,764	0.5	58,033	1.7	36,380	1.0	14,220	0.5	11,803	1,738	0.3
Other expenses	(17,060)	(0.5)	(4,103)	(0.1)	(5,632)	(0.1)	(4,362)	(0.2)	(28,986)	(4,269)	(0.8)
Change in the fair value of convertible promissory notes	—	—	—	—	—	—	—	—	(1,587,115)	(233,757)	(45.6)
Foreign exchange loss	(17,153)	(0.5)	(81,055)	(2.4)	(27,995)	(0.7)	(50,507)	(1.8)	72,629	10,697	2.1
(Loss)/profit before income taxes and gain/(loss) from equity method investments	(1,061,597)	(31.1)	24,317	0.7	(125,256)	(3.3)	(98,576)	(3.7)	(1,614,077)	(237,727)	(46.4)
Income tax benefits/(expense)	90,170	2.7	(24,411)	(0.7)	(5,437)	(0.1)	(30,123)	(1.1)	(68,126)	(10,034)	(2.0)
Gain/(loss) from equity method investments	53,783	1.6	(186,642)	(5.5)	(50,553)	(1.3)	(30,293)	(1.1)	(4,325)	(637)	(0.1)
Net loss	(917,644)	(26.8)	(186,736)	(5.5)	(181,246)	(4.8)	(158,992)	(5.9)	(1,686,528)	(248,398)	(48.5)
Net loss/(income) attributable to non-controlling interest	144,914	4.3	(18,329)	(0.5)	(1,046)	(0.0)	(6,884)	(0.3)	(7,441)	(1,096)	(0.2)
Net loss attributable to 21Vianet Group, Inc.	**(772,730)**	**(22.5)**	**(205,065)**	**(6.0)**	**(182,292)**	**(4.8)**	**(165,876)**	**(6.2)**	**(1,693,969)**	**(249,494)**	**(48.7)**

(1) Impairment consisted of (i) impairment of long-lived assets, (ii) impairment of goodwill, and (iii) impairment of receivables from equity investees. Impairment of long-lived assets was RMB401.8 million in 2017 and we did not incur any impairment of long-lived assets in 2018, 2019 and the nine months ended September 30, 2020. Impairment of goodwill was RMB766.4 million in 2017 and we did not incur any impairment of goodwill in 2018, 2019 and the nine months ended September 30, 2020. Impairment of receivables from equity investees was RMB52.1 million in 2019 and we did not incur any impairment of receivables from equity investees in 2017, 2018 and the nine months ended September 30, 2020.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Net Revenues

Our net revenues increased by 27.0% from RMB2,740.8 million for the nine months ended September 30, 2019 to RMB3,480.7 million (US$512.6 million) for the nine months ended September 30, 2020, primarily due to (i) the increases in the total number of billable cabinets and the amount of average monthly recurring revenue per cabinet under our management, which were attributable to growing customer demand, and (ii) the increased demand for our cloud and VPN services. The number of cabinets under our management increased by 60.3% from 32,116 as of September 30, 2019 to 51,476 as of September 30, 2020.

Cost of Revenues

Our cost of revenues increased by 31.7% from RMB2,049.3 million for the nine months ended September 30, 2019 to RMB2,699.1 million (US$397.5 million) for the nine months ended September 30, 2020, primarily due to increases in our telecommunication, utility and depreciation costs attributable to the delivery of additional cabinet capacity and increased customer demand for our cloud and VPN services.

Gross Profit

As a result of the foregoing, our gross profit increased by 13.0% from RMB691.6 million for the nine months ended September 30, 2019 to RMB781.6 million (US$115.1 million) for the nine months ended September 30, 2020. Our gross margin decreased from 25.2% for the nine months ended September 30, 2019 to 22.5% for the nine months ended September 30, 2020, primarily due to the delivery of additional cabinets which usually have lower utilization and incur depreciation and maintenance costs during the ramp-up period.

Operating Expenses

Our operating expenses increased by 15.1% from RMB512.8 million for the nine months ended September 30, 2019 to RMB590.2 million (US$86.9 million) for the nine months ended September 30, 2020. Our operating expenses as a percentage of net revenues decreased from 18.6% for the nine months ended September 30, 2019 to 16.9% for the nine months ended September 30, 2020, primarily due to the implementation of our initiatives to enhance operational efficiency.

Sales and Marketing Expenses. Our sales and marketing expenses increased by 2.1% from RMB143.1 million for the nine months ended September 30, 2019 to RMB146.1 million (US$21.5 million) for the nine months ended September 30, 2020, primarily due to our sales and marketing efforts to grow our customer base, strengthen our relationships with large-scale customers, and further expand our value-added services. As a percentage of net revenues, our sales and marketing expenses decreased from 5.2% for the nine months ended September 30, 2019 to 4.2% for the nine months ended September 30, 2020.

Research and Development Expenses. Our research and development expenses increased by 10.7% from RMB63.9 million for the nine months ended September 30, 2019 to RMB70.7 million (US$10.4 million) for the nine months ended September 30, 2020, primarily due to our increased investments to strengthen our research and development capabilities. As a percentage of net revenues, our research and development expenses decreased slightly from 2.3% for the nine months ended September 30, 2019 to 2.0% for the nine months ended September 30, 2020.

General and Administrative Expenses. Our general and administrative expenses increased by 21.9% from RMB305.3 million for the nine months ended September 30, 2019 to RMB372.2 million (US$54.8 million) for the nine months ended September 30, 2020, in line with the overall growth of our business and attributable to the increase in staff costs as we have recruited new senior management. As a percentage of net revenues, our general and administrative expenses decreased from 11.1% for the nine months ended September 30, 2019 to 10.7% for the nine months ended September 30, 2020.

Allowance for doubtful debt. Our allowance for doubtful debt increased from RMB0.5 million for the nine months ended September 30, 2019 to RMB1.1 million (US$0.2 million) for the nine months ended September 30, 2020.

Interest Income

Our interest income decreased by 30.5% from RMB39.6 million for the nine months ended September 30, 2019 to RMB27.5 million (US$4.1 million) for the nine months ended September 30, 2020, primarily due to our increased use of funds in various business projects.

Interest Expense

Our interest expense increased by 17.0% from RMB257.6 million for the nine months ended September 30, 2019 to RMB301.4 million (US$44.4 million) for the nine months ended September 30, 2020, primarily due to interest expense recognized for the convertible promissory notes with an aggregate principal amount of US$200 million issued by us for the nine months ended September 30, 2020, and an increase in our bank borrowings for the nine months ended September 30, 2020.

Other Income

Our other income decreased by 17.0% from RMB14.2 million for the nine months ended September 30, 2019 to RMB11.8 million (US$1.7 million) for the nine months ended September 30, 2020. Other income comprises miscellaneous non-operating income that we generate.

Other Expenses

Our other expenses increased from RMB4.4 million for the nine months ended September 30, 2019 to RMB29.0 million (US$4.3 million) for the nine months ended September 30, 2020, primarily due to expenses of RMB18.9 million (US$2.8 million) in connection with issuing the convertible promissory notes for the nine months ended September 30, 2020.

Changes in the Fair Value of Convertible Promissory Notes

Changes in the fair value of convertible promissory notes were RMB1,587.1 million (US$233.8 million) for the nine months ended September 30, 2020, which represent unrealized loss on the fair value of our convertible promissory notes issued by us in February to April 2020 caused by changes in the market price of our ADSs.

Loss on Debt Extinguishment

We did not record any loss or profit on debt extinguishment for the nine months ended September 30, 2020, compared to RMB18.8 million for the nine months ended September 30, 2019.

Foreign Exchange Gain

We had a foreign exchange gain of RMB72.6 million (US$10.7 million) for the nine months ended September 30, 2020, which represents unrealized net caused by the depreciation of the U.S. dollar against the Renminbi.

Income Tax Expenses

We recorded income tax expenses in the amount of RMB68.1 million (US$10.0 million) for the nine months ended September 30, 2020, compared with income tax expenses of RMB30.1 million for the nine months ended September 30, 2019.

Net Loss

As a result of the foregoing, we recorded a net loss of RMB1,686.5 million (US$248.4 million) for the nine months ended September 30, 2020, as compared to a net loss of RMB159.0 million for the nine months ended September 30, 2019.

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

Net Revenues

Our net revenues in 2019 increased from RMB3,401.0 million in 2018 to RMB3,789.0 million in 2019. The increase was primarily attributable to the growing demand for data centers in the domestic market, driven by the ongoing expansion of corporate digitalization across China.

Revenues from our hosting and related services amounted to RMB3,789.0 million in 2019, increasing by 11.4% from RMB3,401.0 million in 2018. The increase in revenues from our hosting and related services was primarily due to (i) the increase in the total number of billable cabinets and the amount of average monthly recurring revenue per cabinet under our management, which was attributable to growing customer demand, (ii) the growth in demand for our cloud business. The number of cabinets under our management increased from 30,654 as of December 31, 2018 to 36,291 as of December 31, 2019.

Cost of Revenues

Our cost of revenues increased by 16.0% from RMB2,456.2 million in 2018 to RMB2,849.5 million in 2019. Our telecommunication costs increased by 17.9% from RMB1,332.3 million in 2018 to RMB1,570.8 million in 2019. The increase in our cost of revenues was primarily due to the delivery of additional pipeline capacity.

Gross Profit

Our gross profit decreased by 0.6% from RMB944.9 million in 2018 to RMB939.4 million in 2019. As a percentage of net revenues, our gross profit decreased from 27.8% in 2018 to 24.8% in 2019. The decrease of gross profit and gross margin was primarily due to the delivery of additional pipeline capacity.

Operating Expenses

Our operating expenses increased by 7.0% from RMB707.4 million in 2018 to RMB757.2 million in 2019. Our operating expenses as a percentage of net revenues decreased from 20.8% in 2018 to

20.0% in 2019. The decrease of operating expenses as a percentage of net revenues was primarily due to the successful implementation of the Company's efficiency enhancement initiatives.

Sales and Marketing Expenses. Our sales and marketing expenses increased by 19.8% from RMB172.2 million in 2018 to RMB206.3 million in 2019, primarily due to the successful implementation of various market activities. As a percentage of net revenues, our sales and marketing expenses was 5.1% and 5.4% in 2018 and 2019, respectively.

Research and Development Expenses. Our research and development expenses decreased from RMB92.1 million in 2018 to RMB88.8 million in 2019. As a percentage of net revenues, our research and development expenses decreased from 2.7% in 2018 to 2.3% in 2019.

General and Administrative Expenses. Our general and administrative expenses decreased by 10.2% from RMB462.6 million in 2018 to RMB415.3 million in 2019, primarily due to a decrease in labor cost as a result of the successful implementation of the Company's efficiency enhancement initiatives. As a percentage of net revenues, our general and administrative expenses decreased from 13.5% in 2018 to 11.0% in 2019.

Changes in the Fair Value of Contingent Purchase Consideration Payable. We incurred nil in the changes of the fair value of contingent purchase consideration payable in 2019.

Impairment of Receivables from Equity Investees. We recorded a loss of RMB52.1 million in 2019.

Impairment of Long-lived assets. We incurred nil in impairment of long-lived assets in 2019.

Impairment of Goodwill. We incurred nil in impairment of goodwill in 2019.

Interest Income

Our interest income increased from RMB45.2 million in 2018 to RMB54.6 million in 2019, primarily due to an increase in interest income generated from short-term investments.

Interest Expense

Our interest expense increased from RMB236.1 million in 2018 to RMB346.0 million in 2019, primarily due to interest expense recognized for the USD-denominated note due 2021 with an aggregate principal amount of US$300 million issued by us in April 2019.

Other Income

Our other income decreased from RMB58.0 million in 2018 to RMB36.4 million in 2019. Other income in 2019 was primarily attributable to disposal gain on equity method investments.

Other Expenses

Our other expenses increased from RMB4.1 million in 2018 to RMB5.6 million in 2019. Other expenses in both periods were primarily due to the loss attributable to the disposal of certain of our equipment, such as servers and back-up batteries.

Loss on Debt Extinguishment

We recorded a loss on debt extinguishment of RMB18.9 million in 2019.

Foreign Exchange Loss

We had a foreign exchange loss of RMB28.0 million in 2019, primarily due to the appreciation of U.S. dollar against Renminbi in 2019.

Income Tax Expenses

We recorded income tax expenses in the amount of RMB5.4 million in 2019, compared with income tax expenses of RMB24.4 million in 2018. The effective tax rate in 2019 was 3.1%, reflecting:

- change in valuation allowance resulting in a decrease in the income tax expense in the amount of RMB25.4 million in 2019;
- loss incurred outside China resulting in a decrease in the income tax benefit by RMB77.1 million in 2019; and
- current and deferred tax rate differences resulting in an income tax expense in the amount of RMB8.7 million in 2019.

Net Loss

As a result of the above, we recorded a net loss of RMB181.2 million in 2019, as compared to a net loss of RMB186.7 million in 2018.

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

Net Revenues

Our net revenues in 2018 increased from RMB3,392.7 million in 2017 to RMB3,401.0 million in 2018. The increase was primarily attributable to the growing demand for data centers and cloud services in the domestic market, partially offset by the disposal of the WiFire Entities and Aipu Group.

Revenues from our hosting and related services amounted to RMB3,401.0 million in 2018, increasing by 14.3% from RMB2,975.2 million in 2017. The increase in revenues from our hosting and related services was primarily due to (i) the increase in the total number of billable cabinets and the amount of average monthly recurring revenue per cabinet under our management, which was attributable to growing customer demand, (ii) the growth in demand for our cloud business. The number of cabinets under our management increased from 29,080 as of December 31, 2017 to 30,654 as of December 31, 2018.

Cost of Revenues

Our cost of revenues decreased by 6.8% from RMB2,634.3 million in 2017 to RMB2,456.2 million in 2018. Our telecommunication costs decreased by 13.1% from RMB1,533.6 million in 2017 to RMB1,332.3 million in 2018. The decrease in our cost of revenues was primarily due to our improved cost efficiency of hosting and related services and disposal of WiFire Entities and Aipu Group.

Gross Profit

Our gross profit increased by 24.6% from RMB758.4 million in 2017 to RMB944.9 million in 2018. As a percentage of net revenues, our gross profit increased from 22.4% in 2017 to 27.8% in 2018. The increase of gross profit and gross margin was primarily due to our improved cost efficiency of hosting and related services and disposal of WiFire Entities and Aipu Group.

Operating Expenses

Our operating expenses decreased by 66.7% from RMB2,126.9 million in 2017 to RMB707.4 million in 2018. Our operating expenses as a percentage of net revenues decreased from 62.6% in 2017 to 20.8% in 2018. The decrease of our operating expenses was primarily due to the successful implementation of the Company's efficiency enhancement initiatives and the decrease in labor cost as a result of the disposal of WiFire Entities and Aipu Group.

Sales and Marketing Expenses. Our sales and marketing expenses decreased by 32.9% from RMB256.7 million in 2017 to RMB172.2 million in 2018, primarily due to a decrease in labor cost as a result of the disposal of the WiFire Entities and Aipu Group. As a percentage of net revenues, our sales and marketing expenses was 7.6% and 5.1% in 2017 and 2018, respectively.

Research and Development Expenses. Our research and development expenses decreased from RMB149.1 million in 2017 to RMB92.1 million in 2018. As a percentage of net revenues, our research and development expenses decreased from 4.4% in 2017 to 2.7% in 2018.

General and Administrative Expenses. Our general and administrative expenses decreased by 11.0% from RMB520.0 million in 2017 to RMB462.6 million in 2018, primarily due to a decrease in labor cost as a result of the disposal of WiFire Entities and Aipu Group. As a percentage of net revenues, our general and administrative expenses decreased from 15.3% in 2017 to 13.5% in 2018.

Changes in the Fair Value of Contingent Purchase Consideration Payable. We recorded a gain from the changes of the fair value of contingent purchase consideration payable in the amount of RMB13.9 million in 2018 in connection with our acquisition, which was attributable to the seller's waiver of its rights to receive contingent purchase consideration in this transaction.

Impairment of Long-lived assets. We incurred nil in impairment of long-lived assets in 2018.

Impairment of Goodwill. We incurred nil in impairment of goodwill in 2018.

Interest Income

Our interest income increased from RMB32.9 million in 2017 to RMB45.2 million in 2018, primarily due to an increase in interest income generated from short-term investments.

Interest Expense

Our interest expense increased from RMB185.3 million in 2017 to RMB236.1 million in 2018, primarily due to interest expense incurred in connection with the USD-denominated notes due 2020 in an aggregate principal amount of US$200 million issued by us in August 2017 and in an aggregate principal amount of US$100 million issued by us in September 2017, collectively referred to as the "2020 Notes."

Other Income

Our other income increased from RMB16.8 million in 2017 to RMB58.0 million in 2018. Other income in 2018 was primarily attributable to disposal gain on an equity method investment and equity investment without readily determinable fair value.

Other Expenses

Our other expenses decreased from RMB17.1 million in 2017 to RMB4.1 million in 2018. Other expenses in both periods were primarily due to the loss attributable to the disposal of certain of our equipment, such as servers and back-up batteries.

Loss on Debt Extinguishment

We incurred nil in loss on debt extinguishment in 2018.

Foreign Exchange Loss

We had a foreign exchange loss of RMB81.1 million in 2018, primarily due to the appreciation of U.S. dollar against Renminbi in 2018.

Income Tax (Expense)/Benefits

We recorded income tax expense in the amount of RMB24.4 million in 2018, compared with income tax benefits of RMB90.2 million in 2017. The effective tax rate in 2018 was 15.0%, reflecting:

- change in valuation allowance resulting an increase in the income tax expense in the amount of RMB79.7 million in 2018;
- loss incurred outside China resulting in a decrease in the income tax benefit by RMB63.5 million in 2018; and
- current and deferred tax rate differences resulting in an income tax benefit in the amount of RMB37.9 million in 2018.

Net Loss

As a result of the above, we recorded a net loss of RMB186.7 million in 2018, as compared to a net loss of RMB917.6 million in 2017.

Liquidity and Capital Resources

Historically, our financing sources primarily consisted of the cash generated from our business operations, bank borrowings and issuance of debt and equity securities. We obtain liquidity from the foregoing financing sources to meet our need for working capital and other capital needs.

As of December 31, 2019, we had RMB1,808.5 million in cash and cash equivalents, RMB548.7 million in restricted cash (current and non-current portion) and RMB363.9 million in short-term investments. As of September 30, 2020, we had RMB5,204.7 million (US$766.6 million) in cash and cash equivalents, RMB178.9 million (US$26.4 million) in restricted cash, RMB70.7 million (US$10.4 million) in non-current portion of restricted cash and RMB80.4 million (US$11.8 million) in short-term investments.

As of September 30, 2020, the total amount of our cash and cash equivalents, restricted cash and short-term investments was RMB5,534.8 million (US$815.2 million), of which RMB815.6 million (US$120.1 million), RMB529.0 million (US$77.9 million) and RMB4,190.2 million (US$617.1 million) was held by our consolidated affiliated entities, PRC subsidiaries and offshore subsidiaries, respectively. Cash transfers from our PRC subsidiaries to our subsidiaries outside of China are subject to PRC government control of currency conversion. Restrictions on the availability of foreign currency may affect the ability of our PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. See "Risk Factors—Risks Related to Doing Business in China—Governmental control of currency conversion may limit our ability to receive and utilize our revenues effectively." The major cost that would be incurred to distribute dividends is the withholding tax imposed on the dividends distributed by our PRC operating subsidiaries at the rate of 10% or a lower rate under an applicable tax treaty, if any.

Cash Flows

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

	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2017(1)	2018(1)	2019	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
				(unaudited)	(unaudited)	
Net cash generated from operating activities	487,202	704,966	802,922	358,097	430,412	63,393
Net cash used in investing activities	(833,307)	(304,846)	(1,611,983)	(1,061,277)	(1,577,160)	(232,291)
Net cash (used in)/generated from financing activities	(612,651)	(19,901)	461,557	539,652	4,328,189	637,473
Effect on foreign exchange rate changes on cash and cash equivalents and restricted cash	(140,298)	85,333	43,660	90,616	(84,307)	(12,417)
Net (decrease)/increase in cash and cash equivalents and restricted cash	(1,099,054)	465,552	(303,844)	(72,912)	3,097,134	456,158
Cash and cash equivalents and restricted cash at beginning of the year/period	3,294,523	2,195,469	2,661,021	2,661,021	2,357,177	347,175
Cash and cash equivalents and restricted cash at end of the year/period	2,195,469	2,661,021	2,357,177	2,588,109	5,454,311	803,333

(1) The FASB issued new guidance in August 2016 and further updated in November 2016, which requires that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amount shown on the statement of cash flows. This guidance has been adopted and applied retrospectively by us to the prior periods of 2017 presented herein.

Operating Activities

Net cash generated from operating activities was RMB430.4 million (US$63.4 million) for the nine months ended September 30, 2020. Net cash generated from operating activities for the nine months ended September 30, 2020 primarily resulted from a net loss of RMB1,686.5 million (US$248.4 million), positively adjusted for certain items such as (i) changes in the fair value of convertible promissory notes of RMB1,587.1 million (US$233.8 million), (ii) depreciation and amortization of RMB688.1 million (US$101.3 million), and (iii) an increase in prepaid expenses and other current assets of RMB303.3 million (US$44.7 million), which were partially offset by certain items such as advances from customers of RMB440.7 million (US$64.9 million) and an increase in accounts and notes receivable of RMB207.0 million (US$30.5 million).

Net cash generated from operating activities was RMB802.9 million in 2019, primarily resulted from a net loss of RMB181.2 million, positively adjusted for certain items such as (i) depreciation and amortization of RMB772.2 million, (ii) the increase in advances from customers of RMB398.7 million, and (iii) loss from equity method investments of RMB50.6 million, partially offset by certain item such as the increase in prepaid expenses and other current assets of RMB328.2 million.

Net cash generated from operating activities was RMB705.0 million in 2018, primarily resulted from a net loss of RMB186.7 million, positively adjusted for certain items such as (i) depreciation and amortization of RMB634.6 million, (ii) the increase in advances from customers of RMB266.8 million, and (iii) loss from equity method investments of RMB186.6 million, partially offset by certain item such as the increase in prepaid expenses and other current assets of RMB262.4 million.

Net cash generated from operating activities was RMB487.2 million in 2017, primarily resulted from a net loss of RMB917.6 million, positively adjusted for certain items such as (i) impairment of goodwill of RMB766.4 million, (ii) depreciation of property and equipment of RMB523.5 million, (iii) impairment of long-lived assets of RMB401.8 million, (iv) the increase in accrued expenses and other payables of RMB270.1 million, (v) the increase in advances from customers of RMB201.8 million, and (vi) amortization of intangible assets of RMB143.6 million. These were partially offset by certain items such as (i) the increase in gain from disposal of subsidiaries of RMB497.0 million, (ii) the increase in prepaid expenses and other current assets of RMB311.3 million, and (iii) the increase in deferred tax benefits of RMB128.0 million.

Investing Activities

Net cash used in investing activities was RMB1,577.2 million (US$232.3 million) for the nine months ended September 30, 2020, primarily due to our purchases of property and equipment of RMB1,700.8 million (US$250.5 million), which was partially offset by proceeds received from maturity of short-term investments of RMB319.0 million (US$47.0 million).

Net cash used in investing activities was RMB1,612.0 million in 2019, as compared to net cash used in investing activities of RMB304.8 million in 2018. Net cash used in investing activities in 2019 is primarily related to our purchase of property and equipment in the amounts of RMB1,248.8 million, our payments for long-term investments in the amount of RMB9.3 million, our payment for short-term investments in the amount of RMB436.7 million, offset by proceeds received from maturity for short-term investments in the amount of RMB312.2 million, proceeds from disposal of long-term investments in the amount of RMB19.0 million.

Net cash used in investing activities was RMB304.8 million in 2018, as compared to net cash used in investing activities of RMB833.3 million in 2017. Net cash used in investing activities in 2018 is primarily related to our purchase of property and equipment in the amounts of RMB435.2 million, our payments for long-term investments in the amount of RMB252.8 million, our payment for short-term investments in the amount of RMB98.9 million, offset by proceeds received from maturity for short-term investments in the amount of RMB417.6 million, proceeds from disposal of long-term investments in the amount of RMB75.7 million.

Net cash used in investing activities was RMB833.3 million in 2017, primarily attributable to our purchases of property and equipment of RMB396.0 million, our payments for short-term and long-term investments of RMB918.1 million, and our disposal of subsidiaries of RMB77.7 million. These were partially offset by proceeds received from maturity for short-term investments in the amount of RMB484.9 million, and receipt of loan of RMB100.0 million from a third party.

Financing Activities

Net cash generated from financing activities was RMB4,328.2 million (US$637.5 million) for the nine months ended September 30, 2020 was primarily due to the proceeds we received from (i) our public offering of ADSs in August 2020, (ii) our issuances of convertible promissory notes in February to April 2020, and (iii) our issuance of Series A perpetual convertible preferred shares in June 2020.

Net cash generated from financing activities was RMB461.6 million in 2019, as compared to net cash used in financing activities amounting to RMB19.9 million in 2018. Net cash generated from financing activities in 2019 is primarily related to the proceeds from issuance of 2021 Notes of RMB2,012.1 million and the proceeds from short-term bank borrowings of RMB234.5 million, partially offset by payment for purchase of property and equipment through finance leases of RMB333.6 million, the repayment of long-term bank borrowings of RMB85.1 million and the repurchase of 2020 Notes of RMB1,148.1 million.

Net cash used in financing activities was RMB19.9 million in 2018, as compared to net cash used in financing activities amounting to RMB612.7 million in 2017. Net cash used in financing activities in 2018 is primarily related to the payment for purchase of property and equipment through finance leases of RMB279.9 million and the repayment of long-term bank borrowings of RMB70.6 million, partially offset by the contribution from non-controlling interest in a subsidiary of RMB196.3 million and proceeds from the issuance of discounted notes of RMB95.6 million.

Net cash generated from financing activities was RMB612.7 million in 2017, primarily attributable to net proceeds from issuance of 2020 Notes of RMB1,936.2 million and contribution from non-controlling interest in a subsidiary of RMB134.6 million. These were partially offset by the repayment of short-term bank borrowings in an amount of RMB1,673.7 million, the repayment of the bonds that we issued in June 2014 and became due in June 2017 in an amount of RMB420.6 million, the payment for acquisition of property and equipment through capital leases of RMB199.1 million, rental prepayments and deposits for sales and lease back transactions of RMB164.7 million and payments for share repurchases of RMB133.1 million.

Description of Other Debts

As of December 31, 2019, we had short-term bank borrowings and long-term bank borrowings (current portion) from various commercial banks with an aggregate outstanding balance of RMB267.0 million, and long-term bank borrowings (excluding current portion) from various commercial banks with an aggregate outstanding balance of RMB79.5 million. As of September 30, 2020, we had short-term bank borrowings and long-term bank borrowings (current portion) from various commercial banks with an aggregate outstanding balance of RMB83.0 million (US$12.2 million), and long-term bank borrowings (excluding current portion) from various commercial banks with an aggregate outstanding balance of RMB485.1 million (US$71.5 million). Our short-term bank borrowings bore weighted average interest rates of 4.04%, 4.05%, 4.56% and 4.42% per annum, respectively, in 2017, 2018, 2019 and the nine months ended September 30, 2020. Our short-term bank borrowings have maturity terms of one year and expire at various times throughout the year. There are no material covenants or restrictions on us associated with our outstanding short-term borrowings. We have entered into long-term bank borrowing arrangements since 2013 with maturity terms of two to five years. The long-term bank borrowings (including current and non-current portions) outstanding as of December 31, 2017, 2018, 2019 and the nine months ended September 30, 2020 bore weighted-average interest rates of 5.50%, 5.31%, 5.28% and 5.56% per annum, respectively, in 2017, 2018, 2019 and the nine months ended September 30, 2020 and have certain financial covenants.

We issued convertible promissory notes to Goldman Sachs Asia Strategic Pte. Ltd., StoneBridge 2020, L.P. and StoneBridge 2020 Offshore Holdings II, L.P. in an aggregate principal amount of US$75,000,000 pursuant to a convertible note purchase agreement dated February 19, 2020 between us and Goldman Sachs Asia Strategic Pte. Ltd. We issued convertible promissory notes to Hina Group Fund II, L.P. and Hina Group Fund VI, L.P. in an aggregate principal amount of US$17,000,000 pursuant to a convertible note purchase agreement dated March 16, 2020 among us, Hina Group Fund II, L.P. and Hina Group Fund VI, L.P. We issued convertible promissory notes to UBS SDIC Fund Management Co., Ltd, in an aggregate principal amount of US$58,000,000 pursuant to a convertible note purchase agreement dated April 27, 2020 and a convertible note purchase agreement dated June 5, 2020, between us and UBS SDIC Fund Management Co., Ltd. We issued a convertible promissory note to Asialeads Capital (Cayman) Limited in an aggregate principal amount of US$50,000,000 pursuant to a convertible note purchase agreement dated February 24, 2020 between us and Asialeads Capital (Cayman) Limited. The convertible notes will mature in five years, bearing interest at the rate of 2% per annum from the issuance date which shall be payable semiannually in arrears in cash. At any time after the issuance, each note is convertible into our Class A Ordinary Shares at the holder's option at a conversion price of US$2 per share, or US$12 per ADS, subject to customary anti-dilution adjustments. Unless previously redeemed or converted, we shall redeem the note on the maturity date at 115% of the then outstanding principal amount plus all accrued but unpaid interest. In addition, if any portion of the outstanding principal amount of the notes has not been converted into our shares by the third anniversary of the note issuance date, the holders have the right to require us to redeem, in whole or in part, the outstanding principal amount of the note at 109% of the principal amount plus all accrued but unpaid interest. In August 2020, Asialeads Capital (Cayman) Limited partially converted the principal amount of its convertible note of US$25,000,000 into 12,499,998 Class A Ordinary Shares at the conversion price of US$2 per share, or US$12 per ADS. In December 2020, Hina Group Fund VI, L.P. partially converted its convertible notes in an aggregate principal amount of US$1,705,002.63 and the aggregate accrued and unpaid interest of US$7,649.37, into 856,326 Class A Ordinary Shares, at the conversion price of US$2 per share, or US$12 per ADS. In December 2020, UBS SDIC Fund Management Co., Ltd partially converted its convertible notes in an aggregate principal amount of US$20,666,667.01 and the aggregate accrued and unpaid interest of US$40,964.99, into 10,353,816 Class A Ordinary Shares, at the conversion price of US$2 per share, or US$12 per ADS.

In August 2017, we issued USD-denominated notes due 2020 in an aggregate principal amount of US$200 million at a coupon rate of 7.000% per annum and in September 2017, we issued USD-denominated notes due 2020 in an aggregate principal amount of US$100 million at a coupon rate of 7.000% per annum, collectively referred to as the "2020 Notes." The notes issued in September 2017 were priced at a slight premium of 100.04, with an effective yield of 6.98%. The notes issued in September 2017 constituted a further issuance of, and were consolidated to form a single series with, the notes issued in August 2017. On August 12, 2019, we repurchased US$18,000,000 in principal amount of 2020 Notes at the par value. On August 4, 2020, we repaid the remaining outstanding 2020 Notes with a principal amount of US$131,161,000.

In April 2019, we issued USD-denominated notes due 2021 in an aggregate principal amount of US$300 million at an interest rate of 7.875% per annum, or the 2021 Notes. Interest on the 2021 Notes is payable semi-annually in arrears on April 15 and October 15 in each year, beginning on October 15, 2019. A portion of the proceeds of the 2021 Notes was used to purchase, pursuant to a tender offer, US$150,839,000 in principal amount of the 2020 Notes, representing 50.28% of the outstanding principal amount of the 2020 Notes.

The 2021 Notes have (i) a restrictive covenant that restricts our ability in consolidation, merger and sale of assets to a certain extent; (ii) a negative pledge covenant that restricts our ability to create security upon our undertaking, assets or revenues to secure bonds, notes, debentures or other securities that are quoted, listed or dealt in or traded on securities market; (iii) a dividend payment restriction covenant; and (iv) a covenant relating to the ratio of our Adjusted EBITDA to our Consolidated Interest Expense (interest expense paid net of interest income received). Such covenants may limit our ability to undertake additional debt financing, but not equity financing.

We had unused credit lines in an aggregate amount of RMB368.3 million (US$54.2 million) as of September 30, 2020 under credit agreements with six banks. As of the same date, we used RMB688.0 million (US$101.3 million) of the credit lines under the credit agreements with six banks, pursuant to which we were granted credit lines in an aggregate amount of RMB1,056.3 million (US$155.5 million). There are no material covenants that restrict our ability to undertake additional financing associated with the used credit lines. No terms and conditions of the unused credit lines are available yet because utilization of such unused portion requires approval by the banks and separate loan agreements setting forth detailed terms and conditions will only be entered into with the banks upon utilization. We believe the working capital as of September 30, 2020 is sufficient for our present requirements.

As of September 30, 2020, we had total outstanding debts (excluding the convertible promissory notes) of RMB2,592.5 million (US$381.9 million), consisting of onshore debt obligations of RMB568.1 million (US$83.7 million) and offshore debt obligations of RMB2,024.4 million (US$298.2 million). We believe we have sufficient financial resources to meet both of our onshore and offshore debt obligations when due. The growth of our business relies on the construction of new data centers. We also intend to acquire or invest in companies whose businesses are complementary to ours. We intend to use the proceeds of our outstanding debt mainly to construct new data centers and fund our acquisitions. As of September 30, 2020, we had purchase commitments made for acquisitions of machinery, equipment, construction in progress, bandwidth and cabinet capacity of RMB303.6 million (US$44.7 million) coming due within three months, and we intend to use a portion of the proceeds to fund these purchase commitments.

Except as disclosed in this Offering Memorandum, we have no outstanding bank loans or financial guarantees or similar commitments to guarantee the payment obligations of third parties. We believe that our current cash, cash equivalents and time deposits, our cash flows from operations and proceeds from our financing activities will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for the next 12 months. If we have additional liquidity needs in the future, we may obtain additional financing, including equity and debt financing in the capital markets, to meet such needs.

Capital Expenditures

We had capital expenditures relating to the addition of property and equipment of RMB396.0 million, RMB435.2 million, RMB1,248.8 million in 2017, 2018 and 2019, respectively, and RMB790.6 million and RMB1,700.8 million (US$250.5 million) for the nine months ended September 30, 2019 and 2020, respectively, representing 11.8%, 12.8%, 33.0%, 28.8% and 48.9%, respectively, of our total net revenues. Our capital expenditures were primarily incurred for building data centers, purchasing network equipment, servers and other equipment. Our capital expenditures have been primarily funded by cash generated from our operations and net cash provided by financing activities. We estimate that our data center capital expenditures in 2020 will be within the range of RMB3.0 billion to RMB3.4 billion, which will primarily be used to build, or pursue acquisitions of, data centers, purchase network equipment, servers and other equipment to expand our business. We expect our data center capacity to increase by an aggregate number of approximately 17,000 cabinets during the year of 2020, through both organic growth and strategic acquisitions. We may incur additional capital expenditures for real property purchase, data center construction and network capacity expansion if our actual development is beyond our current plan. We plan to fund the balance of our capital expenditure requirements for 2020 with cash from the proceeds from our operations, this offering, operations and additional bank borrowings, if available.

Holding Company Structure

21Vianet Group, Inc. is a holding company with no material operations of its own. We conduct our operations primarily through our PRC subsidiaries and consolidated affiliated entities in China. As a result, although other means are available for us to obtain financing at the holding company level, 21Vianet Group, Inc.'s ability to pay dividends and to finance any debt it may incur depends upon dividends paid by our subsidiaries. If our subsidiaries or any newly formed subsidiaries incur debt on its own behalf in the future, the instruments governing their debt may restrict its ability to pay dividends to 21Vianet Group, Inc. In addition, our PRC subsidiaries and consolidated affiliated entities are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, our PRC subsidiaries and consolidated affiliated entities are required to set aside a portion of their after-tax profits each year to fund a statutory reserve and to further set aside a portion of its after-tax profits to fund the employee welfare fund at the discretion of the board or the enterprise itself. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation of these subsidiaries and consolidated affiliated entities.

Off-Balance Sheet Arrangements

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

Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of September 30, 2020:

	Payment Due by Period						
			For the year ending December 31,				
	Total	For the remaining year ending December 31, 2020	2021	2022	2023	2024	2025 and thereafter
	(RMB in thousands)						
Short-term borrowings(1)	38,500	4,500	34,000	—	—	—	—
Long-term borrowings(1)(2)	529,623	17,000	63,500	85,500	57,500	62,500	243,623
Notes payable(3)	2,043,030	—	2,043,030	—	—	—	—
Operating lease obligations(4)	1,967,962	179,867	403,356	198,518	118,903	77,240	990,078
Purchase commitments(5)	1,965,830	303,621	1,601,531	23,085	5,370	2,248	29,975
Finance lease minimum lease payment(6)	3,331,841	126,616	612,442	376,713	218,239	191,354	1,806,477
Total	9,876,786	631,604	4,757,859	683,816	400,012	333,342	3,070,153

(1) As of September 30, 2020, our short-term bank borrowings bore a weighted average interest rate of 4.42% and have original maturity terms of one year. Our unused short-term and long-term bank borrowing facilities amounted to RMB368.3 million (US$54.2 million). We have pledged land use rights with the net book value of RMB117.8 million (US$17.4 million), property with the net book value of RMB267.1 million (US$39.3 million), and leasehold improvements with the net book value of RMB65.1 million (US$9.6 million) for our bank borrowings.

(2) Long-term bank borrowings (including the current portions) outstanding as of September 30, 2020 bear a weighted-average interest rate of 5.56% per annum, and are denominated in Renminbi. These loans were obtained from financial institutions located in the PRC.

(3) The 2021 Notes with US$300.0 million of the principal amount outstanding due 2021 at an interest rate of 7.875% per annum.

(4) Operating lease obligations are primarily related to the lease of office and data center space.

(5) As of September 30, 2020, we had commitments of RMB1,237.4 million (US$182.2 million) related to acquisition of machinery, equipment and construction in progress. In addition, we had outstanding purchase commitments in relation to bandwidth and cabinet capacity of RMB728.4 million (US$107.3 million).

(6) Related to finance leases for electronic equipment, optic fibers and property.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our exposure to interest rate risk primarily relates to interest expenses incurred in respect of bonds payable, bank borrowings, finance lease liabilities as well as interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. As of September 30, 2020, we had (i) short-term and long-term bank borrowings (current portions) with an aggregate outstanding balance of RMB83.0 million (US$12.2 million), (ii) long-term bank borrowings (excluding current portions) with an aggregate outstanding balance of RMB485.1 million (US$71.5 million), and (iii) an outstanding principal balance of US$300.0 million with respect to the 2021 Notes payable.

The short-term bank borrowings bore a weighted average interest rate of 4.42% per annum. The long-term bank borrowings bore weighted-average interest rate of 5.56% per annum. The 2020 Notes bore an interest rate of 7.000% per annum and an effective interest rate of 6.98% per annum. The 2021 Notes bore an interest rate of 7.875% per annum. We also had RMB80.4 million (US$11.8 million) in short-term investments with original maturities of greater than 90 days but less than 365 days. A hypothetical one percentage point (100 basis-point) decrease in interest rates would have resulted in a decrease of approximately RMB25.3 million (US$3.7 million) in interest expense for the year ended September 30, 2020. 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

We earn most of our revenues and incur most of our expenses in Renminbi, and most of our sales and purchase contracts are denominated in Renminbi. We have not used any derivative financial instruments to hedge our exposure to foreign exchange risk. The Renminbi depreciated by 1.6% against the U.S. dollar in 2019 and then appreciated 2.4% in 2020. The Company intends to hold U.S. dollar-denominated financial assets and will convent to RMB according to the trend of exchange rate changes. As of September 30, 2020, we had total U.S. dollar-denominated cash and cash equivalents, restricted cash and short-term investments in the amount of US$618.7 million. A hypothetical 10% increase in the exchange rate of the U.S. dollar against the RMB would have resulted in an increase of RMB421.3 million (US$62.1 million) in the value of our U.S. dollar-denominated financial assets at September 30, 2020.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. Since June 2010, the RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably, and in recent years the RMB has depreciated significantly against the U.S. dollar. It is difficult to predict whether the depreciation will continue and how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. As our costs and expenses are mostly denominated in RMB, the appreciation of the RMB against the U.S. dollar would increase our costs in U.S. dollar terms. In addition, as our operating subsidiaries and VIEs in China receive revenues in RMB, any significant depreciation of the RMB against the U.S. dollar may have a material and adverse effect on our revenues in U.S. dollar terms and financial condition, and the value of, and any dividends payable on, our ordinary shares. For example, to the extent that we need to convert U.S. dollars into Renminbi for capital expenditures and working capital and other business purposes, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the RMB amount we would 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, strategic acquisitions or investments or other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

Inflation Risk

In the last three years, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the annual average percent changes in the consumer price index in China for 2017, 2018, 2019 and the nine months ended September 30, 2020 were 1.6%, 2.1%, 2.9% and 1.7%, respectively. The year-over-year percent changes in the consumer price index for January 2018, 2019 and 2020 were increases of 1.5%, 1.7% and 5.4%, respectively. Although we have not been materially affected by inflation in the past, we cannot assure you that we will not be affected in the future by higher rates of inflation in China.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Although actual results have historically been reasonably consistent with management's expectations, actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

Some of our accounting policies require higher degrees of judgment than others in their application. When reviewing our consolidated financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions. We consider the policies discussed below to be critical to an understanding of our consolidated financial statements as their application places significant demands on the judgment of our management. We believe the following critical accounting policies are the most significant to the presentation of our financial statements and some of which may require the most difficult, subjective and complex judgments and should be read in conjunction with our consolidated financial statements, the risks and uncertainties described under "Risk Factors."

Revenue Recognition

We provide hosting and related services including hosting of customers' servers and networking equipment, connecting customers' servers with internet backbones ("Hosting services"), virtual private network services providing encrypted secured connection to public internet ("VPN services") and other value-added services and public cloud service through strategic partnership with Microsoft ("Cloud services").

Prior to the disposal of WiFire Entities and Aipu Group in September 2017, we also provide managed network services to enable our customers to deliver data across the internet in a faster and more reliable manner through extensive data transmission network and BroadEx smart routing technology, and to get the last-mile broadband internet connection services in large metro areas in China.

Prior to adopting ASC 606, ASU No. 2014-09, Revenue from Contracts with Customers ("ASC 606"), we recognize revenue from sales of these services when there is a signed sales agreement with fixed or determinable fees, services have been provided to the customer and collection of the resulting customer's receivable is reasonably assured under ASC topic 605, Revenue Recognition ("ASC 605").

On January 1, 2018, we adopted ASC 606. Under ASC 606, an entity recognizes revenue as it satisfies a performance obligation when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price, including variable consideration, if any; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. We only apply the five-step model to contracts when it is probable that the entity will collect the consideration to which it is entitled in exchange for the goods or services it transfers to the customer.

Once a contract is determined to be within the scope of ASC 606 at contract inception, we review the contract to determine which performance obligations we must deliver and which of these performance obligations are distinct. We recognize revenue based on the amount of the transaction price that is allocated to each performance obligation when that performance obligation is satisfied or as it is satisfied.

We are a principal and records revenue on a gross basis when we are primarily responsible for fulfilling the service, has discretion in establish pricing and controls the promised service before transferring that service to customers. Otherwise, we record revenue at the net amounts as commissions.

Hosting services are services that we dedicate data center space to house customers' servers and networking equipment and provides tailored server administration services including operating system support and assistance with updates, server monitoring, server backup and restoration, server security evaluation, firewall services, and disaster recovery. We also provides interconnectivity services to connect customers with each other, internet backbones in China and other networks through Border Gateway Protocol, or BGP, network, or single-line, dual-line or multiple-line networks. Hosting services are typically provided to customers for a fixed amount over the contract service period and the related revenues are recognized on a straight-line basis over the term of the contract. For certain contracts where considerations are based on the usage of the Hosting services, the related revenues are recognized based on the consumption at the predetermined rate as the services are rendered throughout the contact term. We are a principal and records revenue for Hosting service on a gross basis.

VPN services are services that we extend customers' private networks by setting up secure and dedicated connections through the public internet. VPN services are provided to customers for a fixed amount over the contract service period and revenue are recognized on a straight-line basis over the term of the contract. We are a principal and records revenue for VPN service on a gross basis.

We partner with Microsoft to provide Cloud services that allow enterprise and individual customers to run their applications over the internet using the IT infrastructure. We generally charge end customers of Cloud services for a fixed fee or fee based on the actual usage of the cloud resources at predetermined rates over the subscription period, which in general is one year. We fulfil our performance obligation of facilitating Microsoft to provide the Cloud services to the end customers by providing, but not limited to, contract processing management, billing, payment collection, maintenance, help desk support and certain IT infrastructure services. These are considered as a series of distinct services that are substantially the same and have the same pattern of transfer to the customer; therefore, they are accounted for as a single performance obligation satisfied over time. The corresponding consideration to which we are entitled is recognized as revenue using a time-based method since this best depicts the pattern of the control transfer. Revenue from Cloud services consists of monthly incentive revenues received from Microsoft upon completion of certain conditions and gross billing amount received from end customers net of considerations remitted by us to Microsoft. When the contract is modified to add distinct services to the single performance obligation for additional fees, such changes are accounted for prospectively as a termination of the old contract and the creation of a new contract.

For certain arrangements, customers are required to pay us before the services are delivered. We recognize a contract asset or a contract liability in the consolidated balance sheets, depending on the relationship between our performance and the customer's payment. Contract liabilities are mainly related to fee received for Hosting services to be provided over the contract period, which are presented as deferred revenue on the consolidated balance sheets.

Deferred revenue represents our obligation to transfer the goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer. As of December 31, 2017, 2018, 2019, and September 30, 2020, we have deferred revenue amounting to RMB55.8 million, RMB57.8 million, RMB57.6 million and RMB52.0 million (US$7.7 million), respectively. Revenue recognized from opening deferred revenue balance was RMB45.8 million (US$6.7 million) for the nine months ended September 30, 2020.

Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, restricted cash, short-term investments, accounts receivable and payable, other receivables and payables, bonds payable, short-term and long-term bank borrowings, available-for-sale investments, liability classified restricted share units ("RSU") and convertible promissory notes. Other than the bonds payable, long-term bank borrowings and convertible promissory notes, the carrying values of these financial instruments approximate their fair values due to their short-term maturities.

The carrying amounts of long-term bank borrowings approximate their fair values since they bear interest rates which approximate market interest rates. We carry the bonds payable at face value less unamortized debt discount and issuance cost on our consolidated balance sheets and measures the fair value for disclosure purposes only. We elected the fair value option of convertible promissory notes when it initially recognized as financial liability as the fair value better represents the value of the underlying liabilities. The contingent purchase considerations in both cash and shares and share-settled bonus are initially measured at fair value on the acquisition dates of the acquired businesses and the date of grant, respectively, and subsequently remeasured at the end of each reporting period with an adjustment for fair value recorded to the current period income/(expense). Convertible promissory notes are measured at fair value in accordance with ASC 825 Financial Instruments on the issuance date and subsequently remeasured at the end of each reporting period with an adjustment for fair value recorded to the current period income/(expense), however, any fair value changes related to instrument-specific credit risk are recorded to other comprehensive income/(loss).

Short-term Investments

All highly liquid investments with original maturities of greater than three months but less than twelve months, are classified as short-term investments. Interest income is included in earnings.

Long-term Investments

Our long-term investments consist of equity investments without readily determinable fair value, equity method investments and available-for-sale debt investments.

Prior to adopting ASC Topic 321, *Investments—Equity Securities* ("ASC 321") on January 1, 2018, we carry at cost its investments in investees that do not have readily determinable fair value and over which we do not have significant influence, in accordance with ASC Subtopic 325-20, *Investments-Other: Cost Method Investments* ("ASC 325-20").We only adjust the carrying value of such investments for other-than-temporary decline in fair value and for distribution of earnings that exceed our share of earnings since its investment.

Management regularly evaluates the impairment of equity investments without readily determinable fair value based on the performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee's cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the excess of the investment's cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of the investment.

We adopted ASC 321 on January 1, 2018 and the cumulative effect of adopting the new standard on opening retained deficit is nil. Pursuant to ASC 321, equity investments, except for those accounted for under the equity method and those that result in consolidation of the investee and certain other investments, are measured at fair value, and any changes in fair value are recognized in earnings. For equity securities without readily determinable fair value and do not qualify for the existing practical expedient in ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"), to estimate fair value using the net asset value per share (or its equivalent) of the investment, we elected to use the measurement alternative to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. Equity securities with readily determinable fair value are measured at fair values, and any changes in fair value are recognized in earnings.

Pursuant to ASC 321, for equity investments measured at fair value with changes in fair value recorded in earnings, we do not assess whether those securities are impaired. For those equity investments that we elect to use the measurement alternative, we make a qualitative assessment of whether the investment is impaired at each reporting date. If a qualitative assessment indicates that the investment is impaired, the entity has to estimate the investment's fair value in accordance with the principles of ASC 820. If the fair value is less than the investment's carrying value, the entity has to recognize an impairment loss in net income equal to the difference between the carrying value and fair value.

Available-for-sale debt investments are convertible debt instruments issued by private companies, which are measured at fair value, with unrealized gains or losses recorded in accumulated other comprehensive income.

Investments in equity investees represent investments in entities in which we can exercise significant influence but does not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC Subtopic 323-10, *Investments-Equity Method and Joint Ventures: Overall* ("ASC 323-10"). We apply the equity method of accounting that is consistent with ASC 323-10 in limited partnerships in which we hold a three percent or greater interest. Under the equity method, we initially record our investment at cost and prospectively recognize its proportionate share of each equity investee's net profit or loss into its consolidated statements of operations. The difference between the cost of the equity investee and the amount of the underlying equity in the net assets of the equity investee is recognized as equity method goodwill included in equity method investments on the consolidated balance sheets. We evaluate our equity method investments for impairment under ASC 323-10. An impairment loss on the equity method investments is recognized in the consolidated statements of operations when the decline in value is determined to be other-than-temporary.

Goodwill

Goodwill represents the excess of the purchase price over the amounts assigned to the fair value of the assets acquired and the liabilities assumed of an acquired business. In accordance with ASC Topic 350, *Goodwill and Other Intangible Assets* ("ASC 350"), recorded goodwill amounts are not amortized, but rather are tested for impairment annually or more frequently if there are indicators of impairment present.

In accordance with ASC 350, we assigned and assessed goodwill for impairment at the reporting unit level. A reporting unit is an operating segment or one level below the operating segment. In 2017, there were two reporting units consisting of two service lines namely hosting and related services and managed network services.

After the disposal of WiFire Entities and Aipu Group in 2017, we determined that there is only hosting and related services remained and hence our company as a whole is one reporting unit as of December 31, 2017, 2018, 2019 and for the nine months ended September 30, 2020.

We early adopted ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"), which simplifies the accounting for goodwill impairment by eliminating Step two from the goodwill impairment test. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. Fair value is primarily determined by computing the future discounted cash flows expected to be generated by the reporting unit.

Immediately before the disposal of WiFire Entities and Aipu Group in 2017, we completed the impairment test for goodwill in managed network services. We determined the fair value of the reporting unit using the income approach based on the discounted expected cash flows associated with the reporting unit. The discounted cash flows for the reporting unit were based on five-year projections. Cash flow projections were based on past experience, actual operating results and management best estimates about future developments as well as certain market assumptions. Cash flows after five years were estimated using a terminal value calculation, which considered terminal value growth at 3%, considering the long-term revenue growth for entities in a similar industry in the PRC. The discount rate of approximately 13% was derived and used in the valuations which reflect the market assessment of the risks specific to us and our industry and is based on its weighted average cost of capital. As the resulting fair value of the reporting unit significantly lower than its carrying value, we fully impaired goodwill in managed network services and recorded an amount of RMB766 million for impairment loss of goodwill as of December 31, 2017.

Pursuant to ASC 350, for the years ended December 31, 2017, 2018, 2019 and the nine months ended September 30, 2020, we performed a qualitative assessment for hosting and related services and completed our annual impairment test for goodwill that has arisen out of our acquisitions. We evaluated all relevant factors including, but not limited to, macroeconomic conditions, industry and market conditions, financial performance, and the share price of us. We weighed all factors in their entirety and concluded that it was not more-likely-than-not the fair value was less than the carrying amount of the reporting unit, and further impairment testing on goodwill was unnecessary.

No impairment loss of goodwill in hosting and related services was recognized for the years ended December 31, 2017, 2018, 2019 and for the nine months ended September 30, 2020.

Impairment of Long-lived Assets

We evaluate our long-lived assets or asset group, including intangible assets with finite lives, for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying amount of an asset or a group of long-lived assets may not be recoverable. When these events occur, we evaluate for impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we would recognize an impairment loss based on the excess of the carrying amount of the asset group over its fair value. Fair value is generally determined by discounting the cash flows expected to be generated by the assets, when the market prices are not readily available for the long-lived assets.

As of December 31, 2017, due to continued operational losses, we recorded the long-lived assets impairment amounting to RMB170.7 million and RMB231.1 million for the asset groups of Aipu Group and WiFire Entities, respectively, resulting from excess of the carrying amount of the asset groups over their fair values of the two asset groups, respectively.

We determined the fair value of the asset groups using the income approach based on the discounted expected cash flows associated with the respective asset groups. The discounted cash flows for the asset groups were based on seven year projections for Aipu and five years for WiFire Entities, which are consistent with the remaining useful lives of its principal assets. Cash flow projections were based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The discount rate of approximately 13% was derived and used in the valuations which reflect the market assessment of the risks specific to us and our industry and is based on its weighted average cost of capital. No impairment was recognized in other assets groups as there was no impairment indicator identified.

The impairment loss reduced the carrying amount of the long-lived assets of a group on a pro-rata basis using the relative carrying amount of those assets.

In 2018, 2019 and the nine months ended September 30, 2020, we performed a qualitative assessment for impairment on whether events or changes in circumstances indicate that the carrying amount of an asset or a group of long-lived assets might not be recoverable. No impairment was recognized for the year ended December 31, 2018, 2019 and for the nine months ended September 30, 2020 as there was no impairment indicator identified.

We recorded impairment charges associated with our long-lived assets and acquired intangibles as follows:

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	US$
	(in thousands)				
Impairment of property and equipment	237,956	—	—	—	—
Impairment of intangible assets	163,852	—	—	—	—

Leases

Before January 1, 2019, we adopted ASC Topic 840, *Leases* ("ASC 840"), and each lease is classified at the inception date as either a capital lease or an operating lease.

Effective January 1, 2019, we adopted ASC Topic 842, *Leases* ("ASC 842") using the modified retrospective method and did not restate the comparable periods. We determine if an arrangement is a lease at inception. Leases are classified as operating or finance leases in accordance with the recognition criteria in ASC 842-20-25. Our leases do not contain any material residual value guarantees or material restrictive covenants.

We do not reassess (1) whether any expired or existing contracts as of the adoption date are or contain a lease, (2) lease classification for any expired or existing leases as of the adoption date and (3) initial direct costs for any expired or existing leases as of the adoption date. We have lease agreements with lease and non-lease components, which are generally accounted for separately. Lastly, we elected the short-term lease exemption for all contracts with lease term of 12 months or less.

At the commencement date of a lease, we determine the classification of the lease based on the relevant factors present and records a right-of-use ("ROU") asset and lease liability for operating lease, and records property and equipment and finance lease liability for finance lease. ROU assets and property and equipment acquired through lease represent the right to use an underlying asset for the lease term, and operating lease liabilities and finance lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are calculated as the present value of the lease payments not yet paid. If the rate implicit in our leases is not readily available, we use an incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. This incremental borrowing rate reflects the fixed rate at which we could borrow on a collateralized basis the amount of the lease payments in the same currency, for a similar term, in a similar economic environment. ROU assets include any lease prepayments and are reduced by lease incentives. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. Lease terms are based on the non-cancelable term of the lease and may contain options to extend the lease when it is reasonably certain that we will exercise that option.

Leases with an initial lease term of 12 months or less are not recorded on the consolidated balance sheet. Lease expense for these leases is recognized on a straight-line basis over the lease term.

Income Taxes

We account for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The carrying amount of deferred tax assets is reviewed on an entity-by-entity basis and is reduced by a valuation allowance to the extent that it is more-likely-than-not that the benefits of the deferred tax assets will not be realized in future years. The valuation allowance is determined based on the weight of positive and negative evidences including future reversals of existing taxable temporary differences and the adequacy of future taxable income, exclusive of reversing deductible temporary differences and tax loss or credit carry forwards. The estimated future taxable income involves significant assumptions of forecasted revenue growth that take into consideration of our historical financial results, our plan of expending operating capacity as well as current industry trends. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date of the change in tax rate. All deferred income tax assets and liabilities are classified as non-current on the consolidated balance sheets.

We apply ASC Topic 740, *Accounting for Income Taxes* ("ASC 740") to account for uncertainty in income taxes. ASC 740 prescribes a recognition threshold a tax position is required to meet before being recognized in the financial statements.

We have elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of "income tax benefits (expenses)" in the consolidated statements of operations.

Share-based Compensation

Share options and Restricted Share Units ("RSUs") granted to employees are accounted for under ASC Topic 718, *Compensation—Stock Compensation* ("ASC 718"), which requires that share-based awards granted to employees be measured based on the grant date fair value and recognized as compensation expense over the requisite service period and/or performance period (which is generally the vesting period) in the consolidated statements of operations. We account our forfeitures as they occur.

We have elected to recognize compensation expense using the straight-line method for share-based awards granted with service conditions that have a graded vesting schedule. For share-based awards granted with performance conditions, we recognize compensation expense using the accelerated method. We commence recognition of the related compensation expense if it is probable that the defined performance condition will be met. To the extent that we determine that it is probable that a different number of share-based awards will vest depending on the outcome of the performance condition, the cumulative effect of the change in estimate is recognized in the period of change. For share-based awards with market conditions, the probability to achieve market conditions is reflected in the grant date fair value. We recognized the related compensation expenses when the requisite service is rendered using the accelerate method.

On November 26, 2016, the Board approved a new incentive program to certain individuals with a new bonus scheme which will be settled by issuing a variable number of shares with a fair value equal to fixed dollar amount on the settlement date. We remeasure the fair value of such liability at each reporting period end through earnings until the actual settlement date, which is the date when the number of underlying shares were fixed and recorded the compensation cost over the remaining vesting term.

For the performance bonuses that the employees can elect to settle in cash and/or restricted shares of the us ("Share-Settled Bonus"), we estimate the portion of the arrangement to be settled in shares based on its past settlement practices and classifies such portion as a liability in accordance with ASC Topic 480, *Distinguishing Liabilities from Equity* ("ASC 480") as we can only settle the Share-Settled Bonus by issuing variable number of shares until the settlement date. We remeasure the fair value of such liability at each reporting period end through earnings until the underlying shares were approved and granted to the employees and accounted for the granted restricted shares unit as equity award. The original cash bonus amount continues to be classified as a liability within "Accrued expenses and other payables" in the consolidated balance sheets.

A cancellation of the terms or conditions of an equity award under original award in exchange for a new award should be treated as modification. The compensation costs associated with the modified awards are recognized if either the original vesting conditions or the new vesting conditions have been achieved. Total recognized compensation cost for the awards is at least equal to the fair value of the original awards at the grant date unless at the date of the modification the performance or service conditions of the original awards are not expected to be satisfied. The incremental compensation cost is measured as the excess of the fair value of the replacement awards over the fair value of original awards at the modification date. Therefore, in relation to the modified awards, we recognize share-based compensation over the vesting periods of the new awards, which comprises (i) the amortization of the incremental portion of share-based compensation over the remaining vesting term, and (ii) any unrecognized compensation cost of original awards, using either the original term or the new term, whichever results in higher expenses for each reporting period. For modification of a market condition, the incremental portion of share-based compensation and unrecognized compensation cost of original award are recognized over new vesting period. For modification of a liability award that remains a liability after modification, the liability award continues to be re-measured at fair value at each reporting date.

In January 2017, we made revisions to the Share-Settled Bonus to remove the option to settle bonus accrued in 2017. For the Share-Settled Bonus accrued in 2016 which were elected to be settled in shares, we issued shares to settle all the Share-Settled Bonus as of December 31, 2017.

Segment Reporting

In accordance with ASC Topic 280, *Segment Reporting* ("ASC 280"), we historically had two reportable segment since our chief executive officer, who has been identified as our chief operating decision-maker ("CODM") formerly relied on the results of operations of hosting and related services and managed network services separately when making decisions on allocating resources and assessing performance of us. Hosting and related services business focuses primarily on colocation, interconnectivity, cloud, VPN, hybrid IT and other value-added services. Managed network services focuses on businesses that primarily utilize bandwidth such as content delivery network ("CDN") service, hosting area network services and last-mile wired broadband service.

In September 2017, we disposed WiFire Entities and Aipu Group, which are primarily engaged in the managed network services. After the disposal, we have only one hosting and related services remained and the CODM reviews the operation result of the company as a whole. As of December 31, 2017, 2018, 2019 and September 30, 2020, we only had one reporting segment.

QuickLinks

Exhibit 99.2

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

Exhibit 99.3

BUSINESS

Our Service Offerings

We primarily generate revenues from providing hosting and related services. We provide hosting and related services to house servers and networking equipment in our data centers and connect them through our data transmission network. We also provide cloud services and VPN services as part of our hosting and related services business.

Our hosting and related services include the following:

- *Managed Hosting Services* consisting of managed retail services and managed wholesale services. Our managed retail services include (i) colocation services that dedicate data center space to house our customers' servers and networking equipment and provide tailored server administration services, (ii) interconnectivity services that allow customers to connect their servers with each other, internet backbones in China and other networks through our Border Gateway Protocol, or BGP, network, or our single-line, dual-line or multiple-line networks, and (iii) value-added services, including hybrid IT services, firewall services, server load balancing, data backup and recovery, data center management, server management, and backup server services. To address the wholesale IDC market opportunities, we established a "dual-core" strategy in 2019 to expand our services to managed wholesale services to China's internet giants and large-scale cloud computing service providers. We construct and deliver data centers based on these customers' required specifications and standards;

- *Cloud Services* that allow businesses to run their applications over the internet using our IT infrastructure rather than having the infrastructure on their own premises; and

- *VPN Services* that extend customers' private networks by setting up secure and dedicated connections through the public internet.

Our data centers host the servers of our customers and meet their needs to deploy computing, network, storage and IT infrastructure. Our services are scalable, allowing our customers to purchase space and power and upgrade connectivity and services as their requirements evolve. In addition, our customers benefit from our data centers' wide range of physical security features, including sensitive smoke detection systems, fire suppression systems, secured access, around-the-clock video camera surveillance and security breach alarms. Our data centers are fully-redundant and feature resilient power supplies, energy efficient design, connection with multiple network providers and 24/7 on-site support provided by our skilled engineers. As a result, we are able to provide service-level agreements for 99.99% uptime for power for our self-built data centers. As a carrier-neutral data center service provider, we provide high interconnectivity to our customers with our access to multiple carriers and service providers and the availability of multiple-provider bandwidth. By securing multiple suppliers for connectivity and using redundant hardware, we are able to guarantee 99.9% internet connectivity uptime for our self-built data centers.

Managed Hosting Services

We have been providing managed retail services since our inception and further expanded to managed wholesale services in 2019.

Managed Retail Services. Our managed retail services include colocation services, interconnectivity services, and value-added services.

- *Colocation Services* allow customers to lease partial or entire cabinets for their servers. Our customers have full control over their server(s) housed in our data centers. Depending on customer needs, we provide different levels of tailored server administration services, including operating system support and assistance with updates, server monitoring, server backup and restoration, server security evaluation, firewall services, and disaster recovery. Our customers' servers are housed in our data centers providing redundant power sources and heating, ventilating and air conditioning systems. Our colocation services relieve customers from the daily pressures of IT infrastructure maintenance so that they can focus on their core businesses. Customers have the option to either place their servers and equipment in standard cabinets dedicated for their private use, or in cabinets shared with other customers. They can customize their cabinet space for their servers, network connections and equipment. Customers can elect to buy the hardware that they place within their cabinets from their chosen suppliers. In addition, customers can also lease power-enabled blank space, where they can place their own cabinets in our data centers or use our services to build their customized cabinet space.

- *Interconnectivity Services* are provided by us in the following ways:

  - Border Gateway Protocol (BGP) Network Services. We provide network services that use BGP routing protocol and policies, which allow the internet to become a decentralized system and thereby reduces traffic congestion and data transmission time;

  - Single-line Network Services. China Telecom and China Unicom are the two major telecommunication carriers in China. Some customers may choose to connect their servers only to one carrier while others choose to connect their servers to both China Telecom and China Unicom. Dual-line network provides more stable internet access and ensures better business continuity; and

  - Multiple-line Network Services. As a carrier-neutral service provider, our data centers are connected to all carrier and non-carrier networks in China. Customers then may choose to connect their servers to multiple networks at the same time. Our interconnectivity services connect our customers with each other, connect our data centers with China's telecommunication carriers backbone network and other networks. We provide cross-connection services to the customers of our data center. Upon the request of the customers, we utilize single or multi-mode fiber to create links between the customers directly and privately.

- *Value-Added Services* are provided by us in the following ways:

  - Hybrid IT Services. Our hybrid IT services provide customers with a complete package of infrastructure service offerings, conveniently bundled to expedite the customer's process to launch their applications and products to the extent possible. In conjunction with our IaaS, platform, hybrid IT services combine colocation, servers, connectivity, storage and customer services to save IT infrastructure installation time, and provide a complete, reliable, and secured environment for customer's IT demands. As more customers move their IT resources to the cloud, our cloud-neutral platform will enable our hybrid IT services to provide both private and public cloud services as well as their inter-linked connections;

  - Private and Hybrid Cloud Services. We provide private cloud, hybrid cloud and multi-cloud managed services to address enterprises' needs in aspects of data sovereignty, cost of ownership, and customization through our proprietary technologies and technical integration with selected partners, such as VMWare, Redhat and ZStack; and

  - Other Value-Added Services. To complement our hosting services and enhance our customers' experiences, we also provide other value-added services, including bare metal services, firewall services, server load balancing, data backup and recovery, data center management, server management, and backup server services. In addition, we also provide customers with traffic charts and analysis, gateway monitoring for servers, domain name system setup, defense mechanism against distributed denial of service (DDOS) attacks, basic setting of switches and routers, and virus protections.

Managed Wholesale Services. Our managed wholesale services started in 2019 and provide internet giants and large-scale cloud computing service providers with new data center sites constructed and developed by us. Based on the specific requirements of our customers, we source properties for new data center sites by acquiring or leasing green-field sites or existing industrial buildings from third parties, and then design and, through cooperation with developers, contractors, and suppliers, build the data center facilities with advanced design and high technical specifications. In October and December 2019, we signed two memoranda of understanding with Alibaba to construct and deploy Alibaba's data center facilities in Eastern China. As of September 30, 2020, the total capacity commitment from our wholesale customers reached 140 megawatts. We believe our core competency and capabilities, acquired from decade of industry experience in the retail segment, are also applicable and critical when we expand our business into the wholesale segment and develop wholesale data centers.

Cloud Services

We started providing public cloud services in 2013 through our cooperation with Microsoft. Under our cooperation arrangement with Microsoft, we provide Microsoft's cloud services, including Azure, Office 365, Dynamics 365 and Power Platform, to customers in mainland China by entering into service agreements with such end customers.

We provide IaaS, PaaS, and SaaS, to our enterprise and individual end customers on the public cloud. Microsoft Azure provides our customers with a one-stop shop to purchase a portion of the pooled computing resources, control the applications uploaded to the virtual servers and/or access to the applications run by various operators on the cloud infrastructure, and pay on an on-demand basis. Through Office 365 services, we provide our customers with not only the complete Office applications, but also business-class email, file sharing and HD video conferencing, all working together and connected in the public cloud so that customers can have access to everything they need to run their business from anywhere.

VPN Services

We offer virtual private network services, or VPN services, primarily through Dermot Holdings Limited and its subsidiaries, or Dermot Entities, which we acquired in August 2014. Dermot Entities offer customers best-in-class, enterprise-grade network services in numerous cities throughout Greater China and the wider Asia-Pacific region. Dermot Entities provide enterprise network solutions including Multiprotocol Label Switching (MPLS) and Software-Defined WAN (SD-WAN), internet access and network security solutions and are starting to add Cloud & SaaS solutions into the product portfolio. We provide fully managed network enabling connectivity with over 157 POPs across Asia. We are among the first official members of the China Cross-border Data Telecommunications Industry Alliance for being recognized as legally compliant by China's Communications Administration. Additionally, we have been appointed as one of the SD-WAN Services Standard Drafting Units of China Communications Standards Association ("CCSA"). We are also among the first ICT service providers in Greater China to obtain several ISO international certifications including ISO/IEC 27001: 2013, ISO/IEC 20000-1: 2018, and ISO 9001: 2015 for information security, IT service management, and quality management, respectively.

Our Infrastructure

Our infrastructure, which consists of our data centers and data transmission network, is the foundation upon which we provide services to our customers. As of September 30, 2020, we operate 31 self-built data centers and 54 partnered data centers located in tier-1 and their surrounding regions, including all of China's major internet hubs, with 51,476 cabinets under management. Our extensive network, consisting of 157 POPs, is a "high-speed internet railway" that connects our data centers with each other and links them to China's telecommunication backbones.

Our Data Centers

We operate two types of data centers: self-built and partnered. We define "self-built" data centers as those with our owned cabinets, and data center equipment housed in buildings we owned, leased from third parties, or we purchased from third parties. We define "partnered" data centers as the data center space and cabinets we leased from China Telecom, China Unicom and other third parties through agreements. As of September 30, 2020, we operate 31 self-built data centers housing 47,651 cabinets and 54 partnered data centers housing 3,825 cabinets.

The table below sets forth the number of data centers and cabinets under our management as of December 31, 2017, 2018, 2019 and September 30, 2019 and 2020, respectively.

	As of December 31,			As of September 30,
	2017	2018	2019	2020
Data Centers				
Self-built	19	20	26	31
Partnered	38	38	51	54
Total	57	58	77	85
Cabinets				
Self-built	23,823	25,711	32,047	47,651
Partnered	5,257	4,943	4,244	3,825
Total	29,080	30,654	36,291	51,476

Our data centers are located in over 20 cities as of the date of this offering memorandum. Our nationwide network of data centers not only enables us to serve customers in extended geographic areas, but also establishes a national data transmission network that sets up connections among carriers and service providers in various locations.

The table below sets forth our portfolio of self-built data centers in service as of September 30, 2020.

	Number of Self-built Data Centers	Cabinets Housed
Beijing	12	Approximately 20,700
Shanghai and Hangzhou	7	Approximately 9,800
Greater Bay Area	5	Approximately 9,300
Satellite cities(1)	2	Approximately 4,400
Others	5	Approximately 3,500
Total	31	Approximately 47,700

(1) Refer to smaller cities that are adjacent to Beijing, Shanghai, Hangzhou and Greater Bay Area.

We build and operate our data centers in compliance with high industry standards in order to provide our customers with secure and reliable environments that are necessary for optimal internet interconnectivity. Our data centers generally feature:

- *Resilient Power*—Redundant, high-capacity and stable power supplies, backed by uninterruptible power supply, or UPS, high-performance batteries and diesel generators;

- *Physical Security*—Round-the-clock monitoring by on-site personnel, which includes verification of all persons entering the building, security barriers, video camera surveillance and security breach alarms;

- *Controlled Access*—Access to the buildings, data floors and individual areas designated for particular customers via individually-programmed access cards and visual identification;

- *Fire Detection and Suppression*—Sensitive smoke detectors linked to building management systems provide early detection to help avoid fire, loss and business disruption. These are complemented by an environmentally-friendly gas-based or water mist fire suppression system to put out fires;

- *Air Conditioning*—To help ensure optimal performance and avoid equipment failure, all data center floors are managed to make sure that customers' equipment is maintained at a controlled temperature and humidity; and

- *24/7 Support*—We staff our data centers with capable and experienced service teams and we believe we were the first data center service provider in China to offer 24/7 customer service.

These features minimize chances of interruption to the servers housed in our data centers and ensure the business continuity of our customers. In addition, we believe we were the first data center service provider in China to receive both the ISO 9001 quality system certification by the American Registrar Accreditation Board and a certification by the United Kingdom Accreditation Service.

Our Network

Our network transmits data and directs internet traffic, forming an internet highway system that is linked to the networks of major carriers, non-carriers and ISPs and enhances communications among our data centers, our customers and end users located throughout China and around the world. As of December 31, 2017, 2018, 2019 and September 30, 2020, our network connected 476, 172, 165 and 157 POPs throughout China.

Our network also features numerous interfaces with four telecommunication carriers in China, which are China Telecom, China Unicom, China Mobile and China Education Network. Our network is not only connected to the headquarters of each carrier, but also with their local networks throughout China.

Due to our high-quality data center infrastructure, extensive data transmission network and proprietary smart routing technologies, we are able to deliver high-performance hosting and related services that can effectively meet our customers' business needs, improve interconnectivity among service providers and end users, and effectively address the issue of inadequate network interconnectivity in China.

Customers and Customer Support

Our Customers

We serve a diversified and loyal base of customers, depending on the different types of services provided by us, our customers include (i) enterprise customers for our hosting and related services, and (ii) individual customers who signed up for the Microsoft Azure, Office 365, Dynamics 365 and Power Platform services. As of September 30, 2020, we had over 6,000 enterprise customers, of which approximately 1,300 customers are using our managed hosting services. Our enterprise customers represent a variety of industry verticals with different business scale, ranging from information technology and cloud services, telecommunication carriers, communications and social networking, online education, gaming and entertainment, consumer retail to financial services and government agencies, as well as from blue-chip enterprises to small- to mid-sized enterprises.

We have a loyal customer base, as evidenced by our low churn rate. Our average monthly hosting churn rate, based on our core data center business, was 0.5%, 0.3%, 0.5%, and 0.3% in 2017, 2018, 2019 and for the nine months ended September 30, 2020, respectively. Our average monthly recurring revenue from our top 20 customers were RMB96.4 million, RMB 105.9 million, RMB 110.3 million, RMB 110.1 million and RMB 126.0 million (US$18.6 million) in 2017, 2018, 2019 and for the nine months ended September 30, 2019 and 2020, respectively.

Our experience in serving market leaders in various sectors also provides us with industry knowledge, operational expertise and credibility that we can leverage in cross-selling additional services to our existing and potential customers.

Customer Support

We devote significant resources to provide customers support and services through our dedicated customer service team. We offer service level agreements on most of our services to our customers. Such agreements set the expectations on service level between our customers and us and drive our internal process to meet or exceed the customer's expectations. We believe we were the first data center service provider in China to offer 24/7 customer services. Our network operation center is staffed with skilled engineers trained in network diagnostics and engineering. We require our staff to respond to calls or request from customers within 15 minutes. For major customers, we have a dedicated team to offer specialized services tailored to their specific needs. Areas of customer support include design and improvement of our customers' IT infrastructure and network optimization.

Our customers may directly contact the customer service team to seek assistance or inquire about the status of a reported incident. The team actively follows up with our operations team to help ensure that the problems are addressed in an effective and timely manner. Each of our customers is assigned a service manager who is responsible for ensuring that all our services are performed in a satisfactory manner.

Research and Development and Intellectual Property

Our strong research and development capabilities support and enhance our service offerings. We have an experienced research and development team and devote significant resources to our research and development efforts, focusing on improving customer experience, increasing operational efficiency and bringing innovative solutions to the market quickly.

We have made continual investments and trainings for research and development to drive our growth in both mature and emerging businesses. As of September 30, 2020, our experienced research and development team consisted of 126 engineers, many of whom have more than 10 years of relevant industry experience.

Our research and development efforts have yielded 73 patents, 55 patent applications and 145 software copyright registrations as of September 30, 2020, all in China and focused on the areas including (i) energy saving technology, (ii) data center design and facility maintenance and operations, (iii) network operation and maintenance management, (iv) cloud-related technologies, and (v) edge computing and blockchain.

We rely on a combination of copyright, patent, trademark, trade secret and other intellectual property laws, nondisclosure agreements and other protective measures to protect our intellectual property rights. We generally control access to and use of our proprietary software and other confidential information through the use of internal and external controls, including physical and electronic security, contractual protections, and intellectual property law. We have implemented a strict security and information technology management system, including the prohibition of copying and transferring of codes. We educate our staff on the need to, and require them to, comply with such security procedures. We also promote protection through contractual prohibitions, such as requiring our employees to enter into confidentiality and non-compete agreements.

Sales and Marketing

We actively market our portfolio of services and solutions through our direct sales force. Our sales and marketing teams are primarily based in Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, Xi'an, Hong Kong and Taiwan. We also have dedicated teams for our key customers and provide them service offerings specially tailored to their needs. We up-sell and cross-sell our broad portfolio of services and solutions to our existing customer base. In addition, in an effort to better anticipate and respond to our customers' needs, we require and foster the collaboration between our sales team and research and development team to develop additional services and solutions that meet the customers' needs.

Our strong brand recognition has been an important driving force for our sales. To strengthen our brand, we focus our marketing efforts on sponsoring seminars, conferences and special events to raise our profile with potential customers. Additionally, we collaborate with equipment suppliers, software developers, internet solution providers and other companies to market our services. We have a special marketing team responsible for generating demand for our services and solutions and work with our other teams to secure new customers.

Competition

We face competition from a wide range of data center service providers and other value-added service providers, including:

- *Carriers.* We face competition from state-owned telecommunication carriers, including China Telecom and China Unicom. According to Frost & Sullivan, carriers occupied 44.1% of the data center services market in 2019. In addition, both carriers operate their own networks. Competition is primarily focused on pricing, quality of services and geographic coverage. We believe we are well-positioned to compete with major carriers. Unlike China Telecom and China Unicom, which construct data centers primarily to promote the sale of bandwidth, we provide connectivity to multiple networks in each of our carrier-neutral data centers, providing superior choice and performance. Our private network provides enhanced connectivity among different networks. In comparison, data centers operated by China Telecom and China Unicom generally provide access only to their own network and are often constrained by their networks' coverage. Due to inadequate interconnectivity among China's carriers' networks and among the same carrier's networks in different provinces, interconnectivity bottlenecks remain a major problem, contributing to slow transmission speeds across services and applications.

- *Carrier-neutral service providers.* We face competition from other carrier-neutral service providers, such as SINNET and GDS. Competition is primarily focused on pricing and the quality and breadth of service offerings. We distinguish ourselves by our superior interconnectivity, extensive data transmission network, large number of high-quality data centers, and superior operations, maintenance and other customer services. Due to the unique nature of data center services, where relocation of customer servers and equipment is operationally difficult, customers are highly selective in choosing their data center service provider. Our strong brand, superior reputation and extensive operating experience and expertise remain the key differentiator in attracting and retaining our customers.

- *In-house data centers.* Businesses may choose to house and maintain their own IT hardware, such as Baidu and Alibaba, and other large enterprises, particularly in the financial services sector. Due to their in-house capabilities, these customers may outsource fewer services to other third-party data center services providers including us, if at all. However, we believe our data centers, coupled with our superior network services, offer a unique combination of hosting services that would make us attractive to businesses with in-house data centers.

- *Cloud service providers.* Cloud services are a new and emerging market and therefore, we face competition from various market players who have entered into or plan to enter into the new market. In partnership with Microsoft, we offer cloud services, including Microsoft Azure, Office 365, Dynamics 365 and Power Platform, in China. We compete with domestic Chinese cloud service providers, such as Alibaba Cloud and Tencent Cloud, as well as international cloud services which are operated by other data center service providers in China, such as AWS. We believe our partnerships with Microsoft will make us attractive to potential customers, especially enterprise and government entity customers that have a strong demand for cloud services.

- *Other valued-added service providers.* We face competition from other value-added telecommunications service providers including VPN service providers, such as Citic Telecom CPC. As one of the leading service providers in each one of these value-added service markets, we believe our offerings not only complement our core hosting services, but also position us to capture additional growth opportunities.

We do not currently compete with data center service providers located in Hong Kong and overseas, but we may compete with them if we expand our service offerings beyond China. We believe that there are currently no foreign competitors with a significant presence in the data center services market in China, partly due to the regulatory barriers in China's telecommunications sector. As China represents a potentially lucrative market for foreign competitors, some foreign providers may seek to enter the Chinese market. We believe we have accumulated a deep understanding of the requirements of China's data center market through our extensive operational experience and have developed a comprehensive suite of services and solutions tailored to the unique characteristics of the internet market in China. As we expand our service offerings, such as cloud services, we expect to face more competitions in those areas as well.

Employees

We had 2,220, 2,295 and 2,599 employees as of December 31, 2018, 2019 and 2020, respectively. The following table sets forth the number of our employees by function as of December 31, 2020:

Functional Area	Number of Employees	% of Total
Operations	1,345	52%
Sales, marketing and customer support	337	13%
Research and development	182	7%
General and administrative	735	28%
Total	2,599	100%

Of our total employees as of December 31, 2020, 1,361 were located in Beijing, and 1,238 in other cities in China.

Our recruiting efforts include on-campus recruiting, online recruiting and the use of professional recruiters. We partner with leading national research institutions and employ other measures designed to bring us into contact with suitable candidates for employment.

Our full time employees in the PRC participate in a government mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that our PRC subsidiaries make contributions to the government for these benefits based on a fixed percentage of the employees' salaries.

Property, Plants and Equipment

Our headquarters are located at Guanjie Building Southeast, 1st Floor, 10# Jiuxianqiao East Road, Chaoyang District, Beijing, the People's Republic of China. We lease facilities for our office space in Beijing, Shanghai, Guangzhou, Shenzhen, Xi'an, Ningbo, Foshan, Dongguan, Hangzhou, Suzhou, Hong Kong and Taiwan. Our office leases generally have terms ranging from one to ten years and may be renewed upon expiration of the lease terms. As of December 31, 2019, our offices occupied an aggregate of 29,107 square meters of leased space.

In Beijing, we also lease facilities for our self-built data centers located: (i) in the Chaoyang District, through two lease agreements with Beijing Yinghe Century Land Co., Ltd., four lease agreements with Beijing Seven Star Technology Group Co., Ltd., one lease agreement with Telehouse Beijing BEZ Data Centre, and one lease agreement with China Youth Printing Factory, (ii) in the Beijing Economic and Technological Development Zone, through a lease agreement with Beijing Tengfei Boda Real Estate Development Co., Ltd., (iii) in the Daxing District, through a lease agreement with Beijing Xingguang Tuocheng Investment Co., Ltd., (iv) in the Xiangshan District, through a lease agreement with Beijing Tuspark Harmonious Investment Development Co., Ltd., or Beijing Tuspark, and (v) in the Tongzhou New Town, through a lease with Beijing BOHS Colour Printing Co., Ltd.. These leases provide an aggregate of approximately 119,639 square meters of leased space and host a total of 15,446 cabinets as of December 31, 2019. Each of the two leases with Beijing Yinghe Century Land Co., Ltd. has a term of two years expiring on August 31, 2021. Each of the four leases with Beijing Seven Star Technology Group Co., Ltd. has a term of five years and will expire on January 6, 2022, August 14, 2022, October 4, 2023 and October 15, 2023, respectively. The lease with Telehouse Beijing BEZ Data Center has a term of 10 years expiring on March 31, 2027. The lease may be renewed upon mutually agreed-upon terms before they expire. The lease with China Youth Printing Factory has a term of five years expiring on March 31, 2023, and we have the pre-emptive right to purchase the property upon any change of control circumstance in the property owner. The lease with Beijing Tengfei Boda Real Estate Development Co., Ltd. has a term of ten years expiring on August 31, 2021, subject to our pre-emptive right to renew the lease. The lease with Beijing Xingguang Tuocheng Investment Co., Ltd. has a term of twenty years expiring on February 28, 2033, subject to our pre-emptive right to renew the lease. The lease with Beijing Tuspark has a term of 20 years expiring on September 27, 2038 and will extend for another 20 years upon signing of a renewal agreement prior to 6 months before the expiration of the term. The lease with Beijing BOHS Colour Printing Co., Ltd. has a term of 8 years and 10 months expiring on September 30, 2028 and will automatically extend for another 26 years, and we have the pre-emptive right to purchase the property upon any change of control circumstance in the property owner.

In Shenzhen, we also lease facilities for our self-built data centers located in the Nanshan District, through two lease agreements with Shenzhen Merchants Property Development Co., Ltd., a lease agreement with Shenzhen Toukong Industrial Park Development and Operation Co., Ltd., and three lease agreements with Shenzhen Bay Technology Development Co., Ltd. These leases provide an aggregate of approximately 4,867 square meters of leased space and hosted a total of 770 cabinets as of December 31, 2019. The two leases with Shenzhen Merchants Property Development Co., Ltd. both have a term of 47 months which expired on September 30, 2015, which have been extended to September 30, 2020. The lease with Shenzhen Toukong Industrial Park Development and Operation Co., Ltd. has a term of eight years expiring on November 1, 2022. Two of the three leases with Shenzhen Bay Technology Development Co., Ltd. have a term of six years expiring on December 14, 2021, and the remaining one of the three leases with Shenzhen Bay Technology Development Co., Ltd. expired on February 29, 2020 and we are currently in the process of renewing it for one year with Shenzhen Bay Technology Development Co., Ltd.

In Shanghai, we also lease facilities for our self-built data centers located in the Baoshan District, through a lease agreement with Shanghai Cloud Century Co., Ltd., which provides an aggregate of

12,151 square meters of leases space and hosted a total of 1,412 cabinets as of December 31, 2019. The lease has a term of 20 years expiring on December 5, 2030. We also lease facilities for our self-built data centers located in the Pudong District, through a lease agreement with Shanghai Gosun Data System Co., Ltd., which provides an aggregate of 5,952 square meters of leases space and hosts a total of 1,194 cabinets as of December 31, 2019. The lease has a term of 8 years expiring on August 31, 2026.

In Hangzhou, we also lease facilities for our self-built data centers, offices and research centers located in Hangzhou Economic Development Zone, through a lease agreement with Hangzhou Economic and Development Zone Qiantang Real Estate Development Co., Ltd., which provides an aggregate of 11,020 square meters of leased space and hosted a total of 1,063 cabinets as of December 31, 2019. The lease has a term of twenty years expiring on July 31, 2031, subject to our pre-emptive right to renew the lease.

In Guangzhou, we also lease facilities for our self-built data centers located in Guangzhou Economic and Technological Development Zone, through a lease agreement with Elec & Eltek International Company Limited, which provides an aggregate of 52,264 square meters of leases space and hosted a total of 2,267 cabinets as of December 31, 2019. The lease has a term of 10 years expiring on December 31, 2024, subject to our pre-emptive right to renew the lease.

In Ningbo, we also lease facilities for our self-built data centers located in Ningbo High Tech Zone, through a lease agreement with Ningbo Software and Service Outsourcing Industrial Park Management Service Center, which provides an aggregate of 1,200 square meters of leases space and hosted a total of 276 cabinets as of December 31, 2019. The lease has an initial term of 10 years which expired on December 31, 2019, and has been renewed with another three years expiring on December 31, 2022, subject to our pre-emptive right to renew the lease.

We have also built our own data centers in our self-owned buildings in Beijing, Xi'an, Shanghai, Foshan, Guangzhou, Suzhou, and Sichuan, housing 9,619 cabinets.

Legal Proceedings

From time to time, we may become involved in legal proceedings, investigations and claims incidental to the conduct of our business. We are currently not involved in any legal or administrative proceedings that may have a material adverse impact on our business, financial position or profitability. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors. See "Risk Factors—Risks Related to Our Business—We may be subject to legal proceedings or arbitration claims in the ordinary course of our business, and the court ruling or arbitration award may not be favorable to us."

Litigation

In September 2014, our Company and certain of our officers and directors were named as defendants in two putative securities class actions filed in U.S. federal district courts in Texas: Sun v. 21Vianet et al., Civil Action No. 14 CV 926 (E.D. Tex.) and Singh v. 21Vianet et al., Civil Action No. 14 CV 894 (E.D. Tex.). The Sun action originally was filed in the U.S. District Court for the Southern District of Texas, and was transferred to the U.S. District Court for the Eastern District of Texas, or the Court. The complaints in both actions alleged that certain of our Company's financial statements and other public disclosures contained misstatements or omissions and asserted claims under the U.S. securities laws. On September 15, 2015, the Court entered an order consolidating the cases and on September 21, 2015, the Court entered an order appointing a lead plaintiff and lead counsel for the consolidated case. On September 13, 2016, the lead plaintiff filed an amended complaint against our Company and certain of our personnel and sought to represent a class of persons who allegedly suffered damages as a result of their trading activities related to our Company's ADSs from August 20, 2013 to August 16, 2016. After our motion to dismiss the case was denied, on April 9, 2018, the lead plaintiff filed an unopposed motion for preliminary approval of class action settlement, requesting that the Court (i) preliminarily approve a settlement agreement pursuant to which the parties agreed to settle the case for US$9,000,000, (ii) preliminarily certify the proposed settlement class, (iii) approve the parties' proposed notice to the settlement class, and (iv) set the date for a hearing by the Court to consider the final approval of the settlement and entry of a proposed final judgment approving class action settlement, the plan of allocation of settlement proceeds, and lead counsel's application for an award of attorneys' fees and expenses. The Court granted that motion and, on October 31, 2018, held a settlement approval hearing. On November 9, 2018, the Court approved the settlement and issued final judgment, ending the case.

Disputes with Shanghai 21Vianet Information System Co., Ltd.

Shanghai 21Vianet Information System Co., Ltd. is a company bearing "21Vianet" in its name but is not affiliated with us. In January 2008, 21Vianet Beijing and 21Vianet China brought two lawsuits against Shanghai 21Vianet Information System Co., Ltd. in a Beijing court for intellectual property rights infringement and unfair competition. 21Vianet Beijing and 21Vianet China prevailed in each case. The court ordered Shanghai 21Vianet Information System Co., Ltd. to stop infringing our trademark and stop engaging unfair competition activities. 21Vianet Beijing and 21Vianet China was also awarded RMB150,000 in damages for each case. In October 2010, 21Vianet China filed another complaint against Shanghai 21Vianet Information System Co., Ltd. for domain name infringement and unfair competition. In July 2011, Shanghai 21Vianet Information System Co., Ltd. settled the case with us and transferred the domain name *www.21vianet.com.cn* to us for free. However, Shanghai 21Vianet Information System Co., Ltd. may continue to include "21Vianet" as part of its official company name when the name is spelt out in full, while using "21Vianet" or our logo in a short form or other context is prohibited.

Our executive chairman, Mr. Sheng Chen, holds a minority equity interest in Shanghai 21Vianet Information System Co., Ltd. due to historical reasons. As a result of the restriction on equity transfer pursuant to its articles of association, it is not practical for Mr. Chen to transfer his equity interest in Shanghai 21Vianet Information System Co., Ltd. to us or any other parties. Mr. Chen, however, has executed an irrevocable power of attorney, pursuant to which Mr. Chen has appointed 21Vianet Beijing as his attorney-in-fact to attend shareholders' meeting of Shanghai 21Vianet Information System Co., Ltd. and to exercise all the shareholder's voting rights. Such power of attorney remains valid and irrevocable so long as Mr. Chen remains the shareholder of Shanghai 21Vianet Information System Co., Ltd.

QuickLinks

Exhibit 99.3

BUSINESS

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.4

21VIANET GROUP, INC.

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CONDENSED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2019 AND UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2020

(Amounts in thousands of Renminbi ("RMB") and US dollars ("US$"))

		As of		
	Notes	December 31, 2019	September 30, 2020	
		RMB	RMB	US$
ASSETS				
Current assets:				
Cash and cash equivalents		1,808,483	5,204,689	766,568
Restricted cash		478,873	178,949	26,356
Accounts and notes receivable (net of allowance for doubtful debt of RMB67,828 and RMB67,795 (US$9,985) as of December 31, 2019 and September 30, 2020, respectively)	4	657,158	883,902	130,185
Short-term investments		363,856	80,444	11,848
Prepaid expenses and other current assets	5	1,618,149	1,328,463	195,661
Amounts due from related parties	19	301,665	125,007	18,412
Total current assets		5,228,184	7,801,454	1,149,030
Non-current assets:				
Property and equipment, net	6	5,443,565	7,184,471	1,058,158
Intangible assets, net	7	410,595	571,967	84,242
Land use rights, net	8	233,154	257,400	37,911
Operating lease right-of-use assets, net	13	1,221,616	1,238,443	182,403
Goodwill	9	989,530	994,993	146,547
Restricted cash		69,821	70,673	10,409
Deferred tax assets	18	209,366	147,895	21,783
Long-term investments	10	169,653	151,226	22,273
Amounts due from related parties	19	20,654	20,229	2,979
Other non-current assets		277,568	411,234	60,568
Total non-current assets		9,045,522	11,048,531	1,627,273
Total assets		14,273,706	18,849,985	2,776,303

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

CONDENSED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2019 AND UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2020 (Continued)

(Amounts in thousands of Renminbi ("RMB") and US dollars ("US$"))

		As of		
	Notes	December 31, 2019	September 30, 2020	
		RMB	RMB	US$
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term bank borrowings (including short-term bank borrowings of the Consolidated VIEs without recourse to the primary beneficiaries of RMB232,323 and RMB36,323 (US$5,350) as of December 31, 2019 and September 30, 2020, respectively)	11	234,500	38,500	5,670
Accounts and notes payable (including accounts and notes payable of the Consolidated VIEs without recourse to the primary beneficiaries of RMB211,710 and RMB242,872 (US$35,771) as of December 31, 2019 and September 30, 2020, respectively)		303,128	332,726	49,005
Accrued expenses and other payables (including accrued expenses and other payables of the Consolidated VIEs without recourse to the primary beneficiaries of RMB622,160 and RMB 944,853 (US$139,162) as of December 31, 2019 and September 30, 2020, respectively)	12	978,935	1,451,722	213,816
Advances from customers (including advances from customers of the Consolidated VIEs without recourse to the primary beneficiaries of RMB1,068,692 and RMB627,981(US$92,492) as of December 31, 2019 and September 30, 2020, respectively)		1,068,692	627,981	92,492
Deferred revenue (including deferred revenue of the Consolidated VIEs without recourse to the primary beneficiaries of RMB52,088 and RMB44,021(US$6,484) as of December 31, 2019 and September 30, 2020, respectively)		57,625	51,993	7,658
Income taxes payable (including income taxes payable of the Consolidated VIEs without recourse to the primary beneficiaries of RMB8,175 and RMB13,127(US$1,933) as of December 31, 2019 and September 30, 2020, respectively)		48,032	50,454	7,431
Amounts due to related parties (including amounts due to related parties of the Consolidated VIEs without recourse to the primary beneficiaries of RMB56,977 and RMB 52,916 (US$7,794) as of December 31, 2019 and September 30, 2020, respectively)	19	166,935	64,006	9,427

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

CONDENSED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2019 AND UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2020 (Continued)

(Amounts in thousands of Renminbi ("RMB") and US dollars ("US$"))

	Notes	As of December 31, 2019	As of September 30, 2020	
		RMB	RMB	US$
Current portion of long-term bank borrowings (including current portion of long-term bank borrowings of the Consolidated VIEs without recourse to the primary beneficiaries of RMB32,500 and RMB37,000 (US$5,450) as of December 31, 2019 and September 30, 2020, respectively)	11	32,500	44,500	6,554
Current portion of finance lease liabilities (including current portion of finance lease liabilities of the Consolidated VIEs without recourse to the primary beneficiaries of RMB220,363 and RMB346,012 (US$50,962) as of December 31, 2019 and September 30, 2020, respectively)	13	227,115	355,084	52,298
Deferred government grants (including deferred government grants of the Consolidated VIEs without recourse to the primary beneficiaries of RMB2,595 and RMB2,074 (US$305) as of December 31, 2019 and September 30, 2020, respectively)		2,595	2,074	305
Current portion of bonds payable	14	911,147	—	—
Current portion of operating lease liabilities (including current portion of operating lease liabilities of the Consolidated VIEs without recourse to the primary beneficiaries of RMB410,422 and RMB441,028 (US$64,956) as of December 31, 2019 and September 30, 2020, respectively)	13	437,817	468,056	68,937
Total current liabilities		4,469,021	3,487,096	513,593

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

21VIANET GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2019
AND UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2020 (Continued)

(Amounts in thousands of Renminbi ("RMB") and US dollars ("US$"))

	Notes	As of December 31, 2019 RMB	September 30, 2020 RMB	September 30, 2020 US$
Non-current liabilities:				
Long-term bank borrowings (including long-term bank borrowings of the Consolidated VIEs without recourse to the primary beneficiaries of RMB79,500 and RMB221,758 (US$32,661) as of December 31, 2019 and September 30, 2020, respectively)	11	79,500	485,123	71,451
Bonds payable	14	2,060,708	2,024,365	298,157
Convertible promissory notes	16	—	2,539,118	373,972
Non-current portion of finance lease liabilities (including non-current portion of finance lease liabilities of the Consolidated VIEs without recourse to the primary beneficiaries of RMB549,669 and RMB721,732 (US$106,300) as of December 31, 2019 and September 30, 2020, respectively)	13	896,927	1,061,281	156,310
Unrecognized tax benefits (including unrecognized tax benefits of the Consolidated VIEs without recourse to the primary beneficiaries of RMB1,991 and RMB3,507 (US$517) as of December 31, 2019 and September 30, 2020, respectively)	18	2,443	3,873	571
Deferred tax liabilities (including deferred tax liabilities of the Consolidated VIEs without recourse to the primary beneficiaries of RMB82,725 and RMB135,923 (US$20,019) as of December 31, 2019 and September 30, 2020, respectively)		202,572	243,370	35,845
Deferred government grants (including deferred government grants of the Consolidated VIEs without recourse to the primary beneficiaries of RMB5,906 and RMB4,551 (US$670) as of December 31, 2019 and September 30, 2020, respectively)		5,906	4,551	670
Amounts due to related parties (including amounts due to related parties of the Consolidated VIEs without resource to the primary beneficiaries of RMB745,899 and RMB742,611 (US$109,375) as of December 31, 2019 and September 30, 2020, respectively)	19	745,899	742,611	109,375
Non-current portion of operating lease liabilities (including non-current portion of operating lease liabilities of the Consolidated VIEs without resource to the primary beneficiaries of RMB529,546 and RMB509,630 (US$75,060) as of December 31, 2019 and September 30, 2020, respectively)	13	579,102	558,154	82,207
Total non-current liabilities		4,573,057	7,662,446	1,128,558
Total liabilities		9,042,078	11,149,542	1,642,151
Commitments and contingencies	22			

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

21VIANET GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2019 AND UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2020 (Continued)

(Amounts in thousands of Renminbi ("RMB") and US dollars ("US$"))

		As of		
	Notes	December 31, 2019	September 30, 2020	
		RMB	RMB	US$
Shareholders' equity:				
Class A Ordinary shares (par value of US$0.00001 per share; 1,200,000,000 and 1,199,790,000 shares authorized; 505,253,850 and 645,473,801 issued and outstanding as of December 31, 2019 and September 30, 2020, respectively)		34	43	6
Class B Ordinary Shares (par value of US$0.00001 per share; 300,000,000 and 300,000,000 shares authorized; 174,649,638 and 164,125,381 issued and outstanding as of December 31, 2019 and September 30, 2020, respectively)		12	12	2
Class C Ordinary Shares (par value of US$0.00001 per share; 60,000 and 60,000 shares authorized; 60,000 and 60,000 shares issued and outstanding as of December 31, 2019 and September 30, 2020, respectively)		—	—	—
Series A perpetual convertible preferred shares (par value of US$0.00001 per share; nil and 150,000 shares issued and outstanding as of December 31,2019 and September 30, 2020, respectively)	15	—	1,044,831	153,887
Additional paid-in capital		9,202,567	12,790,027	1,883,767
Accumulated other comprehensive income		77,904	38,605	5,686
Statutory reserves		60,469	60,030	8,841
Accumulated deficit		(4,038,390)	(6,205,303)	(913,942)
Treasury stock		(349,523)	(349,523)	(51,479)
Total 21Vianet Group, Inc. shareholders' equity		4,953,073	7,378,722	1,086,768
Noncontrolling interest		278,555	321,721	47,384
Total shareholders' equity		5,231,628	7,700,443	1,134,152
Total liabilities and shareholders' equity		14,273,706	18,849,985	2,776,303

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

21VIANET GROUP, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands of RMB and US$, except for number of shares and per share data)

		For the nine months periods ended September 30,		
		2019	2020	
	Notes	RMB	RMB	US$
Net revenues				
Hosting and related services		2,740,848	3,480,652	512,645
Cost of revenues				
Hosting and related services		(2,049,270)	(2,699,066)	(397,529)
Gross profit		691,578	781,586	115,116
Operating expenses				
Sales and marketing expenses		(143,121)	(146,122)	(21,521)
Research and development expenses		(63,872)	(70,727)	(10,417)
General and administrative expenses		(305,293)	(372,242)	(54,825)
Allowance for doubtful debt		(485)	(1,072)	(158)
Total operating expenses		(512,771)	(590,163)	(86,921)
Operating profit		178,807	191,423	28,195
Interest income		39,619	27,535	4,055
Interest expense		(257,580)	(301,366)	(44,386)
Other income		14,220	11,803	1,738
Other expenses		(4,362)	(28,986)	(4,269)
Changes in the fair value of convertible promissory notes	21	—	(1,587,115)	(233,757)
Foreign exchange loss, net		(50,507)	72,629	10,697
Debt extinguishment loss		(18,773)	—	—
Loss before income taxes and loss from equity method investments		(98,576)	(1,614,077)	(237,727)
Income tax expenses	18	(30,123)	(68,126)	(10,034)
Loss from equity method investments		(30,293)	(4,325)	(637)
Net loss		(158,992)	(1,686,528)	(248,398)
Net income attributable to noncontrolling interest		(6,884)	(7,441)	(1,096)
Net loss attributable to 21Vianet Group, Inc.		(165,876)	(1,693,969)	(249,494)
Loss per share:				
Basic	20	RMB (0.24)	RMB (3.17)	US$ (0.47)
Diluted	20	RMB (0.24)	RMB (3.17)	US$ (0.47)
Shares used in loss per share computation:				
Basic	20	678,359,403	686,292,393	686,292,393
Diluted	20	678,359,403	686,292,393	686,292,393

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

21VIANET GROUP, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Amounts in thousands of RMB and US$)

	For the nine months periods ended September 30,		
	2019	2020	
	RMB	RMB	US$
Net loss	(158,992)	(1,686,528)	(248,398)
Other comprehensive income, net of tax of nil:			
Foreign currency translation adjustments, net of tax of nil	40,797	(39,299)	(5,789)
Other comprehensive income, net of tax of nil	40,797	(39,299)	(5,789)
Comprehensive loss	(118,195)	(1,725,827)	(254,187)
Comprehensive income attributable to noncontrolling interest and redeemable noncontrolling interest	(6,884)	(7,441)	(1,096)
Comprehensive loss attributable to 21Vianet Group, Inc.	(125,079)	(1,733,268)	(255,283)

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

21VIANET GROUP, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands of RMB and US$)

	For the nine months periods ended September 30,		
	2019	2020	
	RMB	RMB	US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(158,992)	(1,686,528)	(248,398)
Adjustments to reconcile net loss to net cash generated from operating activities:			
Foreign exchange loss, net	50,507	(72,629)	(10,697)
Depreciation and amortization	572,563	688,066	101,341
Loss on disposal of property and equipment and intangible assets	449	1,069	157
Allowance for doubtful accounts	485	1,072	158
Share-based compensation expense	35,327	54,770	8,067
Deferred income tax (benefits) loss	(23,631)	11,447	1,686
Loss from equity method investments	30,298	4,325	637
Changes in the fair value of convertible promissory notes (Note 16)	—	1,587,115	233,757
Lease expense	133,541	277,427	40,861
Gain from disposal of equity investments without readily determinable fair value	(5,536)	(258)	(38)
Loss on debt extinguishment	18,773	—	—
Changes in operating assets and liabilities, net of effects of acquisitions and disposals:			
Accounts and notes receivable	(282,676)	(206,956)	(30,481)
Prepaid expenses and other current assets	(330,630)	303,272	44,667
Amounts due from related parties	(50,040)	(11,124)	(1,638)
Accounts and notes payables	38,508	29,598	4,359
Unrecognized tax (benefits) loss	(2,546)	1,430	211
Accrued expenses and other payables	97,792	147,230	21,684
Deferred revenue	3,262	(5,632)	(830)
Advances from customers	326,027	(440,711)	(64,910)
Income taxes payable	27,733	2,422	357
Deferred government grants	500	—	—
Amounts due to related parties	979	(3,526)	(519)
Lease liabilities	(124,596)	(251,467)	(37,037)
Net cash generated from operating activities	358,097	430,412	63,394

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

21VIANET GROUP, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands of RMB and US$)

	For the nine months periods ended September 30,		
	2019	2020	
	RMB	RMB	US$
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(790,604)	(1,700,819)	(250,504)
Purchases of intangible assets	(19,596)	(25,159)	(3,706)
Proceeds from disposal of property and equipment	1,514	1,641	242
Proceeds from disposal of land use right	—	9,397	1,384
Collections of consideration for disposal of subsidiaries	—	5,802	855
Payments for short-term investments	(354,098)	(36,432)	(5,366)
Payment of loans to related parties	(66,704)	(62,531)	(9,210)
Receipt of loans to third parties	—	30,000	4,419
Proceeds received from maturity of short-term investments	242,092	318,956	46,977
Proceeds from disposal of long-term investments	14,288	1,923	283
Payments for long-term investments	(5,000)	—	—
Payments for deposit for acquiring data center	(82,536)	(112,400)	(16,555)
Collection of deposit for acquiring data center	—	3,000	442
Payment for acquisitions, net of cash receipt	(68,196)	(151,276)	(22,281)
Cash receipt from related party due to restructuring (Note 19)	67,563	140,738	20,729
Net cash used in investing activities	(1,061,277)	(1,577,160)	(232,291)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loan from a related party	(47,893)	—	—
Proceeds from exercise of stock options	425	2,364	348
Proceeds from issuance of ordinary shares	—	2,680,706	394,825
Proceeds from Series A perpetual convertible preferred shares (Note 15)	—	1,058,325	155,874
Payment of issuance cost of Series A perpetual convertible preferred shares	—	(2,021)	(298)
Proceeds from issuance of convertible promissory notes (Note 16)	—	1,409,385	207,580
Payment of cost of convertible promissory notes (Note 16)	—	(18,762)	(2,763)
Proceeds from issuance of 2020/2021 Notes	2,012,084	—	—
Payment of issuance cost of 2020/2021 Notes	(35,610)	—	—
Repurchase of 2020 Notes	(1,148,092)	—	—
Repayment of 2020 Notes	—	(915,543)	(134,845)
Proceeds from short-term bank borrowings	230,000	34,000	5,008
Repayment of short-term bank borrowings	(50,000)	(230,000)	(33,875)
Proceeds from long-term bank borrowings	—	433,623	63,866
Repayment of long-term bank borrowings	(72,110)	(16,000)	(2,357)
Payments for purchase of property and equipment through finance leases	(242,127)	(288,483)	(42,489)
Repayment of loan from third parties	—	(133,725)	(19,696)
Repayment and deposits for financing arrangements	(15,549)	(70,268)	(10,349
Contribution from noncontrolling interest in subsidiaries	4,089	10,140	1,493
Proceeds from financing arrangements	—	374,448	55,150
Repayment of notes payable	(95,565)	—	—
Net cash generated from financing activities	539,652	4,328,189	637,472
Effect of foreign exchange rate changes on cash and cash equivalents and restricted cash	90,616	(84,307)	(12,417)
Net increase in cash and cash equivalents and restricted cash	(72,912)	3,097,134	456,158
Cash and cash equivalents and restricted cash at beginning of period	2,661,021	2,357,177	347,175
Cash and cash equivalents and restricted cash at end of period	2,588,109	5,454,311	803,333

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

21VIANET GROUP, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS
OF CASH FLOWS (Continued)

(Amounts in thousands of RMB and US$)

	For the nine months periods ended September 30,		
	2019	2020	
	RMB	RMB	US$
Reconciliation of cash and cash equivalents and restricted cash to the consolidated balance sheets			
Cash and cash equivalents	2,092,427	5,204,689	766,568
Restricted cash-current	426,385	178,949	26,356
Restricted cash-non-current	69,297	70,673	10,409
Total cash and cash equivalents and restricted cash	2,588,109	5,454,311	803,333
Supplemental disclosures of cash flow information:			
Income taxes paid	(29,267)	(52,558)	(7,741)
Interest paid	(124,641)	(170,262)	(25,077)
Interest received	41,420	29,815	4,391
Supplemental disclosures of non-cash activities:			
Right-of-use assets obtained in exchange for new operating lease liabilities	176,195	294,254	43,339
Purchase of property and equipment through finance leases	140,621	131,518	19,371
Purchase of property and equipment included in accrued expenses and other payables	404,066	348,213	51,286
Purchase of intangible assets included in accrued expenses and other payables	(472)	3,523	519

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

21VIANET GROUP, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in thousands of RMB and US$, except for number of shares)

	Number of ordinary shares	Treasury Stock	Ordinary shares	Additional paid-in capital	Accumulated other comprehensive income	Statutory reserves	Accumulated deficit	Total 21Vianet Group, Inc. shareholders' equity	Noncontrolling interest	Total shareholders' equity
Balance as of January 1, 2019	674,356,266	(337,683)	46	9,141,494	85,979	42,403	(3,838,032)	5,094,207	268,977	5,363,184
Consolidated net loss	—	—	—	—	—	—	(165,876)	(165,876)	6,884	(158,992)
Contribution by noncontrolling interest	—	—	—	—	—	—	—	—	4,089	4,089
Foreign exchange difference	—	—	—	(78)	40,797	—	—	40,719	—	40,719
Issuance of new shares	—	—	—	—	—	—	—	—	—	—
Issuance of new shares for share option exercise and restricted share units vested	304,200	—	—	—	—	—	—	—	—	—
Share-based compensation	—	—	—	38,371	—	—	—	38,371	—	38,371
Appropriation of statutory reserves	—	—	—	—	—	1,435	(1,435)	—	—	—
Share issued to depository bank	6,700,002	—	—	—	—	—	—	—	—	—
Share repurchase	—	—	—	—	—	—	—	—	—	—
Share options exercised	33,769	—	—	425	—	—	—	425	—	425
Restricted share units vested	2,038,980	—	—	—	—	—	—	—	—	—
Settlement of share options with shares held by depository bank	(2,072,749)	—	—	—	—	—	—	—	—	—
Balance as of September 30, 2019	681,360,468	(337,683)	46	9,180,212	126,776	43,838	(4,005,343)	5,007,846	279,950	5,287,796

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

21VIANET GROUP, INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Continued)

(Amounts in thousands of RMB and US$, except for number of shares)

	Number of ordinary shares	Treasury Stock	Ordinary shares	Additional paid-in capital	Series A perpetual convertible preferred shareholders	Accumulated other comprehensive income	Statutory reserves	Accumulated deficit	Total 21Vianet Group, Inc. shareholders' equity	Noncontrolling interest	Total shareholders' equity
Balance as of January 1, 2020	679,963,488	(349,523)	46	9,202,567	—	77,904	60,469	(4,038,390)	4,953,073	278,555	5,231,628
Consolidated net loss	—	—	—	—	—	—	—	(1,693,969)	(1,693,969)	7,441	(1,686,528)
Contribution by noncontrolling interest	—	—	—	—	—	—	—	—	—	35,725	35,725
Cumulative adjustment for changes in accounting policy	—	—	—	—	—	—	—	(2,740)	(2,740)	—	(2,740)
Issuance of new shares	117,300,000	—	8	2,680,698	—	—	—	—	2,680,706	—	2,680,706
Issuance of perpetual convertible preferred shares	—	—	—	—	1,044,831	—	—	—	1,044,831	—	1,044,831
Deemed distribution to perpetual convertible preferred shareholders	—	—	—	470,643	—	—	—	(470,643)	—	—	—
Cancellation of shares issued in prior years	(104,304)	—	—	—	—	—	—	—	—	—	—
Conversion of convertible promissory notes	12,499,998	—	1	376,760	—	—	—	—	376,761	—	376,761
Foreign exchange difference	—	—	—	140	—	(39,299)	—	—	(39,159)	—	(39,159)
Share-based compensation	—	—	—	56,855	—	—	—	—	56,855	—	56,855
Appropriation of statutory reserves	—	—	—	—	—	—	(439)	439	—	—	—
Share options exercised	449,976	—	—	2,364	—	—	—	—	2,364	—	2,364
Restricted share units vested	2,350,320	—	—	—	—	—	—	—	—	—	—
Settlement of share options with shares held by depository bank	(2,800,296)	—	—	—	—	—	—	—	—	—	—
Balance as of September 30, 2020	809,659,182	(349,523)	55	12,790,027	1,044,831	38,605	60,030	(6,205,303)	7,378,722	321,721	7,700,443
Balance as of September 30, 2020 US$		(51,479)	8	1,883,767	153,887	5,686	8,841	(913,942)	1,086,768	47,384	1,134,152

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

(Amounts in thousands of RMB and US$, unless otherwise stated)

1. ORGANIZATION

21Vianet Group, Inc. was incorporated under the laws of the Cayman Islands on October 16, 2009 and its principal activity is investment holding. The Company through its consolidated subsidiaries and variable interest entities (the "VIEs") are principally engaged in the provision of hosting and related services.

(a) VIE disclosures

Except for certain property, leasehold improvements and land use right with total carrying amounts of RMB215,968 (US$31,809) that were pledged to secure banking borrowings granted to the Company (Note 11), there were no pledges or collateralization of the Consolidated VIEs' assets. Creditors of the Consolidated VIEs have no recourse to the general credit of the primary beneficiaries of the Consolidated VIEs, and such amounts have been parenthetically presented on the face of the consolidated balance sheets. The Consolidated VIEs operate the data centers and own facilities including data center buildings, leasehold improvements, fiber optic cables, computers and network equipment, which are recognized in the Company's consolidated financial statements. They also hold certain value-added technology licenses, registered copyrights, trademarks and registered domain names, including the official website, which are also considered as revenue-producing assets. However, none of such assets was recorded on the Company's consolidated balance sheets as such assets were all acquired or internally developed with insignificant cost and expensed as incurred. In addition, the Company also hires data center operation and marketing workforce for its daily operations and such costs are expensed when incurred. The Company has not provided any financial or other support that it was not previously contractually required to provide to the Consolidated VIEs during the periods presented.

The following tables represent the financial information of the Consolidated VIEs as of December 31, 2019 and September 30, 2020 and for the nine months periods ended September 30, 2019 and 2020 before eliminating the intercompany balances and transactions between the Consolidated VIEs and other entities within the Company:

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
ASSETS			
Current assets:			
Cash and cash equivalents	591,503	569,670	83,903
Restricted cash	260,961	178,942	26,355
Accounts receivable (net of allowance for doubtful debt of RMB66,416 and RMB66,250 (US$9,759) as of December 31, 2019 and September 30, 2020, respectively)	513,440	720,788	106,161
Prepaid expenses and other current assets	1,371,564	1,141,615	168,142
Amounts due from related parties	57,982	62,482	9,203
Total current assets	2,795,450	2,673,497	393,764
Non-current assets:			
Property and equipment, net	3,580,341	4,837,188	712,441
Intangible assets, net	151,722	347,282	51,149
Land use rights, net	58,588	47,031	6,927

(Amounts in thousands of RMB and US$, unless otherwise stated)

1. ORGANIZATION (Continued)

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
Operating lease right-of-use assets, net	1,144,846	1,162,075	171,155
Goodwill	302,647	308,110	45,380
Restricted cash	66,119	67,002	9,868
Deferred tax assets	180,959	147,934	21,788
Amounts due from related parties	20,654	20,229	2,979
Other non-current assets	262,685	387,322	57,046
Long-term investments	189,571	169,067	24,901
Total non-current assets	5,958,132	7,493,240	1,103,634
Total assets	8,753,582	10,166,737	1,497,398
Current liabilities:			
Short-term bank borrowings	232,323	36,323	5,350
Accounts and notes payable	211,710	242,872	35,771
Accrued expenses and other payables	622,160	944,853	139,162
Advance from customers	1,068,692	627,981	92,492
Deferred revenue	52,088	44,021	6,484
Income tax payable	8,175	13,127	1,933
Amounts due to inter-companies(1)	2,786,838	3,881,505	571,684
Amounts due to related parties	56,977	52,916	7,794
Current portion of finance lease liabilities	220,363	346,012	50,962
Current portion of long-term bank borrowings	32,500	37,000	5,450
Deferred government grants	2,595	2,074	305
Current portion of operating lease liabilities	410,422	441,028	64,956
Total current liabilities	5,704,843	6,669,712	982,343
Non-current liabilities:			
Amounts due to inter-companies(1)	1,020,972	1,020,972	150,373
Amounts due to related parties	745,899	742,611	109,375
Long-term bank borrowings	79,500	221,758	32,661
Non-current portion of finance lease liabilities	549,669	721,732	106,300
Unrecognized tax benefits	1,991	3,507	517
Deferred tax liabilities	82,725	135,923	20,019
Deferred government grants	5,906	4,551	670
Non-current portion of operating lease liabilities	529,546	509,630	75,060
Total non-current liabilities	3,016,208	3,360,684	494,975
Total liabilities	8,721,051	10,030,396	1,477,318

(Amounts in thousands of RMB and US$, unless otherwise stated)

1. ORGANIZATION (Continued)

	For the nine months periods ended September 30,		
	2019	2020	
	RMB	RMB	US$
Net revenues	2,066,344	2,790,334	410,972
Net profit	41,615	80,965	11,925

	For the nine months periods ended September 30,		
	2019	2020	
	RMB	RMB	US$
Net cash generated from operating activities	288,584	516,979	76,143
Net cash used in investing activities	(533,901)	(1,507,547)	(222,038)
Net cash generated from financing activities	243,769	887,599	130,729
Net decrease in cash and cash equivalents and restricted cash	(1,548)	(102,969)	(15,166)

(1) Amounts due to inter-companies consist of intercompany payables to the other companies within the Company for the purchase of telecommunication resources and property and equipment on behalf of the Consolidated VIEs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") and applicable rules and regulations of the Securities and Exchange Commission regarding financial reporting that are consistent with those used in the preparation of the Company's audited consolidated financial statements for the years ended December 31, 2019 and 2018. Accordingly, these unaudited interim condensed consolidated financial statements do not include all of the information and footnotes required by U.S. GAAP for annual financial statements.

In the opinion of the Company's management, the accompanying unaudited interim condensed consolidated financial statements contain all normal recurring adjustments necessary to present fairly the financial position, operating results and cash flows of the Company for each of the periods presented. The results of operations for the nine months periods ended September 30, 2020 are not necessarily indicative of results to be expected for any other interim period or for the year ending December 31, 2020. The condensed consolidated balance sheet as of December 31, 2019 was derived from the audited consolidated financial statements at that date but does not include all of the disclosures required by U.S. GAAP for annual financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related footnotes for the year ended December 31, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Use of estimates

The preparation of the unaudited interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the unaudited interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant estimates and assumptions reflected in the Company's financial statements include, but are not limited to, estimating the useful lives of long-lived assets, determining the fair value of equity investments, accounting for investments and the subsequent impairment assessment, determining the allowance for credit losses for financial assets, determining the valuation allowance for deferred tax assets, accounting for share-based compensation arrangements, goodwill and long-lived assets impairment assessment, measurement of right-of-use assets and lease liabilities, determining the fair value of convertible promissory notes and assessing the initial valuation of the assets acquired and liabilities assumed in a business combination. 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 unaudited interim condensed consolidated financial statements.

(c) Convenience translation

Amounts in US$ are presented for the convenience of the reader and are translated at the noon buying rate of US$1.00 to RMB6.7896 on September 30, 2020, the last business day in September 2020, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be converted, realized or settled into US$ at such rate or at any other rate.

(d) Accounts receivable and allowance for doubtful debt

Accounts receivable are carried at net realizable value. An allowance for credit losses for financial assets, including accounts receivable, carried at amortized cost to present the net amount expected to be collected as of the balance sheet date. Such allowance is based on credit losses expected to arise over the life of the asset's contractual term, which includes consideration of prepayments. Assets are written off when the Company determines that such financial assets are deemed uncollectible and are recognized as a deduction from the allowance for credit losses. Expected recoveries of amounts previously written off, not to exceed the aggregate of the amount previously written off, are included in determining the necessary reserve at the balance sheet date. The Company pools financial assets based on similar risk characteristics to estimate expected credit losses. The Company estimates expected credit losses on financial assets individually when those assets do not share similar risk characteristics. The Company closely monitors its accounts receivable including timely account reconciliations, detailed reviews of past due accounts, updated credit limits, and monthly analysis of the adequacy of their reserve for credit losses.

The Company utilizes a loss rate approach to determine lifetime expected credit losses for its financial assets. This method is used for calculating an estimate of losses based primarily on the Company's historical loss experience. In determining loss rates, the Company evaluates information related to historical losses, adjusted for current conditions and further adjusted for the period of time that the Company can reasonably forecast. The Company has concluded that it can reasonably support

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a forecast period for the contractual life of its financial assets. Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider the following: the customer or vendor's creditworthiness, changes in the policy and procedures to establish customer credit limits, changes in the payment terms of receivables, existence and effect of any concentration of credit and changes in the level of such concentrations, and the effects of other external forces such as the current and forecasted direction of the economic and business environment. On January 1, 2020, the Company adopted ASC326, Financial Instruments-Credit Losses, using modified-retrospective transition approach. Following the adoption of this guidance, a cumulative-effect adjustment in accumulated deficit of RMB2,740 was recognized as of January 1, 2020. For the nine months period ended September 30, 2020, the Company reversed credit losses of RMB1,072 (US$158).

(e) Revenue recognition

The Company provides hosting and related services including hosting of customers' servers and networking equipment, connecting customers' servers with internet backbones ("Hosting service"), virtual private network services providing encrypted secured connection to public internet ("VPN service") and other value-added services and public cloud service through strategic partnership with Microsoft.

On January 1, 2018, the Company adopted ASU No. 2014-09, *Re venue from Contracts with Customers* ("ASC 606").Under ASC 606, an entity recognizes revenue as the Company satisfies a performance obligation when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price, including variable consideration, if any; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration to which it is entitled in exchange for the goods or services it transfers to the customer.

Once a contract is determined to be within the scope of ASC 606 at contract inception, the Company reviews the contract to determine which performance obligations it must deliver and which of these performance obligations are distinct. The Company recognizes revenue based on the amount of the transaction price that is allocated to each performance obligation when that performance obligation is satisfied or as it is satisfied.

The Company is a principal and records revenue on a gross basis when the Company is primarily responsible for fulfilling the service, has discretion in establishing pricing and controls the promised service before transferring that service to customers. Otherwise, the Company records revenue at the net amounts as commissions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's revenue recognition policies are as follows:

Hosting services are services that the Company dedicates data center space to house customers' servers and networking equipment and provides tailored server administration services including operating system support and assistance with updates, server monitoring, server backup and restoration, server security evaluation, firewall services, and disaster recovery. The Company also provides interconnectivity services to connect customers with each other, internet backbones in China and other networks through Border Gateway Protocol, or BGP, network, or single-line, dual-line or multiple-line networks. Hosting services are typically provided to customers for a fixed amount over the contract service period and the related revenues are recognized on a straight-line basis over the term of the contract. For certain contracts where considerations are based on the usage of the Hosting services, the related revenues are recognized based on the consumption at the predetermined rate as the services are rendered throughout the contact term. The Company is a principal and records revenue for Hosting service on a gross basis.

VPN services are services that the Company extends customers' private networks by setting up secure and dedicated connections through the public internet. VPN services are provided to customers for a fixed amount over the contract service period and revenue is recognized on a straight-line basis over the term of the contract. The Company is a principal and records revenue for VPN service on a gross basis.

The Company partners with Microsoft to provide Cloud services that allow enterprise and individual customers to run their applications over the internet using the IT infrastructure. Cloud services are generally charged by the Company to the end customers for a fixed amount or based on the actual usage of the cloud resources at predetermined rates over the subscription period, which in general is one year. The Company fulfils its performance obligation of facilitating Microsoft to provide the Cloud services to the end customers by providing, but not limited to, contract processing management, billing, payment collection, maintenance, help desk supports and certain IT infrastructure services. These are considered as a series of distinct services that are substantially the same and have the same pattern of transfer to the customer; therefore, they are accounted for as a single performance obligation that is satisfied over time. The corresponding consideration that the Company is entitled to is recognized as revenue using a time-based method since this best depicts the pattern of the control transfer. Revenue from Cloud services consists of monthly incentive revenues received from Microsoft upon completion of certain conditions and gross billing amount received from end customers net of considerations remitted by the Company to Microsoft. When the contract is modified to add distinct services to the single performance obligation for additional fees, such changes are accounted for prospectively as a termination of the old contract and the creation of a new contract.

For certain arrangements, customers are required to pay the Company before the services are delivered. The Company recognizes a contract liability in the consolidated balance sheets, depending on the relationship between the Company's performance and the customer's payment. Contract liabilities are mainly related to fee received for Hosting services to be provided over the contract period, which are presented as deferred revenue on the consolidated balance sheets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred revenue represents the Company's obligation to transfer the goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. As of December 31, 2019 and September 30, 2020, the Company has deferred revenue amounting to RMB57,625 and RMB51,993 (US$7,658), respectively. Revenue recognized from opening deferred revenue balance was RMB45,791 (US$6,744) for the nine months period ended September 30, 2020.

Part of the Company's Hosting service contains lease and non-lease components. The Company elected to adopt the practical expedient which allows lessors to combine lease and non-lease components and account for them as one component if 1) the timing and pattern of transfer of the lease component and non-lease component is the same; 2) the lease component should be classified as an operating lease if it were accounted for separately. The combined component is accounted for in accordance with the current lease accounting guidance ("ASC 842") if the lease component is predominant, and in accordance with the ASC 606 if the non-lease component is predominant. In general, the Company has determined that the non-lease component is the predominant component in Hosting service. Therefore, the Company has accounted for the combined component in accordance with ASC 606.

The Company does not disclose the value of unsatisfied performance obligations as the Company's revenue contracts are (i) contracts with an original expected length of one year or less or (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

(f) Loss per share

In accordance with ASC Topic 260, *Earnings per Share* ("ASC 260"), basic loss per share is computed by dividing net loss attributable to ordinary shareholders by the weighted average number of unrestricted ordinary shares outstanding during the period using two-class method. Under the two-class method, net loss is allocated between ordinary shares and participating securities based on their participating rights. The Company's Series A Preferred Shares are participating securities. Diluted loss per share is calculated by dividing net loss attributable to ordinary shareholders using two-class method as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Contingently issuable shares, including performance-based share awards and contingent considerations to be settled in shares, are included in the computation of basic earnings per share only when there is no circumstance under which those shares would not be issued. Contingently issuable shares are included in the denominator of the diluted loss per share calculation as of the beginning of the period or as of the inception date of the contingent share arrangement, if later, only when dilutive and when all the necessary conditions have been satisfied as of the reporting period end. For contracts that may be settled in ordinary shares or in cash at the election of the Company, share settlement is presumed, pursuant to which incremental shares relating to the number of shares that would be required to settle the contract are included in the denominator of diluted loss per share calculation if the effect is more dilutive. For the contracts that may be settled in ordinary shares or in cash at the election of the counterparty, the more dilutive option of cash or share settlement is used for the purposes of diluted loss per share calculation, pursuant to which share settlement requires the number of shares that would be required to settle the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

contract be included in the denominator whereas cash settlement requires an adjustment to be made to the numerator for any changes in income or loss that would result as if the contract had been classified as an asset or a liability for accounting purposes during the period for a contract that is classified as equity for accounting purposes, if the effect is more dilutive. Ordinary equivalent shares consist of the ordinary shares issuable upon the exercise of the share options, using the treasury stock method and shares issuable upon the conversion of the Company's Series A Preferred Shares and convertible promissory notes using the if-converted method. Ordinary share equivalents are excluded from the computation of diluted loss per share if their effects would be anti-dilutive.

(g) Recent accounting pronouncements

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform* (Topic 848), which is elective, and provides for optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The Company is currently evaluating the impact of reference rate reform and potential impact of adoption of these elective practical expedients on its condensed consolidated financial statements and will consider the impact of adoption during its analysis. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022.

3. ACQUISITION OF SUBSIDIARIES

Acquisition in 2020

Shanghai Shuzhong

On June 30, 2020, as part of its business strategy to expand the existing hosting service, the Company through its subsidiary, Shanghai Shilian Technology Co., Ltd. ("SH Shilian"), acquired 100% of the equity interests in Shanghai Shuzhong Investment Management Co., Ltd. ("SH Shuzhong") which primarily provides internet data center service from a third party selling shareholder, for a total cash consideration of RMB36,667 (US$5,400). As SH Shuzhong is in operations and possess all the elements that are necessary to conduct normal operations as a business, such acquisition is accounted for as a business acquisition. The initial accounting is incomplete as the valuations of certain property and equipment an liabilities are provisional.

(Amounts in thousands of RMB and US$, unless otherwise stated)

3. ACQUISITION OF SUBSIDIARIES (Continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition:

	RMB	US$
Current assets	44,774	6,595
Other non-current assets	1,685	248
Property and equipment, net	348,475	51,325
Purchased software	23	3
Operating lease right-of-use assets, net	81,034	11,935
Customer contract	33,500	4,934
Deferred tax assets	14,848	2,187
Total assets acquired	524,339	77,227
Other current liabilities	(406,932)	(59,935)
Operating lease liabilities	(45,034)	(6,633)
Deferred tax liabilities	(41,169)	(6,063)
Total liabilities assumed	(493,135)	(72,631)
Net assets acquired	31,204	4,596
Purchase consideration	36,667	5,400
Goodwill	5,463	804

The revenue and net profit since the acquisition date included in the consolidated statement of operations for the nine months periods ended September 30, 2020 were RMB20,958 (US$3,087) and RMB4,040 (US$595), respectively.

The goodwill, which is not tax deductible, is primarily attributable to synergies expected to be achieved from the acquisition.

Shulifang

On June 24, 2020, the Company through its subsidiary, SH Shilian, entered into a share purchase agreement to acquire 100% equity interests in Sanhe Shulifang Information Technology Co., Ltd. ("Shulifang") at a total cash consideration of RMB43,000 (US$6,333) in installment upon achievement of certain conditions which is accounted as contingent consideration and the corresponding asset will only be recognized when the contingency is resolved. The purpose is to establish a new data center. As Shulifang does not possess all the elements that are necessary to conduct normal operations as a business and had not yet commenced operations, such acquisition is accounted for as an acquisition of assets. The transaction was closed on July 21, 2020. As of September 30, 2020, the condition of the last contingent consideration amounted to RMB10,000 (US$1,473) was not yet met. The contingent

(Amounts in thousands of RMB and US$, unless otherwise stated)

3. ACQUISITION OF SUBSIDIARIES (Continued)

consideration obligation is not accounted for until the contingency is resolved. Carrying amount of the net identifiable assets of Shulifang were as follows:

	RMB	US$
Net assets acquired:		
Operating permits	45,134	6,647
Cash and cash equivalents	53	8
Other current assets	601	89
Operating lease right-of-use assets, net	15,206	2,240
Other non-current assets	15,409	2,269
Operating lease liabilities	(15,206)	(2,240)
Other current liabilities	(16,913)	(2,491)
Deferred tax liabilities	(11,284)	(1,662)
Total consideration in cash	33,000	4,860

LF Huahai

On September 11, 2020, the Company through its subsidiary, SH Shilian, acquired 69.93% equity interests in Langfang Huahai Internet Technology Co., Ltd. ("LF Huahai") at a total cash consideration of RMB59,500 (US$8,763). The purpose is to establish a new data center with the acquired property. As LF Huahai does not possess all the elements that are necessary to conduct normal operations as a business and had not yet commenced operations, such acquisition is accounted for as an acquisition of assets. Carrying amount of the net identifiable assets of LF Huahai were as follows:

	RMB	US$
Net assets acquired:		
Operating permits	119,531	17,605
Cash and cash equivalents	124	18
Other current assets	4,088	602
Operating lease right-of-use assets, net	183,174	26,978
Other non-current assets	27,524	4,054
Other current liabilities	(35,600)	(5,243)
Operating lease liabilities	(183,873)	(27,082)
Deferred tax liabilities	(29,883)	(4,401)
Noncontrolling interests	(25,585)	(3,768)
Total consideration in cash	59,500	8,763

(Amounts in thousands of RMB and US$, unless otherwise stated)

4. ACCOUNTS AND NOTES RECEIVABLE, NET

Accounts and notes receivable and the allowance for doubtful debt consisted of the following:

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
Accounts receivable	722,840	949,353	139,825
Notes receivable	2,146	2,344	345
Allowance for doubtful debt	(67,828)	(67,795)	(9,985)
	657,158	883,902	130,185

As of December 31, 2019 and September 30, 2020, all accounts and notes receivable were due from third party customers. An analysis of the allowance for doubtful debt, considering the adoption of ASC 326 since January 1, 2020, was as follows:

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
Balance at beginning of the year/period	70,970	67,828	9,990
Cumulative adjustment for changes in accounting policy	—	2,740	403
Additional provision charged to expense	485	1,072	158
Write-off of accounts receivable	(3,627)	(3,845)	(566)
Balance at the end of the year/period	67,828	67,795	9,985

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
Prepaid expenses	878,155	480,540	70,776
Tax recoverables	570,913	751,399	110,669
Staff advances	1,866	1,267	187
Interest receivables	14,359	5,309	782
Deposits	17,391	17,338	2,554
Loans to third parties	73,557	5,438	801
Others	61,908	67,172	9,892
	1,618,149	1,328,463	195,661

(Amounts in thousands of RMB and US$, unless otherwise stated)

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS (Continued)

Prepaid expenses mainly represented the unamortized portion of prepayments made to Microsoft for the cloud computing services, the prepayments to telecommunication operators for bandwidth, data centers or cabinets and the prepayments for office expense.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, including those held under finance leases, consisted of the following:

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
At cost:			
Property	899,609	1,011,115	148,921
Leasehold improvements	1,458,749	2,415,604	355,780
Computer and network equipment	3,539,709	4,745,709	698,967
Optical fibers	142,723	142,723	21,021
Office equipment	22,102	30,075	4,429
Motor vehicles	2,308	2,668	393
	6,065,200	8,347,894	1,229,511
Less: accumulated depreciation	(2,514,800)	(3,044,188)	(448,360)
	3,550,400	5,303,706	781,151
Construction-in-progress	1,893,165	1,880,765	277,007
	5,443,565	7,184,471	1,058,158

Depreciation expense was RMB515,778 and RMB630,132 (US$92,808) for the nine months periods ended September 30, 2019 and 2020, respectively, and was included in the following captions:

	For the nine months periods ended September 30,		
	2019	2020	
	RMB	RMB	US$
Cost of revenues	478,185	588,293	86,646
Sales and marketing expenses	1,386	1,686	248
General and administrative expenses	22,005	22,137	3,260
Research and development expenses	14,202	18,016	2,654
	515,778	630,132	92,808

(Amounts in thousands of RMB and US$, unless otherwise stated)

6. PROPERTY AND EQUIPMENT, NET (Continued)

The carrying amounts of the Company's property and equipment held under finance leases at respective balance sheet dates were as follows:

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
Property	365,353	421,656	62,103
Computer and network equipment	639,311	1,088,920	160,381
Optical fibers	142,723	142,723	21,021
	1,147,387	1,653,299	243,505
Less: accumulated depreciation	(408,196)	(622,015)	(91,613)
	739,191	1,031,284	151,892
Construction-in-progress	659,014	871,339	128,334
	1,398,205	1,902,623	280,226

Depreciation of property, computer and network equipment and optical fibers under finance leases was RMB155,545 and RMB212,984 (US$31,369) for the nine months periods ended September 30, 2019 and 2020, respectively.

The carrying amounts of property and equipment pledged by the Company to secure banking borrowings (Note 11) granted to the Company at the respective balance sheet dates were as follows:

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
Property	137,585	267,120	39,342
Leasehold improvements	66,162	65,077	9,585

(Amounts in thousands of RMB and US$, unless otherwise stated)

7. INTANGIBLE ASSETS, NET

The following table presented the Company's intangible assets as of the respective balance sheet dates:

	Purchased software	Radio spectrum license	Operating Permits	Contract backlog	Customer relationships	Licenses	Supplier relationships	Trade names	Customer contract	Non-compete agreements	Internal use software	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Intangible assets, net January 1, 2019	47,254	72,908	—	5,162	112,961	3,883	17,070	90,591	—	44	5,440	355,313
Additions	11,128	—	100,380	—	—	—	—	—	—	—	13,189	124,697
Foreign currency translation difference	413	1,200	—	—	—	—	—	—	—	—	—	1,613
Amortization expense	(16,068)	(8,985)	(3,136)	(5,162)	(24,921)	(385)	(3,074)	(5,813)	—	(44)	(3,440)	(71,028)
Intangible assets, net December 31, 2019	42,727	65,123	97,244	—	88,040	3,498	13,996	84,778	—	—	15,189	410,595
Additions	10,555	—	164,665	—	—	—	—	—	33,500	—	6,906	215,626
Disposals	(641)	—	—	—	—	—	—	—	—	—	—	(641)
Foreign currency translation difference	(8)	(1,551)	—	—	—	—	—	—	—	—	—	(1,559)
Amortization expense	(9,999)	(6,578)	(2,657)	—	(18,640)	(289)	(2,306)	(4,360)	(1,795)	—	(5,430)	(52,054)
Intangible assets, net September 30, 2020	42,634	56,994	259,252	—	69,400	3,209	11,690	80,418	31,705	—	16,665	571,967
Intangible assets, net September 30, 2020 (US$)	6,279	8,394	38,184	—	10,222	473	1,722	11,844	4,670	—	2,454	84,242

(Amounts in thousands of RMB and US$, unless otherwise stated)

7. INTANGIBLE ASSETS, NET (Continued)

Contract backlog relates to the order placed by the customers that have yet to be delivered at the acquisition date. Customer relationships relate to the relationships that arose as a result of existing customer agreements acquired and is derived from the estimated net cash flows that are expected to be derived from the expected renewal of these existing customer agreements after subtracting the estimated net cash flows from other contributory assets. Customer contract related to existing customer agreements acquired and is derived from the estimated net cash flows that are expected to be derived over the contractual period of the existing customer agreements after subtracting the estimated net cash flows from other contributory assets. Licenses mainly represented the telecommunication service license in relation to virtual private network services. Supplier relationships relate to the relationships that arose as a result of existing bandwidth supply agreements with certain network operators, which were valued using a replacement cost method given the relative ease of replacement. Trade names mainly relate to the trade names of Dermot Entities. Operating permits relate to the government authorized high-capacity utilities in the assets acquisitions (Note 3).

The intangible assets are amortized using the straight-line method, which is the Company's best estimate of how these assets will be economically consumed over their respective estimated useful lives ranging from 1 to 32 years.

Amortization expenses were approximately RMB54,388 and RMB52,054 (US$7,667) for the nine months periods ended September 30, 2019 and 2020, respectively.

8. LAND USE RIGHTS, NET

Land use rights held by the Company represent operating lease prepayments and are amortized over the remaining term of the respective rights.

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
Cost	249,804	278,138	40,965
Accumulated amortization	(16,650)	(20,738)	(3,054)
Land use rights, net	233,154	257,400	37,911

The carrying amounts of land use rights pledged by the Company to secure banking borrowings (Note 11) granted to the Company at the respective balance sheet dates were as follows:

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
Land use rights	15,989	117,837	17,355

(Amounts in thousands of RMB and US$, unless otherwise stated)

9. GOODWILL

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

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
Balance at the beginning of the year/period	989,530	989,530	145,742
Additions	—	5,463	805
Impairment	—	—	—
Balance as the end of the year/period	989,530	994,993	146,547

As of December 31, 2019 and September 30, 2020, the Company has performed a qualitative assessment for hosting and related services reporting unit and no impairment loss was recorded.

10. LONG-TERM INVESTMENTS

The Company's long-term investments consisted of the following:

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
Equity investments without readily determinable fair values	43,824	30,324	4,466
Equity method investments	124,116	119,189	17,555
Available-for-sale debt investments	1,713	1,713	252
	169,653	151,226	22,273

Equity investments without readily determinable fair values

The Company disposed equity investments without readily determinable fair value at a consideration of RMB13,122 and RMB13,500 (US$1,988) for the nine months periods ended September 30, 2019 and 2020, respectively.

The investment income recongnized in other income within the statements of operations comprised of dividend income of RMB458 and RMB615 (US$91), and disposal gain of RMB5,536 and RMB258 (US$38) for the nine months periods ended September 30, 2019 and 2020, respectively. There were no unrealized gains and losses recognized for the nine months periods ended September 30, 2019 and 2020, respectively.

No impairment loss of long-term investment was recorded for the nine months periods ended September 30, 2019 and 2020, respectively.

(Amounts in thousands of RMB and US$, unless otherwise stated)

10. LONG-TERM INVESTMENTS (Continued)

Equity method investments

	As of December 31, 2019			Increase (decrease) during the nine months periods ended September 30, 2020			As of September 30, 2020			
	Cost of investments	Share equity gain (loss)	Investments in equity investee	Cost of investments	Share equity loss	Derecognize of share equity loss	Cost of investments	Share equity gain (loss)	Investments in equity investee	Investments in equity investee
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	US$
Yizhuang Fund	101,000	7,152	108,152	—	(3,683)	—	101,000	3,469	104,469	15,387
Shihua DC Holdings	29,068	(29,068)	—	(29,068)	—	29,068	—	—	—	—
Jingliang Inter Cloud	6,000	(1,928)	4,072	—	(564)	—	6,000	(2,492)	3,508	517
Jingliang Century Cloud	4,000	—	4,000	—	—	—	4,000	—	4,000	589
ZJK Energy	5,907	(1,945)	3,962	—	(673)	—	5,907	(2,618)	3,289	484
WiFire Entities	20,000	(20,000)	—	—	—	—	20,000	(20,000)	—	—
Qidi Chengxin	3,930	—	3,930	—	(7)	—	3,930	(7)	3,923	578
	169,905	(45,789)	124,116	(29,068)	(4,927)	29,068	140,837	(21,648)	119,189	17,555

(Amounts in thousands of RMB and US$, unless otherwise stated)

10. LONG-TERM INVESTMENTS (Continued)

In April 2012, the Company through its subsidiary, 21Vianet Beijing, entered into an agreement to invest in the Yizhuang Venture Investment Fund ("Yizhuang Fund") as a limited partner with an amount of RMB50,500. In December 2013, the Company made the second tranche of investment of another amount of RMB50,500 in the Yizhuang Fund, and held 27.694% of the investee as of December 31, 2019 and September 30, 2020. Given the Company holds more than three percent interest in the Yizhuang Fund as a limited partner, the investment is accounted for under the equity method as prescribed in ASC Subtopic 323-10, *Investments—Equity Method* ("ASC 323-10").

11. BANK BORROWINGS

Bank borrowings were as follows as of the respective balance sheet dates:

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
Short-term bank borrowings	234,500	38,500	5,670
Long-term bank borrowings, current portion	32,500	44,500	6,554
	267,000	83,000	12,224
Long-term bank borrowings, non-current portion	79,500	485,123	71,451
Total bank borrowings	346,500	568,123	83,675

The short-term bank borrowings outstanding as of December 31, 2019 and September 30, 2020 bore a weighted average interest rate of 4.56% and 4.42% per annum, respectively, and were denominated in RMB. These borrowings were obtained from financial institutions and have terms of two months to one year. The long-term bank borrowings (including current portion) outstanding as of December 31, 2019 and September 30, 2020 bore a weighted average interest rate of 5.28% and 5.56% per annum, respectively, and were denominated in RMB. These loans were obtained from financial institutions located in the PRC.

As of December 31, 2019 and September 30, 2020, unused loan facilities for bank borrowings amounted to RMB326,068 and RMB368,282 (US$54,242), respectively.

(Amounts in thousands of RMB and US$, unless otherwise stated)

11. BANK BORROWINGS (Continued)

Bank borrowings as of December 31, 2019 and September 30, 2020 were secured by the following:

December 31, 2019

Short-term bank borrowings (RMB)	Secured by
34,500	Unsecured borrowings.
200,000	Secured by restricted cash of RMB215,816.
234,500	

Long-term bank borrowings (including current portion) (RMB)	Secured by
112,000	Secured by a subsidiary's fixed assets and land-use right with net book value of RMB203,747 and RMB15,989, respectively.
112,000	

September 30, 2020

Short-term bank borrowings (RMB)	Secured by
38,500	Unsecured borrowing.
38,500	

Long-term bank borrowings (including current portion) (RMB)	Secured by
62,758	Unsecured borrowing.
100,000	Secured by a subsidiary's stock.
96,000	Secured by a subsidiary's fixed assets and land-use right with net book value of RMB200,289 (US$29,499) and RMB15,679 (US$2,309), respectively (Note 6/Note 8).
270,865	Secured by a subsidiary's fixed assets and land-use right with net book value of RMB131,908 (US$19,428) and RMB102,158 (US$15,046), respectively (Note 6/Note 8), and the subsidiary's stock.
529,623	

(Amounts in thousands of RMB and US$, unless otherwise stated)

12. ACCRUED EXPENSES AND OTHER PAYABLES

The components of accrued expenses and other payables were as follows:

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
Payables for purchase of property, equipment and software	554,693	906,429	133,502
Payroll and welfare payable	179,195	186,686	27,496
Amounts due to the original shareholder for acquired entities(1)	—	102,066	15,033
Interest payable	58,961	81,251	11,967
Accrued service fee	52,746	42,215	6,218
Payables for acquisitions	47,805	47,805	7,041
Payables for office supplies and utilities	24,562	38,604	5,686
Value-added tax and other taxes payable	14,523	13,359	1,968
Others	46,450	33,307	4,905
	978,935	1,451,722	213,816

(1) This represented the balance of unpaid cash consideration and the payables in other current liabilities due to original shareholders related to the acquisition of SH Shuzhong and LF Huahai (Note 3).

13. LEASES

Leases are classified as operating leases or finance leases in accordance with ASC 842 since January 1, 2019. The Company's operating leases mainly related to building, office facilities and equipment and the rights to use the land in the PRC. For leases with terms greater than 12 months, the Company records the related asset and liability at the present value of lease payments over the term. Certain leases include rental escalation clauses, renewal options and/or termination options, which are factored into the Company's determination of lease payments when appropriate.

For the nine months periods ended September 30, 2019 and 2020, lease cost for finance leases capitalized was immaterial.

	For the nine months periods ended September 30,		
	2019	2020	
	RMB	RMB	US$
Lease cost			
Finance lease cost:			
Depreciation	155,545	212,984	31,369
Interest expenses	93,495	104,366	15,371
Operating lease cost	154,192	350,617	51,640
Total lease cost	403,232	667,967	98,380

(Amounts in thousands of RMB and US$, unless otherwise stated)

13. LEASES (Continued)

Short-term lease cost and variable lease cost for operating leases and finance leases were immaterial for the nine months periods ended September 30, 2019 and 2020.

14. BONDS PAYABLE

The aggregate required repayments of the principal amounts of the Company's long-term borrowings, including the bonds payable and bank borrowings (Note 11) in the succeeding five years and thereafter, are summarized in the following table:

	RMB	US$
For the remaining year ending December 31, 2020	17,000	2,504
For the year ending December 31,		
2021	2,106,530	310,259
2022	85,500	12,593
2023	57,500	8,469
2024	62,500	9,205
2025	62,500	9,205
2026 and thereafter	181,123	26,677

15. PERPETUAL CONVERTIBLE PREFERRED SHARES

In June 2020, the Company issued 150,000 Series A perpetual convertible preferred shares (the "Series A Preferred Shares") at the subscription price of 1,000 US dollars per subscribed share for a total cash consideration of US$150,000.

The significant terms of the Series A Preferred Shares are summarized as follows:

Dividends

From and after the original issuance date, cumulative dividends on each Series A Preferred Share will accrue in arrears at the dividend rate of 4.5% per annum on the original issuance price of US$1,000 per subscribed share. All accrued dividends on any Series A Preferred Share will be paid in cash, when, as and if declared by the Board of Directors out of funds legally available therefor or upon a liquidation of the Company.

Holders of the Series A Preferred Shares will also be entitled to receive any dividends declared by the Board of Directors on a pro rata basis with the ordinary shares determined on an as-converted basis. The dividends or distributions shall be distributed among all holders of ordinary shares and Series A Preferred Shares in proportion to the number of ordinary shares that would be held by each such holder if all Series A Preferred Shares had been converted to ordinary shares as of the record date fixed for determining those entitled to receive such distribution.

For dividends on cumulative preferred stock classified in permanent equity, dividends are not recognized until declared by the Board of Directors. As of September 30, 2020, no dividend was declared by the Company and the cumulative dividend was US$1,812.

15. PERPETUAL CONVERTIBLE PREFERRED SHARES (Continued)

Liquidation preference

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of Series A Preferred Shares will be entitled to be paid out of the assets of the Company available for distribution to its shareholders before any distribution or payment out of the assets of the Company will be made to the holders of ordinary shares at a preferential amount in cash equal to the greater of (i) the aggregate original issuance price of US$1,000 per Series A Preferred Shares, plus any unpaid, accrued and accumulated dividends on all such Series A Preferred Shares (whether or not declared) and (ii) the aggregate value that such holders of Series A Preferred Shares would have received had all holders of Series A Preferred Shares, immediately prior to such Liquidation, converted all Series A Preferred Shares then outstanding (together with any unpaid, accrued and accumulated dividends thereon) into Class A ordinary shares at the applicable conversion price then in effect.

If the Company has insufficient assets to pay the holders of the Series A Preferred Shares the full preferential amount, (a) the holders of the Series A Preferred Shares will share ratably in any distribution of the remaining assets of the Company in proportion to the respective full preferential amounts which would otherwise be payable to each such holder in full, and (b) the Company will not make or agree to make, or set aside for the benefit of the holders of ordinary shares, any payments to the holders of ordinary shares.

Conversion

Series A Preferred Shares can be converted at any time at the option of the holder into Class A ordinary shares by dividing the original issuance price plus any unpaid, accrued and accumulated dividends up to, but excluding, the conversion date by the conversion price in effect immediately prior to such conversion. Series A Preferred Shares will be mandatorily converted into Class A ordinary shares at any time after six months from the original issuance date when the daily volume-weighted average price of the ADS ("VWAP") of certain period equals or exceeds the 200% of the conversion price per ADS ("Conversion Threshold").

Conversion price is initially, US$2.8333 per Class A Ordinary Shares or US$17.00 per ADS and is subject to additional adjustments if the Company makes certain dilutive issuances of shares.

Voting

Each Series A Preferred Shares holder will be entitled to a number of vote equal to the number of Class A ordinary shares then issuable upon its conversion into Class A ordinary shares at the record date for determination of the shareholders entitled to vote on such matters, or, if no such record date is established, at the date when such vote is taken or any written consent of shareholders is solicited.

Accounting for the Series A Preferred Shares

The Series A Preferred Shares are classified as permanent equity and initially recorded at the issuance price at the time of closing. There were no embedded features that qualified for bifurcation and separate accounting in accordance with ASC 815-10, *Derivatives and Hedging*. As the time of closing, beneficial conversion features with the amount of US$66,615 was recorded as a reduction to

15. PERPETUAL CONVERTIBLE PREFERRED SHARES (Continued)

the respective preferred shares with an offsetting credit to additional paid-in capital. This amount was immediately accreted back as a deemed distribution to Series A perpetual convertible preferred shareholders.

16. CONVERTIBLE PROMISSORY NOTES

During the nine months period ended September 30, 2020, a group of investors led by Goldman Sachs Asia Strategic Pte. Ltd. (the "Purchasers") subscribed and paid cash consideration of US$200,000 in aggregate for the Company's convertible promissory notes (the "Notes"). The Notes will mature in five years and, bear interest at the rate of 2% per annum from the issuance date which will be payable semiannually in arrears in cash.

Conversion

Purchasers have the option to convert all or a portion of the outstanding Notes and any accrued and unpaid interest, into ADSs at the conversion price at any time. The conversion price will initially be US$12.00 per ADS or will be subject to customary adjustments when the decrease in VWAP exceeds certain threshold. In addition, the conversion price will be adjusted in the event when the Company makes certain dilutive issuances of shares.

Redemption upon maturity

Unless previously redeemed or converted, the Company shall redeem the Notes on the maturity date in an amount equal to the sum of (i) 115% of the then outstanding principal amount of the Notes and (ii) the interest accrued but unpaid on the maturity date. The Company may not redeem the Notes at its option prior to the maturity date.

Early redemption at the option of the Purchasers

If any portion of the outstanding principal amount of the Notes has not been converted by the third anniversary of the date of issuance of the Notes, the Purchasers at their sole discretion will have the right to require the Company to redeem, in whole or in part, the outstanding principal amount of the Notes which has not been converted previously in an amount equal to the sum of (i) 109% of the outstanding principal amount and (ii) the interest accrued but unpaid on the outstanding principal amount.

The Company elected to account for the Notes at fair value as a whole. Issuance costs including underwriting commissions and offering expenses were approximately RMB18,932 (US$2,788), which were recognized in earnings as incurred.

In August 2020, Purchasers of the Notes exercised the right to convert 12,499,998 newly issued Class A ordinary shares at the conversion price of US$12 per ADS. Upon conversion, the fair value of converted portion was RMB377,260 (US$55,564) and issuance costs were approximately RMB500 (US$74), which were credited to capital accounts with the changes in the fair value up to the conversion date recorded in earning.

16. CONVERTIBLE PROMISSORY NOTES (Continued)

The interest expense on the convertible promissory was recorded based on the stated rate of 2% in the interest expense within the consolidated statements of operations. The Company elected the fair value option in accordance with ASC 825 to subsequently remeasure the Notes.

As of September 30, 2020, the fair value of the Notes was RMB2,539,118 (US$373,972), and the changes in fair value of convertible promissory notes of RMB1,587,115 (US$233,757) was recognized in the changes in the fair value of convertible promissory notes in the consolidated statement of operations for the nine months period ended September 30, 2020. The fair value changes related to instrument-specific risk is nil for the nine months period ended September 30, 2020.

17. SHARE-BASED COMPENSATION

Option granted to employees

In order to provide additional incentives to employees and to promote the success of the Company's business, the Company adopted a share incentive plan in 2010 (the "2010 Plan"). Under the 2010 Plan, the Company may grant options and RSUs to its employees, directors and consultants to purchase an aggregate of no more than 39,272,595 ordinary shares of the Company. The 2010 Plan was approved by the Board of Directors and shareholders of the Company on July 16, 2010. The 2010 Plan is administered by the Board of Directors or the Compensation Committee of the Board as set forth in the 2010 Plan (the "Plan Administrator"). All share options to be granted under the 2010 Plan have a contractual term of ten years and generally vest over 3 to 4 years in the grantee's option agreement.

In order to further promote the success and enhance the value, the Company adopted a share incentive plan in 2014 (the "2014 Plan"). Under the 2014 Plan, the Company may issue an aggregate of no more than 20,461,380 shares ("Maximum Number") and such Maximum Number should be automatically increased by a number that is equal to 15% of the number of new shares issued by the Company from time to time. The maximum aggregate number of ordinary shares to be issued under 2014 Plan was subsequently amended to 39,606,817, as approved by the Board of Directors and shareholders of the Company on October 30, 2015. All share options, restricted shares and restricted share units to be granted under the 2014 Plan have a contractual term of ten years and generally vest over 3 to 4 years in the grantee's option agreement.

In order to continuously attract and retain talents, the Company adopted a share incentive plan in 2020 (the "2020 Plan"). Under the 2020 Plan, the Company is authorized to issue an aggregate of 46,560,708 Class A ordinary shares of the Company (equal to the sum of (i) 5% of the Company's share capital as of the date hereof, calculated on an as-converted basis by taking into consideration all the convertible promissory notes issued and to be issued by the Company, and (ii) 7,562,532 Class A ordinary shares reserved under the "2010 Plan" and "2014 Plan" for future grants) will be reserved for future issuance. After adoption of the 2020 Plan, the Company will cease to grant any new awards under the 2010 Plan and 2014 Plan while the 2010 Plan and 2014 Plan and outstanding awards granted thereunder will remain effective and can be amended by the Company from time to time pursuant to the applicable terms thereto. The 2020 Plan was approved by the Board of Directors and shareholder of the Company on May 13, 2020.

(Amounts in thousands of RMB and US$, unless otherwise stated)

17. SHARE-BASED COMPENSATION (Continued)

Total share-based compensation expenses relating to share options and RSUs granted to employees recognized for the nine months periods ended September 30, 2019 and 2020 were as follows:

	For the nine months periods ended September 30,		
	2019	2020	
	RMB	RMB	US$
Cost of revenues	1,397	5,369	791
Sales and marketing expenses	(290)	3,385	499
General and administrative expenses	33,414	45,675	6,727
Research and development expenses	806	341	50
	35,327	54,770	8,067

18. TAXATION

The income tax expenses for the nine months periods ended September 30, 2019 and 2020 were RMB30,123 and RMB68,126 (US$10,034), respectively.

The Company accounts for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The carrying amount of deferred tax assets is reviewed on an entity-by-entity basis and is reduced by a valuation allowance to the extent that it is more-likely-than-not that the benefits of the deferred tax assets will not be realized in future years. The valuation allowance is determined based on the weight of positive and negative evidences including future reversals of existing taxable temporary differences and the adequacy of future taxable income, exclusive of reversing deductible temporary differences and tax loss or credit carry forwards. The estimated future taxable income involves significant assumptions of forecasted revenue growth that take into consideration of the Company's historical financial results, its plan of expending operating capacity as well as current industry trends. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date of the change in tax rate. All deferred income tax assets and liabilities are classified as non-current on the consolidated balance sheets.

As of December 31, 2019, and September 30, 2020, the Company had gross unrecognized tax benefits of RMB2,443 and RMB3,873 (US$571), respectively. The unrecognized tax benefits and its related interest are primarily related to non-deductible expenses. It is possible that the amount of uncertain tax benefits will change in the next 12 months, however, an estimate of the range of the possible outcomes cannot be made at this time.

The Company has elected to record interest and penalties related to income taxes as a component of income tax expense. As of December 31, 2019, and September 30, 2020, the Company's accrued interest and penalties related to uncertain tax positions were not material.

18. TAXATION (Continued)

In general, the PRC tax authorities have up to five years to conduct examinations of the tax filings of the Company's PRC subsidiaries, the VIEs and the VIEs' subsidiaries. Accordingly, the PRC tax filings from 2015 through 2019 remain open to examination by the respective tax authorities.

19. RELATED PARTY TRANSACTIONS

a) Related parties*

Name of related parties	Relationship with the Company
Xiaomi Communication Technology Co., Ltd., and its subsidiary, Beijing Xiaomi Mobile Software Co., Ltd. (collectively, "Xiaomi Group")(2)	A group controlled by principal shareholder of the Company
Beijing Kingsoft Cloud Network Technology Co., Ltd. ("BJ Kingsoft")(1)	A company controlled by principal shareholder of the Company
Beijing Cheetah Mobile Technology Co., Ltd. ("BJ Cheetah")(1)	A company controlled by principal shareholder of the Company
Unisvnet Technology Co., Ltd. ("Unisvnet")	A company controlled by controlling shareholder of the Company
Beijing Tuspark Harmonious Investment Development Co., Ltd. ("Tuspark Harmonious")	A company controlled by controlling shareholder of the Company
Ziguang Financial Leasing Co., Ltd. ("Ziguang Finance Leasing")	A company controlled by controlling shareholder of the Company
Qidi Bus (Beijing) Technology Co., Ltd. ("Qidi Tech")	A company controlled by controlling shareholder of the Company
Beijing Qidi Yefeng Investment Co., Ltd. ("Beijing Qidi Yefeng")	A company controlled by controlling shareholder of the Company
Beijing Huaqing Property Management Co., Ltd. ("Beijing Huaqing")	A company controlled by controlling shareholder of the Company
Shanghai Shibei Hi-Tech Co., Ltd. ("SH Shibei")	Noncontrolling shareholder of a subsidiary
Marble Stone SH Group Limited ("Marble SH")(3)	A company controlled by minority shareholder of the Company
Marble Stone Holdings Limited ("Marble Holdings")(3)	A company controlled by minority shareholder of the Company
Shanghai Yuping Information Technology Co., Ltd. ("Shanghai Yuping")(3)	A company controlled by minority shareholder of the Company

(Amounts in thousands of RMB and US$, unless otherwise stated)

19. RELATED PARTY TRANSACTIONS (Continued)

Name of related parties	Relationship with the Company
Jingliang Interconnected Cloud Technology Co., Ltd. ("Jingliang Inter Cloud")	Equity investee of the Company
Beijing Chengyishidai Network Engineering Technology Co., Ltd. ("CYSD")	Equity investee of the Company
WiFire (Beijing) Technology Co., Ltd. ("WiFire BJ")	Equity investee of the Company
Beijing Taiji Data Tech Co., Ltd. ("Taiji")	Equity investee of the Company in 2019 and wholly-owned subsidiary since January 31,2020
Shihua DC Investment Management Limited ("Shihua Investment Management")	Equity investee of the Company in 2019 and wholly-owned subsidiary since January 31,2020
Shihua DC Investment Management Group Limited ("Shihua Investment Group")	Equity investee of the Company in 2019 and wholly-owned subsidiary since January 31,2020
Apurimac Partners Limited ("APL")	A company controlled by an officer of the Company
Asialeads Capital (Cayman) Limited	A company in which a director of the Company acts as an executive

* These are the related parties that have engaged in significant transactions with the Company for nine months periods ended September 30, 2019 and 2020.

(1) These companies and Kingsoft are ultimately controlled by the same party. Kingsoft made a significant investment in the Company in 2015.

(2) These companies and Xiaomi are ultimately controlled by the same party. Xiaomi made a significant investment in the Company in 2015.

(3) These companies are controlled by Waburg Pincus, a significant noncontrolling shareholder of the Company.

(Amounts in thousands of RMB and US$, unless otherwise stated)

19. RELATED PARTY TRANSACTIONS (Continued)

b) Other than disclosed elsewhere, the Company had the following significant related party transactions for the nine months periods ended September 30, 2019 and 2020:

	For the nine months periods ended September 30,		
	2019	2020	
	RMB	RMB	US$
Services provided to:			
—Xiaomi Group	329,409	383,657	56,507
—Qidi Tech	2,661	3,478	512
—BJ Kingsoft	3,475	45	7
—Taiji	7,362	—	—
—WiFire BJ	1,145	—	—
—BJ Cheetah	126	75	11
—Others	1,386	964	142
Services provided by:			
—CYSD	29,189	29,189	4,299
—APL (1)	—	11,032	1,625
—BJ Kingsoft	1,734	9,042	1,332
—Jingliang Inter Cloud	6,791	4,956	730
—Beijing Huaqing	—	2,501	368
—Others	1,919	300	44

(1) The service provided by APL consisted of advisory services for issuing perpetual convertible preferred shares in 2020.

b) Other than disclosed elsewhere, the Company had the following significant related party transactions for the nine months periods ended September 30, 2019 and 2020 (continued):

	For the nine months periods ended September 30,		
	2019	2020	
	RMB	RMB	US$
Loan to:			
—Shanghai Yuping	—	62,531	9,210
—Taiji	1,500	—	—
Lease deposit paid to:			
—Ziguang Finance Leasing	3,115	71	10
Lease payment paid to:			
—Tuspark Harmonious	65,554	43,703	6,437
—Ziguang Finance Leasing	10,338	22,208	3,271
—Beijing Qidi Yefeng	—	1,938	285

(Amounts in thousands of RMB and US$, unless otherwise stated)

19. RELATED PARTY TRANSACTIONS (Continued)

During the nine months period ended September 30, 2020, Asialeads Capital (Cayman) Limited purchased the Company's convertible promissory notes for total gross proceeds of US$50,000.

c) The Company had the following related party balances as of December 31, 2019 and September 30, 2020:

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
Amounts due from related parties:			
Current:			
—Shanghai Yuping	—	62,531	9,210
—Xiaomi Group	39,778	49,039	7,223
—SH Shibei	9,800	9,800	1,443
—BJ Huaqing	—	1,866	275
—Ziguang Finance Leasing	—	1,024	151
—Marble SH(1)	100,106	—	—
—Shihua Investment Group(2)	82,542	—	—
—Marble Holdings(1)	29,736	—	—
—Shihua Investment Management(2)	27,905	—	—
—Taiji	9,499	—	—
—Qidi Tech	1,249	—	—
—Others	1,050	747	110
	301,665	125,007	18,412
Non-current:			
—Tuspark Harmonious	11,863	11,863	1,747
—Ziguang Finance Leasing	8,195	7,242	1,066
—Beijing Qidi Yefeng	—	1,124	166
—Others	596	—	—
	20,654	20,229	2,979
Amounts due to related parties:			
Current:			
—Ziguang Finance Leasing	27,160	32,934	4,851
—Tuspark Harmonious	24,917	13,344	1,965
—APL	—	11,032	1,625
—Beijing Qidi Yefeng	—	4,050	597
—BJ Kingsoft	1,073	1,204	177
—Jingliang Inter Cloud	—	—	—
—Shihua Investment Group(2)	84,021	—	—
—Shihua Investment Management(2)	22,484	—	—
—WiFire BJ	6,330	—	—

(Amounts in thousands of RMB and US$, unless otherwise stated)

19. RELATED PARTY TRANSACTIONS (Continued)

	As of		
	December 31, 2019	September 30, 2020	
	RMB	RMB	US$
—Others	950	1,442	212
	166,935	64,006	9,427
Non-current:			
—Tuspark Harmonious	698,511	704,776	103,802
—Ziguang Finance Leasing	47,388	27,394	4,035
—Beijing Qidi Yefeng	—	10,441	1,538
	745,899	742,611	109,375

(1) Amounts due from Marble SH and Marble Holdings represented the unpaid cash consideration to the Company for acquiring the 100% equity interest in certain of Shihua Holdings 2's subsidiaries in 2019.

(2) Amounts due from/to Shihua Investment Management and Shihua Investment Group were generated from the assets acquisition of Shihua Holdings 2 in 2019.

20. LOSS PER SHARE

Basic and diluted loss per share for the nine months ended September 30, 2019 and 2020 presented were calculated as follows:

	For the nine months periods ended September 30,		
	2019	2020	
	RMB	RMB	US$
Numerator:			
Net loss	(158,992)	(1,686,528)	(248,399)
Net income attributable to noncontrolling interest	(6,884)	(7,441)	(1,096)
Net loss attributable to the Company	(165,876)	(1,693,969)	(249,495)
Undeclared cumulative dividend on perpetual convertible preferred shares	—	(12,671)	(1,866)
Deemed distribution to perpetual convertible preferred shareholders	—	(470,643)	(69,318)
Adjusted net loss attributable to ordinary shareholders	(165,876)	(2,177,283)	(320,679)
Denominator:			
Weighted average number of shares outstanding—basic	678,359,403	686,292,393	686,292,393
Weighted average number of shares outstanding—diluted	678,359,403	686,292,393	686,292,393
Loss per share—Basic:			
Net loss	(0.24)	(3.17)	(0.47)

(Amounts in thousands of RMB and US$, unless otherwise stated)

20. LOSS PER SHARE (Continued)

	For the nine months periods ended September 30,		
	2019	2020	
	RMB	RMB	US$
	(0.24)	(3.17)	(0.47)
Loss per share—Diluted:			
Net loss	(0.24)	(3.17)	(0.47)
	(0.24)	(3.17)	(0.47)

21. FAIR VALUE MEASUREMENTS

The Company applies ASC 820. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 requires disclosures to be provided on fair value measurement.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—Include other inputs that are directly or indirectly observable in the marketplace.

Level 3—Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach; and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Cash equivalents, time deposits and bonds payable are classified within Level 1 because they are valued by using quoted market prices.

The contingent considerations for the acquired businesses, convertible promissory notes, liability classified RSU and long-term investments are classified within Level 3. The contingent considerations are based on the achievement of certain financial targets in accordance with the sales and purchase agreements for the various periods, as well as other non-financial measures. The fair value of liability classified RSU was estimated using the share price and exchange rate that the Company estimates to be settled in shares. The fair value of convertible promissory notes is measured using binomial tree pricing model that involves several parameters including the Company's stock price, stock price volatility determined from the Company's historical stock prices, the remaining maturity term and the discount rate.

(Amounts in thousands of RMB and US$, except for number of shares and per share data)

21. FAIR VALUE MEASUREMENTS (Continued)

The Company measures equity investments elected to use the measurement alternative at fair value on a nonrecurring basis, in the cases of an impairment charge is recognized, fair value of an investment is remeasured in an acquisition/a disposal, and an orderly transaction for identical or similar investments of the same issuer was identified.

Assets and liabilities measured at fair value on a recurring basis were summarized below:

	Fair value measurement using			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value at December 31, 2019
	RMB	RMB	RMB	RMB
Cash equivalents:				
—Time deposits	117,825	—	—	117,825
Short-term investments:				
—Time deposits	363,856	—	—	363,856
Long-term investments				
—Available-for-sale debt securities	—	—	1,713	1,713
Assets	481,681	—	1,713	483,394
Short-term borrowings:				
—Current portion of bonds payable	912,416	—	—	912,416
Long-term borrowings:				
—Bonds payable	2,089,114	—	—	2,089,114
Other liabilities:				
—Liability classified RSU	—	—	2,109	2,109
Liabilities	3,001,530	—	2,109	3,003,639

(Amounts in thousands of RMB and US$, except for number of shares and per share data)

21. FAIR VALUE MEASUREMENTS (Continued)

	Fair value measurement using:				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value at September 30, 2020	
	RMB	RMB	RMB	RMB	US$
Cash equivalents:					
—Time deposits	491,571	—	—	491,571	72,401
Short-term investments:					
—Time deposits	80,444	—	—	80,444	11,848
Long-term investments					
—Available-for-sale debt securities	—	—	1,713	1,713	252
Assets	572,015	—	1,713	573,728	84,501
Short-term borrowings:					
—Current portion of bonds payable	—	—	—	—	—
Long-term borrowings:					
—Bonds payable	2,096,782	—	—	2,096,782	308,823
Convertible promissory notes	—	—	2,539,118	2,539,118	373,972
Other liabilities:					
—Liability classified RSU	—	—	—	—	—
Liabilities	2,096,782	—	2,539,118	4,635,900	682,795

The following table presented a reconciliation of all liabilities measured at fair value on a recurring basis using significant unobservable inputs (level 3):

	Liability classified RSU
	RMB
Fair value at January 1, 2019	4,970
Reclassification to equity	(2,861)
Reversal	—
Transfers in and/or out of Level 3	—
Fair value at December 31, 2019	2,109
Reclassification to equity	(2,109)
Reversal	—
Transfers in and/or out of Level 3	—
Fair value at September 30, 2020	—
Fair value at September 30, 2020 (US$)	—

(Amounts in thousands of RMB and US$, except for number of shares and per share data)

21. FAIR VALUE MEASUREMENTS (Continued)

	Convertible promissory notes
	RMB
Convertible promissory notes fair value (Note 16)	1,409,385
Foreign exchange loss	(80,122)
Changes in the fair value	1,587,115
Reclassification to equity	(377,260)
Transfers in and/or out of Level 3	—
Fair value at September 30, 2020	2,539,118
Fair value at September 30, 2020 (US$)	373,972

22. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of September 30, 2020, the Company had the following commitments to purchase certain computer and network equipment and construction-in-progress:

	RMB	US$
For the remaining year ending December 31,		
2020	114,611	16,880
For the year ending December 31,		
2021 and thereafter	1,122,771	165,366
	1,237,382	182,246

Bandwidth and cabinet capacity purchase commitments

As of September 30, 2020, the Company had outstanding purchase commitments in relation to bandwidth and cabinet capacity consisting of the following:

	RMB	US$
For the remaining year ending December 31,		
2020	189,010	27,838
For the year ending December 31,		
2021	478,760	70,514
2022	23,085	3,400
2023	5,370	791
2024	2,248	331
2025 and thereafter	29,975	4,415
	728,448	107,289

22. COMMITMENTS AND CONTINGENCIES (Continued)

Managed Network Services

As of September 30, 2020, the Company was still in the process of negotiation with the seller of the Managed Network Entities on the quality assessment of the fiber optic network subsequent to the completion of construction. As this is a pending event subsequent to the acquisition which is unrelated to the original acquisition, the Company concluded that the accounting for any settlement should be separated from that of the business combination. Based on the Company's best estimate, the fair value of the related contingent consideration in shares of RMB47,755, as determined based on the remeasured amount of December 31, 2012, is accrued as a contingent payable pursuant to ASC 450, *Contingencies*. The Company is negotiating with the seller of the Managed Network Entities to come to an agreement on the quality assessment of the fiber optic network as of September 30, 2020 and the Company's estimate of the contingent payable remains unchanged.

Income Taxes

As of September 30, 2020, the Company had recognized an accrual of RMB3,873 (US$570) for unrecognized tax benefits and its interest. The final outcome of the tax uncertainty is dependent upon various matters including tax examinations, interpretation of tax laws or expiration of statutes of limitation. However, due to the uncertainties associated with the status of examinations, including the protocols of finalizing audits by the relevant tax authorities, there is a high degree of uncertainty regarding the future cash outflows associated with these tax uncertainties.

Operating litigation

In March 2019, a third-party supplier filed a lawsuit against the Company, alleging that the Company had not fully fulfilled its obligations under a network infrastructure cooperation agreement entered into in 2013. On October 30, 2020, the court announced the first judgement settlement and the Company assessed that the settlement is probable and recorded an estimated loss of RMB1,628 (US$240) within accrued expenses and other payables in the consolidated balance sheet as of September 30, 2020.

23. SUBSEQUENT EVENTS

In November 2020, the Company entered into several share purchase agreements to acquire 100% equity interests in target companies. The purpose is to establish new data centers with the acquired property. The transactions are subject to completion of certain conditions.

QuickLinks