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 October 2021

Commission File Number: 001-35126

VNET 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 offices)

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 ☐

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

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

EXHIBIT INDEX

Exhibit	Description
99.1	Press Release titled "VNET Announces Proposed Offering of Senior Notes"
99.2	Summary Exhibit 99.2 sets forth the "Summary" section included in the Registrant's preliminary offering memorandum dated October 29, 2021 in connection with the proposed offering of senior notes
99.3	Risk Factors Exhibit 99.3 sets forth certain disclosures from the "Risk Factors" section included in the Registrant's preliminary offering memorandum dated October 29, 2021 in connection with the proposed offering of senior notes
99.4	Industry Overview Exhibit 99.4 sets forth the "Industry Overview" section included in the Registrant's preliminary offering memorandum dated October 29, 2021 in connection with the proposed offering of senior notes
99.5	Business Exhibit 99.5 sets forth the description of the Registrant's business included in the Registrant's preliminary offering memorandum dated October 29, 2021 in connection with the proposed offering of senior notes
99.6	Management's Discussion and Analysis of Financial Condition and Results of Operations Exhibit 99.6 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 October 29, 2021 in connection with the proposed offering of senior notes
99.7	Unaudited Interim Consolidated Financial Statements as of and for the six months ended June 30, 2021
99.8	Consent of Frost & Sullivan

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.

VNET Group, Inc.

By: /s/ Timothy C Chen
Name: TIMOTHY C CHEN
Title: Chief Financial Officer

Date: October 29, 2021

Exhibit 99.1

VNET Announces Proposed Offering of Senior Notes

BEIJING, October 29, 2021 – VNET Group, Inc. (Nasdaq: VNET) ("VNET" 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 U.S. Dollars denominated senior notes (the "Notes") subject to market conditions and other factors. The Company plans to use the net proceeds from the Notes Offering for funding future capital needs and general corporate purposes. The Notes are expected to be rated B2 by Moody's and B by S&P.

Citigroup Global Markets Inc. and J.P. Morgan Securities plc (in alphabetic order) are acting as the joint global coordinators, joint book-runners and joint lead managers for the Notes Offering.

When issued, the Notes will be unsecured obligations of VNET. The interest rate and other terms of the Notes will be determined at the time of pricing of the Notes Offering.

The Notes will be offered (i) 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") and (ii) to non-U.S. persons outside the United States in compliance with Regulation S under the Securities Act. The Notes 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. A rating is not a recommendation to buy, sell or hold the securities and may be subject to suspension, reduction or withdrawal at any time by the relevant rating agency. The significance of each rating should be analyzed independently from any other rating.

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 VNET

VNET Group, Inc. is a leading carrier- and cloud-neutral Internet data center services provider in China. VNET provides hosting and related services, including IDC services, cloud services, and business VPN services to improve the reliability, security and speed of its customers' internet infrastructure. Customers may locate their servers and equipment in VNET's data centers and connect to China's internet backbone. VNET operates in more than 30 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 VNET'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 VNET'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 VNET undertakes no duty to update such information, except as required under applicable law.

Investor Relations Contacts:

Xinyuan Liu
+86 10 8456 2121
IR@21Vianet.com

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

Exhibit 99.2

SUMMARY

The following summary is not complete and does not contain all the information that you should consider before investing in the Notes. You should read this entire offering memorandum, including the section entitled "Risk Factors" and the consolidated financial statements and the related notes thereto, in conjunction with the attestation report issued by our independent registered public accounting firm as of December 31, 2020 and the unaudited interim consolidated financial statements and related notes as of and for the six months ended June 30, 2021, which is incorporated by reference herein, before making an investment decision.

OVERVIEW

We are a leading carrier-neutral and cloud-neutral data center service provider in China. We have one of the largest carrier-neutral data center networks in China with our 36 self-built data centers and 59 partnered data centers with an aggregate capacity of 62,876 cabinets under our management as of June 30, 2021. We adopt a distributed deployment method when choosing locations for our partnered data centers based on the specific requests of our customers, demands in different cities and our strategy for Points of Presence ("POPs") establishment; therefore, the locations and number of our partnered data centers are subject to change from to time. Our data transmission network includes 180 POPs, which are access points from one place to the rest of the internet. Most of our data centers and our POPs are connected across China. Our data centers are concentrated in tier-1 cities and their surrounding regions, which have favorable supply-demand dynamics, owing to dense internet traffic, scarce resources and high demand for data center facilities. According to Frost & Sullivan, the continuing drivers for the market demands consist of (i) growing IT outsourcing capacity by enterprises; (ii) implementation of next-generation 5G network and disruptive technologies; (iii) growing data center service demand from China's cloud service providers and enterprise digital transformation, (iv) supportive government policies, despite the recent regulatory headwinds, (v) customer segments drive data center service demand and (vi) the overall growing trend of generating and processing data and robust growth in data traffic. From 2016 to 2020, China's carrier-neural data center service market has been growing by a CAGR of 22.2% and is expected to grow by a CAGR of 19.3% from 2020 to 2025. China's cloud service market has been growing by a CAGR of 38.5% from 2016 to 2020 and is expected to grow by a CAGR of 24.9% from 2020 to 2025. As a leading carrier-neutral and cloud-neutral data center service provider in China, we had a 10.8% market share in the carrier-neutral data center service market in terms of data center service revenues in 2020.

We are a pioneer in the carrier-neutral data center industry in China and commenced our operations in 1999. According to Frost & Sullivan, we are the first carrier-neutral data center service provider in China with infrastructure interconnected with all major network providers, which connect and share data traffic to help scale the rapid development of the early internet industry in China. Based on our partnership with Microsoft to introduce Azure and Office 365 in China in 2013, we are also the first carrier-neutral data center service provider to offer global cloud services in China and our services have helped accelerate the digital transformation of our enterprise customers.

As a carrier-neutral internet infrastructure services provider, our infrastructure is interconnected with the networks operated by all China's telecommunications carriers, major non-carriers and local internet service providers. The interconnectivity enables each of our data centers to function as a network access point for our customer's data traffic. In addition, we believe that our proprietary smart routing technology allows us to automatically select an optimized route to direct our customers' data traffic to ensure fast and reliable data transmission. We believe this advanced interconnectivity within and beyond our network distinguishes ourselves from our competitors and provides an effective solution to address our customers' needs that arise from inadequate public internet infrastructure and network interconnectivity in China. As a result, businesses are increasingly relying upon internet infrastructure services providers and in particular, carrier-neutral internet infrastructure services providers, to enhance and optimize key elements of their IT and network infrastructure.

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 have adopted a "dual-core" strategy to address both retail and wholesale data center market opportunities. Our managed retail services provide different levels of services that are scalable to meet our customers' needs, from a single cabinet up to megawatt- scale deployments. Our managed wholesale services provide customers with new data center sites constructed and developed by us based on their specified standards. We believe that the scale of our data center footprint and networking assets as well as our carrier- and cloud-neutrality, position us well to capture the vast opportunities in the rapidly expanding market of internet and cloud computing infrastructure services in China.

In addition, we are a first mover among China's carrier-neutral data center service providers in offering cloud services through partnerships to cover public, private and hybrid cloud scenarios. We provide customized enterprise VPN services and solutions, including software-defined wide area network, or Software-Defined WAN ("SD-WAN"), to enterprises across various industries. These value-added services strengthen our capability to provide quality services and meet our customers' additional demands.

With a nationwide data center network and comprehensive service offerings, we have attracted a diversified and loyal customer base. As of June 30, 2021, we had approximately 1,300 customers for our managed hosting services and over 6,000 enterprise customers in total. We also enjoy long-standing relationships with our customers and have high customer retention, as evidenced by our low average monthly hosting churn rate for managed hosting services, which was 0.3%, 0.5%, 0.3% and 0.1% in 2018, 2019 and 2020 and the six months ended June 30, 2021, respectively.

OUR COMPETITIVE STRENGTHS AND STRATEGIES

We believe that the following key competitive strengths have contributed significantly to our success and differentiate us from our competitors:

- A pioneer and leader in China's carrier-neutral IDC market;
- Strategically located network of premium data centers;
- Differentiated business model with comprehensive offerings;
- Highly visible revenue stream from diversified and loyal customer base;
- In-depth industry expertise with strong engineering capabilities; and
- Visionary leadership with stellar track record of execution.

Our goal is to strengthen our leadership position in the internet infrastructure service market in China. We intend to achieve our goal by pursuing the following strategies:

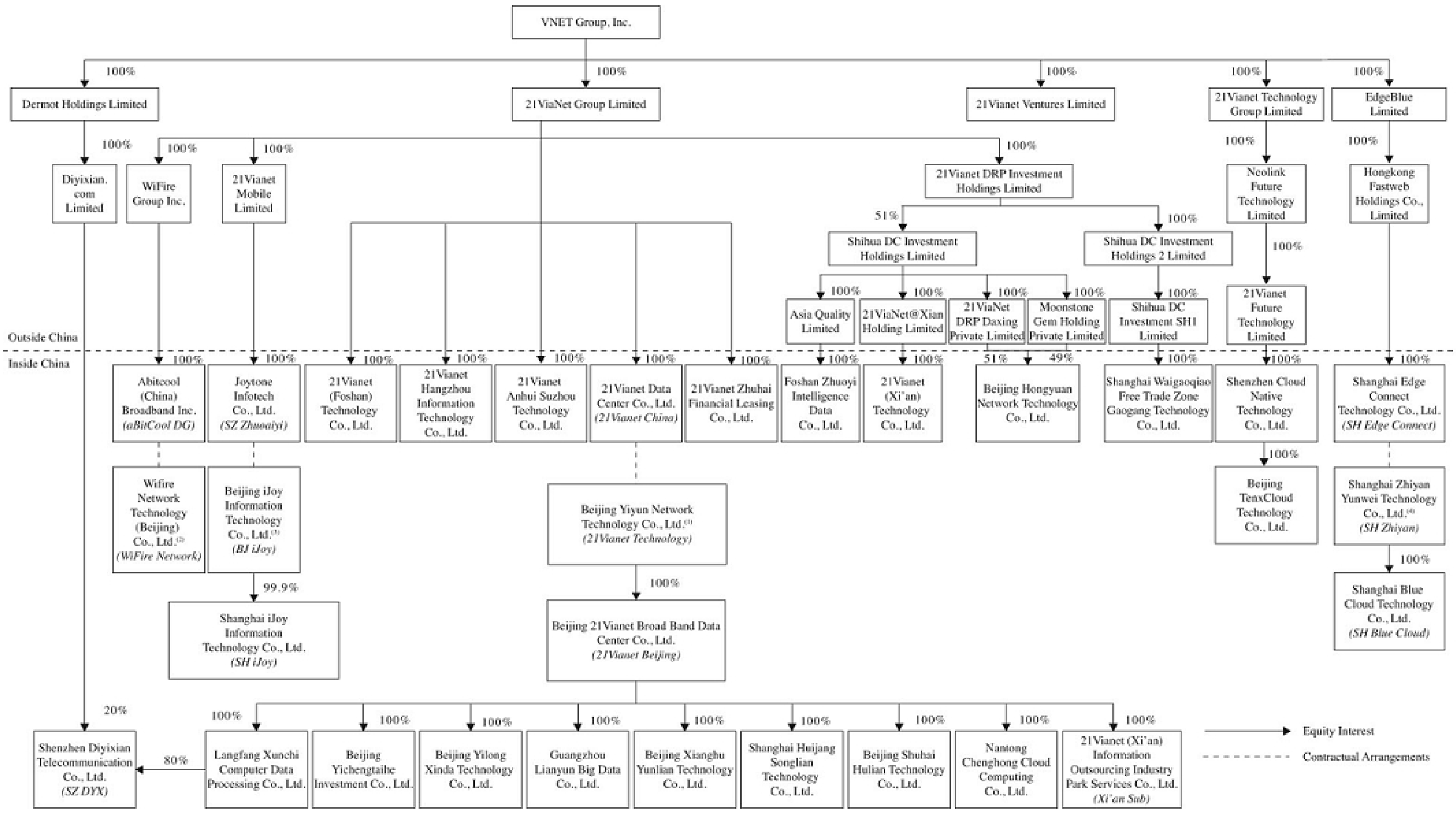
- Accelerate capacity roll-out;
- All-in "dual-core" strategy and full-stack services;
- Strengthen customer relationships and attract new customers;
- Harness the ecosystem to solidify platform play; and
- Continue to invest in technology.

OUR CORPORATE HISTORY AND STRUCTURE

We commenced our operations in 1999, and through a series of corporate restructurings, set up a holding company, AsiaCloud Inc., or AsiaCloud, in October 2009 under the laws of the Cayman Islands. AsiaCloud was formerly a wholly-owned subsidiary of aBitCool Inc., or aBitCool, a company incorporated under the laws of the Cayman Islands. In October 2010, AsiaCloud effected a restructuring whereby AsiaCloud repurchased all its outstanding shares held by aBitCool and issued ordinary shares and preferred shares to the same shareholders of aBitCool. In connection with the restructuring, AsiaCloud subsequently changed its name to 21Vianet Group, Inc. On October 8, 2021, we changed our name from 21Vianet Group, Inc. to VNET Group, Inc. to promote brand awareness. See " – Recent Development."

Due to certain restrictions under the PRC laws on foreign ownership of entities engaged in data center and telecommunications value-added services, we conduct our operations in China through contractual arrangements among us, our wholly-owned PRC subsidiaries, our variable interest entities and their shareholders. We do not have any equity interest in our consolidated affiliated entities. However, as a result of these contractual arrangements, we control our variable interest entities and have consolidated the financial information of our consolidated affiliated entities in our consolidated financial statements in accordance with U.S. GAAP. We control: (i) 100% of the equity interests in 21Vianet Technology through our subsidiary, 21Vianet Data Center Co., Ltd., or 21Vianet China, which was incorporated in October 2002; (ii) 100% of the equity interests of BJ iJoy following completion of our acquisition of 100% equity interests in iJoy in April 2013; (iii) 100% of the equity interests of WiFire Network through our subsidiary, aBitCool DG, which was incorporated in June 2014; and (iv) 100% of the equity interests of SH Zhiyan and its wholly-owned subsidiary, Shanghai Blue Cloud Technology Co., Ltd. or SH Blue Cloud, through our subsidiary, Shanghai Edge Connect Technology Co., Ltd., or SH Edge Connect, which was incorporated in November 2020. In 2018, 2019, 2020 and the six months ended June 30, 2021, we derived 73.9%, 74.6%, 79.8% and 84.5% of our external revenues from our consolidated affiliated entities, respectively.

The following diagram illustrates our current corporate structure of principal operating entities as of the date of this offering memorandum:



(1) Mr. Sheng Chen and Mr. Jun Zhang, our co-founders, hold 70% and 30% of the equity interests in 21Vianet Technology, respectively, and are parties to the contractual agreements through which we conduct our operations in China.

(2) Mr. Sheng Chen, our founder, holds 100% of the equity interests in WiFire Network, and is a party to the contractual agreements through which we conduct our operations in China.

(3) Mr. Yang Peng and Shanghai Cloud Vianet Network Co., Ltd., or Vianet Network hold 4.9% and 95.1% of the equity interests in BJ iJoy, respectively, and are parties to the contractual agreements through which we conduct our operations in China. Vianet Network is the subsidiary of 21Vianet Technology.

(4) Shanghai Rongyan Yunqi Technology Co., Ltd. holds 100% of the equity interests in SH Zhiyan.

We issued convertible promissory notes to Goldman Sachs Asia Strategies Pte. Ltd., StoneBridge 2020, L.P. and StoneBridge 2020 Offshore Holdings II, L.P. (collectively "Affiliates of Goldman Sachs Asia Strategic Pte. Ltd.") 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. As of the date of this offering memorandum, US$36,000,000 have been converted into Class A ordinary shares and US$39,000,000 remains outstanding.

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. As of the date of this offering memorandum, US$17,000,000 have been converted into Class A ordinary shares.

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. As of the date of this offering memorandum, US$54,000,000.93 have been converted into Class A ordinary shares and US$3,999,999.07 remains outstanding.

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. As of the date of this offering memorandum, US$25,000,000 have been converted into Class A ordinary shares and US$25,000,000 remains outstanding.

We issued an aggregate of 150,000 Series A perpetual convertible preferred shares to Vector Holdco Pte. Ltd. ("Vector Holdco"), BTO Vector Fund ESC (CYM) L.P. ("Vector Fund ESC") and BTO Vector Fund FD (CYM) L.P. ("Vector Fund FD" and together with Vector Holdco and Vector Fund ESC, collectively, "Affiliates of Vector") pursuant to an investment agreement (the "Vector Investment Agreement") dated June 22, 2020 among us, Affiliates of Vector and Blackstone Tactical Opportunities Fund – FD (Cayman) – NQ L.P. As of the date of this offering memorandum, all of the Series A perpetual convertible preferred shares have been converted into Class A ordinary shares.

Summary of Risk Factors

Investors in the Notes are not purchasing debt securities of our subsidiaries or consolidated affiliated entities but instead are purchasing debt securities of a Cayman Islands holding company. VNET Group, Inc. is a Cayman Islands holding company with no equity ownership in its variable interest entities. Such structure involves unique risks to investors in the Notes. You should carefully consider all of the information in this offering memorandum before making an investment in the Notes. In particular, as we are a China-based company with substantial business operations in China, you should pay special attention to subsections headed "Recent Regulatory Developments," "Holding Company Structure," and "Risks Related to Doing Business in China," including but not limited to risk factors such as "uncertainties with respect to the PRC legal system could limit legal protections available to you and us," and "PRC government has significant oversight over the conduct of our business." The PRC government has significant authority to exert influence on the ability of a China-based company, such as us, to conduct its business, accept foreign investments or list on a U.S. or other foreign exchanges. For example, we face risks associated with regulatory approvals of offshore offerings, anti-monopoly regulatory actions, oversight on cybersecurity and data privacy, as well as the lack of PCAOB inspection on our auditors. Such risks could result in a material change in our operations. The PRC government also has significant oversight and discretion over the conduct of our business and as such may influence our operations at any time, which could result in a material adverse effect on our operations. The PRC government has recently published new policies that significantly affected certain industries, and we cannot rule out the possibility that it will in the future release regulations or policies regarding the industry where we operate, which could adversely affect our business, financial condition and results of operations. Below please find a summary of the principal risks we face, organized under relevant headings. These risks are discussed more fully in the section titled "Risk Factors."

Risks Related to Our Business and Industry

Risks and uncertainties related to our business and industry include, but are not limited to, the following:

- Our business is subject to complex and evolving Chinese and international laws and regulations, including those regarding data privacy and cybersecurity. Many of these laws and regulations are subject to change and uncertain interpretation. Failure to comply with existing or future laws and regulations related to cybersecurity, information security, privacy and data protection could lead to government enforcement actions, which could include civil or criminal fines or penalties, investigation or sanction by regulatory authorities, private litigation, other liabilities, and/or adverse publicity. Compliance or failure to comply with such laws could increase the costs of our products and services, could limit their use or adoption, and could otherwise negatively affect our operating results and business;

- We may not be able to successfully implement our growth strategies or manage our growth;

- We may not be able to increase sales to our existing customers and attract new customers, which would adversely affect our results of operations;

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

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

Risks Related to Our Corporate Structure

Risks and uncertainties related to our corporate structure include, but are not limited to, the following:

- There are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulation, and rules relating to the agreements that establish the variable interest entities structure for our operations in China, including potential future actions by the PRC government, which could affect the enforceability of our contractual arrangements with our variable interest entities, and consequently, significantly affect our financial condition and results of operations. If the PRC government finds the agreements with our variable interest entities non-compliant with relevant PRC laws, regulations, and rules, of these laws, regulations, and rules or the interpretation thereof change in the future, we could be subject to severe penalties or be forced to relinquish our interest in our variable interest entities.

- Our contractual arrangements with our variable interest entities may result in adverse tax consequences to us;

- We rely on contractual arrangements with our variable interest entities and their shareholders for our China operations, which may not be as effective as direct ownership in providing operational control. Any failure by our variable interest entities or their shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business;

- The shareholders of our variable interest entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition; and

- We may lose the ability to use and enjoy assets held by our variable interest entities that are material to the operation of certain portion of our business if the variable interest entities go bankrupt or become subject to a dissolution or liquidation proceeding.

Risks Related to Doing Business in China

Risks and uncertainties related to doing business in China include, but are not limited to, the following:

- The approval of the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval;

- Adverse changes in political and economic policies or political or social conditions of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our services and adversely affect our competitive position;

- Uncertainties with respect to the PRC legal system could limit legal protections available to you and us;

- PRC government has significant oversight over the conduct of our business; and

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

Risks Related to the Notes

Risks and uncertainties related to the Notes include, but are not limited to, the following:

- We are a holding company and payments with respect to the Notes are effectively subordinated to our secured debt and any liabilities of our subsidiaries and our consolidated affiliated entities;

- Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our debt;

- We may not be able to repurchase the Notes upon a Change of Control Triggering Event or a VIE Triggering Event;

- The insolvency laws of the Cayman Islands and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Notes are familiar; and

- If we fail to complete the NDRC Post-issuance Filing in connection with the Notes, NDRC may impose penalties or other administrative procedures on us.

RECENT DEVELOPMENTS

On July 2, 2021, we through our subsidiary, Shenzhen Cloud Native Technology Co., Ltd. (“SZ Cloud Native”), entered into a share purchase agreement to acquire 100% of the equity interests in Beijing TenxCloud Technology Co., Ltd. (“BJ TenxCloud”). The purpose of the acquisition is to strengthen our leading position in carrier- and cloud-neutral internet data center services (“IDC Service”).

On October 8, 2021, we held an extraordinary general meeting for the shareholders of 21Vianet Group, Inc. to consider a special resolution to approve the change of name from 21Vianet Group, Inc. to VNET Group, Inc. to promote brand awareness. The proposal of such name change was approved as a special resolution by our shareholders.

On October 15, 2021, we completed redemption of the 2021 Notes. As of the date of this offering memorandum, no 2021 Notes are outstanding.

RECENT REGULATORY DEVELOPMENTS

Cybersecurity and Data Protection

On July 10, 2021, the Cyberspace Administration of China, or the CAC, published the Measures for Cybersecurity Review (Revised Draft for Comments), or the draft measures. The draft measures, among others, stipulate that if a Critical Information Infrastructure Operator, or CIIO, has personal information of over one million users and intends to be listed in a foreign country, it must be subject to the cybersecurity review. As advised by our PRC legal counsel, the draft measures were released for public comment only, and its provisions and anticipated adoption or effective date may be subject to change and thus its interpretation and implementation remain substantially uncertain. The draft measures remain unclear on whether the relevant requirements will be applicable to companies that have been listed in the United States and intend to conduct further equity or debt offerings, such as us. We cannot predict the impact of the draft measures, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. As of the date of this offering memorandum, we have not received any notice from any authorities identifying us as a CIIO or requiring us to undertake a cybersecurity review. See "Risk Factors – Risks Related to Our Business and Industry – Our business is subject to complex and evolving Chinese and international laws and regulations, including those regarding data privacy and cybersecurity. Many of these laws and regulations are subject to change and uncertain interpretation. Failure to comply with existing or future laws and regulations related to cybersecurity, information security, privacy and data protection could lead to government enforcement actions, which could include civil or criminal fines or penalties, investigation or sanction by regulatory authorities, private litigation, other liabilities, and/or adverse publicity. Compliance or failure to comply with such laws could increase the costs of our products and services, could limit their use or adoption, and could otherwise negatively affect our operating results and business." On August 17, 2021, the State Council promulgated the Regulations on Protection of Security of Critical Information Infrastructure, which took effect on September 1, 2021, pursuant to which, the relevant governmental authorities are responsible for stipulating rules for the identification of critical information infrastructures with reference to several factors set forth in the regulations, and further identify the CIIO in the related industries in accordance with such rules. The relevant authorities shall also notify operators identified as the CIIO. However, as these regulations were newly issued and the governmental authorities may further enact detailed rules or guidance with respect to the interpretation and implementation of such regulations, it remains unclear whether we will be identified as a CIIO. See "Risk Factors – Risks Related to Our Business and Industry – Our business is subject to complex and evolving Chinese and international laws and regulations, including those regarding data privacy and cybersecurity. Many of these laws and regulations are subject to change and uncertain interpretation. Failure to comply with existing or future laws and regulations related to cybersecurity, information security, privacy and data protection could lead to government enforcement actions, which could include civil or criminal fines or penalties, investigation or sanction by regulatory authorities, private litigation, other liabilities, and/or adverse publicity. Compliance or failure to comply with such laws could increase the costs of our products and services, could limit their use or adoption, and could otherwise negatively affect our operating results and business."

In anticipation of the strengthened implementation of cybersecurity laws and regulations and the continued expansion of our business, we face potential risks if we provide or are deemed to provide network products and services to CIIOs, or we are deemed as a CIIO under the PRC cybersecurity laws and regulations. In such case, we would be required to follow the relevant cybersecurity review procedures, and could be subject to cybersecurity review by the CAC and other relevant PRC regulatory authorities. As of the date of this offering memorandum, we have not been involved in any investigations on cybersecurity review made by the CAC on such basis, and we have not received any inquiry, notice, warning, or sanctions in such respect.

For the further purposes of regulating data processing activities, safeguarding data security, promoting data development and utilization, protecting the lawful rights and interests of individuals and organizations, and maintaining national sovereignty, security, and development interests, the Standing Committee of the National People's Congress of China, or the SCNPC, published the Data Security Law, which took effect on September 1, 2021. The Data Security Law introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, and the degree of harm it may cause to national security, public interests, or legitimate rights and interests of individuals or organizations if such data are tampered with, destroyed, leaked, illegally acquired or illegally used. The appropriate level of protection measures is required to be taken for each respective category of data. Moreover, the Data Security Law provides a national security review procedure for those data activities which affect or may affect national security and imposes export restrictions on certain data and information. In addition, the Data Security Law also provides that any organization or individual within the territory of the PRC shall not provide any foreign judicial body and law enforcement body with any data without the approval of the competent PRC governmental authorities.

Potential China Securities Regulatory Commission Approval Required for This Offering

On July 6, 2021, the relevant PRC government authorities published the Opinions on Strictly Cracking Down Illegal Securities Activities. These opinions call for strengthened regulation over illegal securities activities and the supervision on overseas offerings and listings by China-based companies and propose to take effective measures, such as promoting the development of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As these opinions are recently issued, official guidance and related implementation rules have not been issued yet and the interpretation of these opinions remains unclear at this stage. Although we have obtained the approval from the NDRC in connection with this offering of the Notes, and plan to file the requisite information and documents with NDRC after the completion of the offering, we cannot assure you we will not be imposed additional requirements relating to approval from the China Securities Regulatory Commission, or the CSRC, or other regulatory authorities or other procedures, including the cybersecurity review under the enacted version of the revised Measures for Cybersecurity Review. Nor can we be certain whether we can or how long it will take us to obtain such approval or complete such procedures and any such approval or completion could be rescinded. See "Risk Factors – Risks Related to Doing Business in China – The approval of the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval." As of the date of this offering memorandum, we have not received any inquiry, notice, warning, or sanctions regarding offshore offering from the CSRC or any other PRC government authorities.

CORPORATE INFORMATION

Our principal executive offices are located at Guanjie Building Southeast 1st Floor, 10# Jiuxianqiao East Road, Chaoyang District, Beijing, 100016, the People's Republic of China. Our telephone number at this address is +86 10-8456-2121. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Investors should contact us for any inquiries through the address and telephone number of our principal executive offices. Our website is *www.21vianet.com*. The information contained on our website is not a part of this offering memorandum.

HOLDING COMPANY STRUCTURE

VNET Group, Inc. is a holding company with no operations of its own. We conduct our operations in China through contractual arrangements among us, our wholly-owned PRC subsidiaries, our variable interest entities and their shareholders. As a result of these contractual arrangements, we control our variable interest entities and have consolidated the financial information of our consolidated affiliated entities in our consolidated financial statements in accordance with U.S. GAAP. Although other means are available for us to obtain financing at the holding company level, our ability to pay dividends to the shareholders and to service any debt we may incur may depend upon dividends paid by our wholly-owned PRC subsidiaries and license and service fees paid by our consolidated affiliated entities. If any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing such debt may restrict its ability to pay dividends to us. In addition, our wholly-owned PRC subsidiaries and consolidated affiliated entities are required to make appropriations to certain statutory reserve funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies. Our wholly-owned PRC subsidiaries, being foreign-invested enterprises established in China, are required to make appropriations to certain statutory reserves, namely, a general reserve fund, an enterprise expansion fund, a staff welfare fund and a bonus fund, all of which are appropriated from net profit as reported in their PRC statutory accounts. Each of our wholly-owned PRC subsidiaries is required to allocate at least 10% of its after-tax profits to a general reserve fund until such fund has reached 50% of its respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus funds are at the discretion of the board of directors of the wholly-owned PRC subsidiaries.

Our consolidated affiliated entities must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely a statutory surplus fund, a statutory public welfare fund and a discretionary surplus fund. Each of our consolidated affiliated entities is required to allocate at least 10% of its after-tax profits to the statutory surplus fund until such fund has reached 50% of its respective registered capital. Appropriations to the statutory public welfare fund and the discretionary surplus fund are at the discretion of our consolidated affiliated entities.

RISK FACTORS

Investing in the Notes involves a high degree of risk. In addition to the other information included in this offering memorandum, you should carefully consider the risks described below before investing in the Notes. The following factors, individually and in the aggregate, could cause our business, results of operations and financial condition to suffer or materially differ from expected and historical results. As a result, the value of the Notes may decline, and you might lose part or all of your investment.

Risks Related to Our Business and Industry

Our business is subject to complex and evolving Chinese and international laws and regulations, including those regarding data privacy and cybersecurity. Many of these laws and regulations are subject to change and uncertain interpretation. Failure to comply with existing or future laws and regulations related to cybersecurity, information security, privacy and data protection could lead to government enforcement actions, which could include civil or criminal fines or penalties, investigation or sanction by regulatory authorities, private litigation, other liabilities, and/or adverse publicity. Compliance or failure to comply with such laws could increase the costs of our products and services, could limit their use or adoption, and could otherwise negatively affect our operating results and business.

We are required by privacy and data protection laws in China and other jurisdictions, including, without limitation, the PRC Cybersecurity Law, to ensure the confidentiality, integrity and availability of the information of our users, customers, third-party agents, content providers and other data, which is also essential to maintaining their confidence in our online products and services. However, the interpretation and application of such laws in China and elsewhere are often uncertain and in flux.

The regulatory framework for the collection, use, safeguarding, sharing, transfer and other processing of personal information and important data worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Regulatory authorities in virtually every jurisdiction in which we operate have implemented and are considering a number of legislative and regulatory proposals concerning data protection.

Regulatory authorities in China have implemented and are considering a number of legislative and regulatory proposals concerning data protection. Specifically, regulatory authorities in China have implemented and may implement further legislative and regulatory proposals concerning cybersecurity, information security, privacy and data protection. New laws and regulations that govern new areas of data protection or impose more stringent requirements may be introduced in China. In addition, the interpretation and application of cybersecurity, information security, privacy and data protection laws in China are often uncertain and in flux. It is possible that existing or newly-introduced laws and regulations, or their interpretation, application or enforcement, could significantly affect our business practice and force us to change our business practices. For example, the SCNPC, promulgated the Cybersecurity Law in November 2016, which requires network operators to perform certain functions related to cyber-security protection and strengthened network information management through taking technical and other necessary measures as required by laws and regulations to safeguard the operation of networks, respond to network security effectively, prevent illegal and criminal activities, and maintain the integrity and confidentiality and usability of network data. The Cybersecurity Law further provides that personal information and important data collected and generated by operators of critical information infrastructure in the course of their operations in the PRC should be stored in the PRC, and the law imposes heightened regulation and additional security obligations on CIIO. Furthermore, according to the Cybersecurity Review Measures promulgated by the CAC and certain other PRC regulatory authorities in April 2020, which became effective in June 2020, CIIO must pass a cybersecurity review when purchasing network products and services which may affect national security. On August 17, 2021, the State Council promulgated the "Regulations on Protection of Security of Critical Information Infrastructures", which took effect on September 1, 2021, and pursuant to which, "critical information infrastructures" refer to critical network facilities and information systems involved in important industries and fields, such as public communication and information services, energy, transportation, water conservancy, finance, public services, governmental digital services, science and technology related to national defense industry, as well as those which may seriously endanger national security, national economy and citizen's livelihood or public interests if damaged or malfunctioned, or if any leakage of data in relation thereto occurs. Pursuant to these regulations, the relevant governmental authorities are responsible for promulgating rules for the identification of critical information infrastructures with reference to several factors set forth in the regulations, and further identify the CIIO in the related industries in accordance with such rules. The relevant authorities shall also notify operators identified as the CIIO. However, as these regulations were newly issued and the governmental authorities may further enact detailed rules or guidance with respect to the interpretation and implementation of such regulations, it remains unclear whether we will be identified as a CIIO. If we provide or are deemed to provide network products and services to CIIO, or we are deemed as a CIIO, we would be required to follow the relevant cybersecurity review procedures, and could be subject to cybersecurity review by the CAC and other relevant PRC regulatory authorities. During such review, we may be required to suspend providing the existing or any new services to our clients, and such review could also result in negative publicity to us and diversion of our managerial and financial resources. Furthermore, if we are identified as a CIIO, additional obligations will be imposed on us with respect to the protection of critical information infrastructure, including the obligations to set up a special security administration department and to conduct security review on the background of personnel in charge of such department or holding other key positions in such department.

On July 10, 2021, the CAC issued a revised draft of the Cybersecurity Review Measures for public comments, which required that, in addition to CIIO, any "data processor" carrying out data processing activities that affect or may affect national security or seeking oversea listing while possessing a large quantity of personal data should also be subject to the cybersecurity review, and further elaborated the factors to be considered when assessing the national security risks of the relevant activities, including among others, the risk of core data, important data or a large amount of personal information being stolen, leaked, destroyed, and illegally used or exited the country. As the revised draft Cybersecurity Review Measures have not been adopted and it remains unclear whether the formal version adopted in the future will have any further material changes, we still face uncertainties that the measures may be enacted, interpreted or implemented in ways that will negatively affect us. The draft measures also remain unclear on whether the relevant requirements will be applicable to companies that have been listed in the United States and intend to conduct further equity or debt offerings, such as us. We cannot predict the impact of the draft measures, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. As of the date of this offering memorandum, we have not received any notice from any authorities identifying us as a CIIO or requiring us to undertake a cybersecurity review. There can be no assurance that we would be able to complete the applicable cybersecurity review procedures in a timely manner, or at all, if we are required to follow such procedures. Any failure or delay in the completion of the cybersecurity review procedures may prevent us from using or providing certain network products and services, and may result in penalties, including fines, suspension of business and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected, if we are to be deemed a critical information infrastructure operator using network products or services without having completed the required cybersecurity review procedures.

In June 2021, the SCNPC promulgated the Data Security Law, which took effect on September 1, 2021. The Data Security Law introduces a data classification and hierarchical protection system based on the importance of data and provides a national security review procedure for those data activities, which may affect national security and imposes export restrictions on certain data and information. In addition, recently, certain PRC regulatory authorities issued Opinions on Strictly Cracking Down on Illegal Securities Activities, which were available to the public on July 6, 2021 and further emphasized to strengthen the cross-board regulatory collaboration, to improve relevant laws and regulations on data security, cross-border data transmission, and confidential information management, and provided that efforts will be made to revise the regulations on strengthening the confidentiality and file management relating to the offering and listing of securities overseas, to implement the responsibility on information security of overseas listed companies, and to strengthen the standardized management of cross-border information provision mechanisms and procedures. Furthermore, on August 20, 2021, the SCNPC promulgated the Personal Information Protection Law to be effective on November 1, 2021, which provides that personal information generated and collected by CIIOs in China should be stored within the territory of the PRC. Currently, the interpretation, application and enforcement of these laws, rules and regulations are evolving continuously and compliance with such laws or regulations may require us to incur material capital expenditures or other obligations or liabilities.

Compliance with the above PRC laws and regulations including the Cybersecurity Law, the Regulations on Protection of Security of Critical Information Infrastructure, the Cybersecurity Review Measures and the Data Security Law, as well as additional laws and regulations that PRC regulatory bodies may enact in the future, including laws and regulations regarding the cybersecurity, information security, privacy and data protection, may result in additional expenses to us and subject us to negative publicity, which could harm our reputation and business operations. There are also uncertainties with respect to how such laws and regulations will be implemented and interpreted in practice. For example, PRC regulators, including the Department of Public Security, the Ministry of Industry and Information Technology, or the MIIT, the SAMR and the CAC, have been increasingly focused on regulation in the areas of data security and data protection, and are enhancing the protection of privacy and data security by rule-making and enforcement actions at central and local levels. We expect that these areas will receive greater and continued attention and scrutiny from regulators and the public going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and protection. Furthermore, the recently issued Opinions on Strictly Cracking Down on Illegal Securities Activities emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies, and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies, and provided that the special provisions of the State Council on overseas offering and listing by those companies limited by shares will be revised and therefore the duties of domestic industry competent authorities and regulatory authorities will be clarified. As these opinions were newly issued and there are no further explanations or detailed rules and regulations with respect to such opinions, there are still uncertainties regarding the interpretation and implementation of such opinions. If we are unable to manage these risks, we could become subject to penalties, including fines, suspension of business and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected.

While we have taken various measures to comply with all applicable laws and regulations regarding cybersecurity, information security, privacy and data protection in China, we cannot assure you that the measures we have taken or will take are adequate under the Cybersecurity Law, and we may be held liable in the event of any breach of the relevant requirements under the Cybersecurity Law or other relevant laws and regulations. Any failure or perceived failure by us to prevent information security breaches or to comply with data security and privacy policies or related legal obligations, or any compromise of security that results in the unauthorized use, release or transfer of personally identifiable information or other data, could cause our customers to lose trust in us and could expose us to legal claims or penalties. Any perception by the public that privacy of user information or data security are becoming increasingly unsafe or vulnerable to attacks could inhibit the growth of our products and services generally. We expect that these areas will be subject to greater public scrutiny and attention from regulators and more frequent and rigid investigation or review by regulators, which will increase our compliance costs and subject us to heightened risks and challenges. We may also be held liable in the event of any breach of general clauses on our compliance with such statutory requirements as well as some other specific requirements related to data protection under the relevant customer contracts. We may have to spend much more personnel cost and time evaluating and managing these risks and challenges in connection with our products and services in the ordinary course of our business operations, and cooperated and will keep cooperating in the future with the competent regulators in these respects. If further changes in our business practices are required under China's evolving regulatory framework for the protection of information in cyberspace, our business, financial condition and results of operations may be adversely affected. These proceedings or actions could subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and severely disrupt our business, hinder our global expansion or negatively affect the trading prices of our ADSs, shares and/or other securities. If we are unable to manage these risks, we could become subject to penalties, including fines, suspension of business and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected.

We may not be able to successfully implement our growth strategies or manage our growth.

Our total net revenues generated from hosting and related services increased from RMB3,401.0 million in 2018 and further to RMB3,789.0 million in 2019, and further to RMB4,829.0 million (US$747.9 million) in 2020, representing a compound annual growth rate, or CAGR, of 19.2%. For the six months ended June 30, 2021, our total net revenue generated from hosting and related services increased to RMB2,883.9 million (US$446.7 million) from RMB2,234.9 million during the same period in 2020. The total number of cabinets under our management increased from 30,654 as of December 31, 2018 to 36,291 as of December 31, 2019 and further increased to 53,553 as of December 31, 2020. As of June 30, 2021, the total number of cabinets under our management amounted to 62,876. In order to meet growing customer demands, we plan to continue to increase our service capacity through new self-built data centers and new phases of existing self-built data centers, which require us to commit a substantial amount of operating and financial resources. Furthermore, we intend to continue expanding our overall service offerings, customer base, employee headcount, and operations. Our planned capital expenditures, together with our ongoing operating expenses, will cause substantial cash outflows.

In addition, site selection of data centers is a critical factor in our expansion plans. The lack of suitable properties available with the necessary combination of high power capacity and optical fiber connectivity may have a negative impact on our revenue growth. We may overestimate the demand for our services in the markets where we operate and increase our data center capacity or expand our internet network more aggressively than needed, which may cause an increase in our costs and expenses and have a negative impact on our gross profit margins. Furthermore, the costs of construction and maintenance of new data centers constitute a significant portion of our capital expenditures and operating expenses. If our planned expansion does not achieve the desired results, our business, profitability and results of operations could be materially and adversely affected.

We have been providing retail data center service to customers by offering them colocation, interconnectivity and other value-added services with standardized cabinets since our inception. In 2019, we developed our "dual-core" growth strategy to expand into wholesale data center service to construct and develop hyper scale data center sites for large-scale technology companies based on their customized standards. The wholesale data center service market has a different competitive landscape, and different consumer preferences and spending patterns from the retail data center service market. We may need to build brand recognition in this market through further investments in sales and promotional activities in addition to those that we originally planned. Our ability to attract customers of wholesale services will depend on a variety of factors, including our capabilities in data center design, construction and delivery, data centers' operating reliability and security as well as our management and maintenance services. Our inability to develop, provide or effectively execute any of these initiatives may hinder the implementation of this new growth strategy and may adversely affect our business, financial condition and results of operations.

Furthermore, if our information systems are unable to support the demands placed on them by our growth, we may need to implement new systems, which would be disruptive to our business. We may also initiate similar network upgrades in the future if required by our operations. If we fail to improve our operational systems or to expand our customer service capabilities to keep pace with the growth of our business, we could experience customer dissatisfaction, cost inefficiencies, and lost revenue opportunities, which may materially and adversely affect our results of operations.

We may not be able to increase sales to our existing customers and attract new customers, which would adversely affect our results of operations.

Our growth depends on our ability to continue to expand our service offerings to existing customers and attract new customers. Our customer base for hosting and related services increased from nearly 5,000 enterprise customers as of December 31, 2018 to more than 6,000 as of June 30, 2021. Our average monthly recurring revenues per cabinet for managed retail services was RMB8,258, RMB8,747, RMB8,984 (US$1,391.4), RMB8,853 and RMB9,078 (US$1,406.0) for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively. We may be unable to sustain our growth for a number of reasons, such as:

- capacity constraints;
- inability to identify new locations or reliable data centers for cooperation or lease;
- a reduction in the demand for our services due to economic recessions;
- inability to market our services in a cost-effective manner to new customers;

- inability of our customers to differentiate our services from those of our competitors, or inability to effectively communicate such distinctions;
- inability to successfully communicate the benefits of data center service to businesses;
- the decision of businesses to host their internet infrastructure internally or in other hosting facilities as an alternative to the use of our data center service;
- inability to increase our sales to existing customers; and
- reliability, quality or compatibility problems with our services.

A substantial amount of our past revenues was derived from service offerings to existing customers. Our costs associated with increasing revenues from existing customers are generally lower than costs associated with generating revenues from new customers. Therefore, slowing revenue growth or declining revenues from our existing customers, even if offset by an increase in revenues from new customers, could reduce our operating margins. Any failure to grow our revenues from existing customers or attract new customers for a prolonged period of time could have a material adverse effect on our results of operations. Certain of our existing customers that have strong in-house IT capabilities may choose to build their own data centers, which could adversely affect our ability to increase our sales to them. If we are unable to satisfy the needs or requirements of our significant customers, such as industry-leading internet companies or cloud service providers, we may not be able to retain them for existing services or attract them to purchase additional services from us, which may materially and adversely affect our business, financial condition and results of operations.

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

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

Government policies and restrictions on the construction of new data centers or the expansion of existing data centers may also have a material impact on our business. For example, since January 2019, the MIIT, and other regulatory authorities encourage data centers to adhere to certain average levels of energy conservation and aim to reach several goals including, among others, maintaining the power usage effectiveness, or PUE, of newly constructed large and extra-large data centers at or below 1.4 from the year 2022 onward. Some local governmental authorities also issued regulations and relevant implementation rules in order to control the construction and expansion of data centers. For example, on September 6, 2018, the General Office of the People's Government of Beijing Municipality issued a notice prohibiting new construction or expansion of data centers which are involved in providing internet data services or information processing and storage support services within certain areas of Beijing. In April, 2021, the Beijing Municipal Bureau of Economy and Information Technology published the Implementation Plan (2021-2023) on Coordinated Development of Data Centers in Beijing, which provides that the PUE of newly constructed cloud data centers should be controlled below 1.3. Governmental authorities in Shanghai announced the similar guidance on January 2, 2019, which provides that the PUE of newly constructed internet data centers is required to be strictly controlled below 1.3, and the PUE of reconstructed internet data centers is required to be strictly controlled below 1.4. Moreover, in July 2021, the Development and Reform Commission of Beijing Municipality published a Notice on Further Strengthening the Regulations on Energy Conservation Monitoring of Data Center Projects to strengthen the energy conservation review of data centers and charge more expensive and differentiated power tariffs accordingly for data centers with PUEs above 1.4. These regulatory developments and uncertainties regarding their implementation may adversely affect the expansion and/or construction progress of our data centers. While we endeavor to obtain the required regulatory approvals for the development and operation of our data centers (including fixed asset investment project filings and conducting energy conservation examinations of our data center construction projects to meet the requirements under national and local laws and regulations), we cannot assure you that all of our data centers have met the requirements or that we have obtained or will obtain all relevant approvals, the lack of which could have an adverse effect on our business and expected growth.

In addition, we need to work closely with the local power suppliers in the regions where we plan to expand existing data centers or construct new data centers. If we experience significant delays in the supply of power required to support the data center expansion or new construction, either during the design or construction phases, the progress of the data center expansion and/or construction could deviate from our original plans, which could have a material and adverse effect on our revenue growth, profitability and results of operations.

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

Beginning in early 2020, there was an outbreak of a novel strain of coronavirus, or COVID-19, in China. In the first half of 2020, the COVID-19 pandemic resulted in quarantines, travel restrictions, and the temporary closure of business venues and facilities in China, with some of these restrictive measures still sporadically in effect today. Furthermore, despite that many countries rolled out vaccination programs in early 2021, some countries and regions including India and certain parts of China have experienced resurgence of new COVID-19 cases, and the spread of mutant strains of COVID-19 brings further uncertainty to the control and management of COVID-19 pandemic. In response to the pandemic, we implemented remote working arrangements and suspended our offline customer acquisition activities and business travels to help ensure the safety and health of our employees. All of these measures have affected general commercial activities in China and our operating activities.

Despite successful rollout of vaccination in some countries against the COVID-19, the duration and severity of the spread of the COVID-19 pandemic are not predictable. The global spread of the COVID-19 pandemic in major countries of the world may continue and result in global economic distress, and the extent to which it may affect our results of operations will depend on future developments of the COVID-19 pandemic, which are highly uncertain and difficult to predict. If the construction of new data centers or the expansion of existing data centers cannot be completed or delivered on time due to the COVID-19 pandemic, we might be unable to meet our customer demand in the existing and new markets as expected, which may adversely and materially affect our business, financial condition and results of operations. Any economic slowdown in China due to the outbreak of COVID-19 may have a negative impact on our capital expenditures, which may further result in insufficient funds for our future expansion or growth and decreases in our revenues, and our business, financial condition and results of operations may be materially and adversely affected. In addition, the business disruptions caused by the outbreak of COVID-19 might also materially and adversely affect our customers' business operations and financial conditions, especially for small- and medium-sized enterprises, and they might start to encounter cash flow or operating difficulties, which may reduce their demand for our services, increase the accounts receivable turnover days or even increase the default risks. All of these consequences would negatively affect our results of operations. Any prolonged disruption of our businesses or those of our customers or business partners could negatively impact our financial condition and results of operations.

We have a history of net loss and we are uncertain about our future profitability.

We incurred a net loss of RMB186.7 million, RMB181.2 million, RMB2,680.3 million (US$415.1 million), RMB1,786.3 million in 2018, 2019 and 2020 and the six months ended June 30, 2020, respectively. Although we recorded a net income of RMB379.5 million (US$58.8 million) for the six months ended June 30, 2021, we cannot assure you that we will be able to generate net incomes in the future. Our net loss has resulted primarily from our cost of revenues and investments made to grow our business, such as, in telecommunication costs research and development efforts and sales and marketing efforts. We expect our costs and expenses to increase in absolute amounts as we continue to grow our business. Moreover, we intend to continue to invest in the foreseeable future in expanding our data center infrastructure, improving our technologies, hiring qualified research and development personnel and offering additional solutions and products, which is expected to cause our cost of revenues, sales and marketing expenses and research and development expenses to continually increase. We also plan to invest in sales, marketing and branding efforts. These efforts may be more costly than we expect and our revenues may not increase sufficiently to offset our expenses, which may result in increased operating and net loss in the short term with no assurance that we will eventually achieve our intended long-term benefits or profitability.

If we are unable to meet our customers' requirements, our reputation and results of operations could suffer.

Our agreements with our customers contain certain guarantees regarding our performance. For hosting services, we generally guarantee 99.9% uptime for power and 99.9% uptime for network connectivity, failure of which will cause us to provide free service for a period of time. In 2016, one of our data centers in southern China experienced a network outage for an extended period of time due to supplier-side connectivity issues. As a result, we failed to meet the 99.9% uptime guarantee for network connectivity, and consequently were required to provide free service for a period of time to all customers who were affected pursuant to our agreements with these customers. This was an isolated incident and did not have any material impact on our business. If in the future similar incidents were to recur or we are unable to provide customers with quality customer support, we could face customer dissatisfaction, decreased overall demand for our services, and loss of revenue. In addition, inability to meet customer service expectations may damage our reputation and could consequently limit our ability to retain existing customers and attract new customers, which would adversely affect our ability to generate revenue and negatively impact our results of operations.

Any significant or prolonged failure in our infrastructure or services would lead to significant costs and disruptions and would reduce our revenues, harm our business reputation and have a material adverse effect on our financial condition and results of operations.

Our data centers, power supplies and network are vulnerable to disruptions and failure of infrastructure. Problems with the cooling equipment, generators, backup batteries, routers, switches, or other equipment, whether or not within our control, could result in service interruptions or data losses for our customers as well as equipment damage. Our customers locate their computing and networking equipment in our data centers, and any significant or prolonged failure in our infrastructure or services could significantly disrupt the normal business operations of our customers and harm our reputation and reduce our revenue. While we offer data backup services and disaster recovery services, which could mitigate the adverse effects of such a failure, most of our customers do not subscribe for these services. Accordingly, any failure or downtime in any of our data centers could affect many of our customers. The total destruction or severe impairment of any of our data centers could result in significant downtime of our services and loss of customer data. Since our ability to attract and retain customers depends on our ability to provide highly reliable services, even minor interruptions of our services could harm our reputation.

While we have not experienced any material interruptions in the past, services interruptions continue to be a significant risk for us and could materially impact our business. Any services interruptions could:

- require us to waive fees or provide free services;
- cause our customers to seek damages for losses incurred;
- require us to replace existing equipment or add redundant facilities;
- cause existing customers to cancel or elect to not renew their contracts;
- adversely affect our brand and reputation as a reliable provider of data center service; or
- make it more difficult for us to attract new customers or cause us to lose market share.

Any of these events could materially increase our expenses or reduce our revenue, which would have a material adverse effect on our business, financial condition and results of operations.

We rely on customers in the internet industry for most of our revenues.

We derived a majority of our revenues in 2018, 2019 and 2020 and the six months ended June 30, 2021 from customers in China’s internet industry, including online media, e-commerce, live broadcasting, social networking, online gaming companies, portals, search engines, financial technology companies and cloud services providers. The business models of some internet companies are relatively new and have not been well proven. Many internet companies base their business prospects on the continued growth of China’s internet market, which may not happen as expected.

Furthermore, we are susceptible to adverse developments in the industry in which our customers operate. Our customers in China's internet industry may be potentially subject to more scrutiny or experience a downturn in their business, which in turn could result in their inability or failure to make timely payments to us pursuant to their contracts with us or inability to renew our existing contracts with them. In the event of customer default or enhanced scrutiny on our customer's business, our liquidity could be materially and adversely impacted and we may experience delays in enforcing our rights and may incur substantial costs in protecting our investment. The inability of any of our major customer to meet its payment obligation or decreased demand in our services due to enhanced scrutiny over their business or business downturns could impact us negatively and significantly.

In addition, our business would suffer if companies in China's internet sector reduce the outsourcing of their data center services. If any of these risks materialize, we may lose customers or have difficulties in selling our services, which would materially and adversely affect our business and results of operations.

Failure to maintain our partnership with Microsoft may have a material and adverse effect on our operations and the strategic goals of our cloud service business.

Through our strategic partnership with Microsoft, we started providing public cloud services in 2013 and hybrid cloud services in 2014. We are Microsoft's local partner for all of its four major cloud offerings: Microsoft Azure, Office 365, Dynamics 365 and Power Platform services. We rely on our partnership 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. There can be no certainty that our partnership with Microsoft will not be changed or terminated. Any change in the partnership with Microsoft could cause delays in the delivery of our cloud service and possible losses in revenue, which could adversely affect our results of operations. In addition, alternative partners may not be available, or may not provide their products or services at similar of favorable prices. To the extent that we are unable to maintain our partnership with Microsoft, and if we have not yet established, or are unable to establish, partnerships with other cloud service providers, our operations, reputation and strategic goals of cloud service business would be adversely affected.

We depend on third-party suppliers for key elements of our network infrastructure, data center and telecommunication network services, and we also compete with some of the third-party suppliers, primarily China Telecom and China Unicom, for certain telecommunication resources.

Our success depends in part upon our relationships with third-party suppliers, primarily China Telecom and China Unicom, for key elements of network infrastructure and telecommunication network services, including hosting facilities and bandwidth, and to some extent, optical fibers. We directly enter into agreements with the local subsidiaries of China Telecom and China Unicom, from whom we lease cabinets in the data centers built and operated by them, with power systems, cabling and wiring and other data center equipment pre-installed. Because each local subsidiary of China Telecom and China Unicom has independent authority and budget to enter into contracts, our contract terms with these subsidiaries vary and are determined on a case-by-case basis. We generally define "partnered" data centers as the data center space and cabinets we lease from China Telecom, China Unicom and other third parties through agreements. Based on the specific requests of our customers, demands in different cities and our strategy for points of presence, or POP, establishment, the locations and number of our partnered data centers may change from time to time. As of June 30, 2021, we leased a total of 3,971 cabinets that are housed in our 59 partnered data centers, accounting for approximately 6% of the total number of our cabinets under management.

We also rely on our internet bandwidth suppliers, consisting primarily of China Telecom, China Unicom and China Mobile, for a significant portion of our bandwidth needs and lease optical fibers from them to connect our data centers with each other and with the telecommunications backbones and other internet service providers. Our agreements with local subsidiaries of major telecommunication carries usually have a term of one to three years and an automatic renewal option. We can offer no assurances that these service providers will continue to provide services to us on a cost-effective basis or on otherwise competitive terms, if at all, or that these providers will provide us with additional capacity to adequately meet customer demand or to expand our business. Any of these factors could limit our growth prospects and materially and adversely affect our business.

China Telecom and China Unicom also provide data center and bandwidth services and directly compete with us while we exercise little control over them. See "– We may not be able to compete effectively against our current and future competitors." We believe that we have good business relationships with China Telecom and China Unicom, and we have access to adequate hosting facilities and bandwidth to provide our services. However, there can be no assurance that we can always secure hosting facilities and bandwidth from China Telecom and China Unicom on commercially acceptable terms, or at all.

In addition, we currently purchase routers, switches and other equipment from a limited number of suppliers. We do not carry significant inventories of the products we purchase, and we have no guaranteed supply arrangements with our suppliers. The loss of any significant vendor could delay the build-out of our infrastructure and increase our costs. If our suppliers fail to provide products or services that comply with evolving internet standards or that interoperate with other products or services we use in our network infrastructure, we may be unable to meet all or a portion of our customer service commitments, which could materially and adversely affect our business and results of operations.

Furthermore, we have experienced and expect to continue to experience interruptions or delays in network services. Any failure on our part or the part of our third-party suppliers to achieve or maintain high data transmission capacity, reliability or performance could significantly reduce customer demand for our services and damage our business and reputation. As our customer base grows and their usage of telecommunications resources increases, we may be required to make additional investments in our capacity to maintain adequate data transmission speed. The availability of such capacity may be limited or the cost may be unacceptable to us. If adequate capacity is not available to us as our customers' usage increases, our network may be unable to achieve or maintain sufficiently high data transmission capacity, reliability or performance. In addition, our operating margins may suffer if our bandwidth suppliers increase the prices for their services and we are unable to pass along the increased costs to our customers.

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

We are subject to extensive national, provincial and local governmental regulations, policies and controls. PRC governmental authorities and agencies regulate many aspects of Chinese industries, including without limitation, the following aspects:

- construction or development of new data centers or renovation, rebuilding or expansion of existing data centers;

- environmental protection laws and regulations;
- security laws and regulations;
- establishment of or changes in shareholder of foreign investment enterprises;
- foreign exchange;
- taxes, duties and fees;
- customs;
- land planning and land use rights;
- cybersecurity law and measures; and
- energy conservation and emission reduction;

The liabilities, costs, obligations and requirements associated with these laws and regulations may be material, may delay the commencement of operations at our new data centers or cause interruptions to our operations. Failure to comply with the relevant laws and regulations in our operations may result in various penalties, including, among others the suspension of our operations and thus adversely and materially affect our business, prospects, financial condition and results of operations. While we have endeavored to comply with the relevant laws and regulations in the development and operation of our data centers, we may incur additional costs in order to fulfill such requirements, and we cannot assure you that we have complied with, or will comply with the requirements of all relevant laws and regulations, including obtaining of all relevant approvals required for the development and operation of data centers.

Difficulties in identifying, consummating and integrating acquisitions and alliances and potential write-offs in connection with our investment or acquisitions may have a material and adverse effect on our business and results of operations.

As part of our growth strategy, we have acquired, and may in the future acquire, companies that are complementary to our business. From time to time, we may also make alternative investments and enter into strategic partnerships or alliances as we see fit. For example, in July 2018, SH Blue Cloud, the wholly-owned subsidiary of SH Zhiyan, entered into distribution agreements with each of Unify Cloud, AvePoint, Agile Point and Fadada.com to distribute their products and services in mainland China. In June 2020, as part of our business strategy to expand the existing hosting service, we, through one of our consolidated affiliated entities, Shanghai Shilian Technology Co., Ltd., acquired 100% of the equity interests in Shanghai Shuzhong Investment Management Co., Ltd., which primarily provides internet data center service from a third party selling shareholder. In July 2021, we acquired BJ TenxCloud, which is a professional provider of cloud native applications and data platform services. However, past and future acquisitions, partnerships or alliances may expose us to certain risks, including risks associated with:

- the integration of new operations and the retention of customers and personnel of the acquired businesses;
- significant volatility in our profitability due to changes in the fair value of our contingent purchase consideration payable;

- unforeseen or hidden liabilities, including those associated with different business practices;
- the diversion of management’s attention and resources from our existing business and technology by acquisition, transition and integration activities;
- failure to achieve synergies with our existing business and generate revenues as anticipated;
- failure of the newly acquired businesses, technologies, services and products to perform as anticipated;
- inability to generate sufficient revenues to offset additional costs and expenses;
- breach or termination of key agreements by the counterparties;
- international operations conducted by some of our acquired business;
- potential claims over payment of contingent purchase consideration; or
- the potential loss of, or harm to, relationships with both our employees and customers resulting from our integration of new businesses.

In addition, we record goodwill if the purchase price we pay in the acquisitions exceeded the amount assigned to the fair value of the net assets or business acquired. We are required to test our goodwill and intangible assets for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired. We may record impairment of goodwill and acquired intangible assets in connection with our acquisitions if the carrying value of our acquisition goodwill and related acquired intangible assets in connection with our past or future acquisitions are determined to be impaired. We cannot assure you that the acquired businesses, technologies, services and products from our past acquisitions and any potential transaction will generate sufficient revenue to offset the associated costs or other potential unforeseen adverse effect on our business. Furthermore, we may need to raise additional debt or sell additional equity or equity-linked securities to make or complete such acquisitions. See “– We may require additional capital to meet our future capital needs, which may adversely affect our financial position and result in additional shareholder dilution.”

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

We compete with various industry players, including telecommunication carriers such as China Telecom and China Unicom, carrier-neutral service providers in China such as SINNET and GDS, cloud services providers such as AWS and Alibaba Cloud, virtual private network, or VPN, service providers such as Citic Telecom CPC, China Telecom, PCCW, and CBCcom, as well as new market entrants in the future. Competition is primarily centered on the quality of service and technical expertise, security, reliability and functionality, reputation and brand recognition, financial strength, the breadth and depth of services offered, geographic coverage and price. Some of our current and future competitors may have substantially greater financial, technical and marketing resources, greater brand recognition, and more established relationships with current or potential customers than we do, which would allow them to:

- adapt to new or emerging technologies and changes in customer requirements more quickly;
- bundle certain services and provide to customers at reduced prices;
- take advantage of acquisition and other opportunities more readily;
- adopt more aggressive pricing policies and devote greater resources to the promotion, marketing, and sales of their services; and
- devote greater resources to the research and development of their products and services.

If we are unable to compete effectively and successfully against our current and future competitors, our business prospects, financial condition and results of operations could be materially and adversely affected.

Our self-built and partnered data centers are vulnerable to security breaches, which could disrupt our operations and have a material adverse effect on our business, financial condition and results of operations.

A party who is able to compromise the security measures of our data centers and networks or the security of our infrastructure could misappropriate either our proprietary information or the information of our customers, or cause interruptions or malfunctions in our operations. In addition, we have limited control over our partnered data centers, which are primarily operated by China Telecom or China Unicom. We may be required to devote significant capital and resources to protect against such threats or to alleviate problems caused by security breaches. As techniques used to breach security change frequently and are generally not recognized until launched against a target, we may not be able to implement security measures in a timely manner or, if and when implemented, we may not be certain whether these measures could be circumvented. Any breaches that may occur could expose us to increased risk of lawsuits, material monetary damages, potential violations of applicable privacy and other laws, penalties and fines, loss of existing or potential customers, harm to our reputation and increases in our security and insurance costs, which could have a material adverse effect on our business, financial condition and results of operations. For a detailed discussion, see “Regulations – Regulations on Internet Security.” In addition, the local authorities in the PRC may conduct various reviews and inspections on our business operations from time to time, which could cover a broad range of aspects, including network and information security, and compliance with applicable laws, rules and regulations. If any noncompliance incidents in our business operation are identified, we may be required to take certain rectification measures in accordance with applicable laws and regulations, or we may be subject to other regulatory actions such as administrative penalties. For example, in November 2020, the MIIT conducted an inspection on us and identified certain security issues in our cloud systems. We were ordered to rectify such issues before December 11, 2021. As of the date of this offering memorandum, the rectification work has been completed. However, given the continuously changing regulatory environment of China, we cannot assure you that we will be able to fully rectify all non-compliance incidents in a timely manner or fully satisfy the regulatory requirements, or we will not be subject to any future regulatory reviews and inspections where other non-compliance incidents might be identified, which might materially and adversely affect our business, financial condition, results of operations and prospects.

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

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

We will require significant capital expenditures and cash investments to fund our future growth. We may need to raise additional funds through equity or debt financings in the future in order to meet our capital needs mostly in relation to the construction of our self-built data centers and future acquisition opportunities. We may undertake a listing of our Class A ordinary shares on the Hong Kong Stock Exchange, which may also involve a public offering of newly issued shares to public investors. Any potential listing and offering are subject to market conditions and regulatory approvals, including the approval of that stock exchange. The issuance of new equity could result in dilution of our existing shareholders. If we raise additional funds through further issuances of equity or equity-linked securities, our existing shareholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences, and privileges senior to those of holders of the Notes. We may not be able to raise required cash on terms acceptable to us, or at all. If new financing sources are required, but are insufficient or unavailable, we may need to modify our growth and operating plans and business strategies based on available funding, if any, which would harm our ability to grow our business.

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flows from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

As of June 30, 2021, our total consolidated indebtedness and other liabilities, representing the aggregate amount of borrowings, bonds payable, accounts and notes payable, accrued expenses and other payables and convertible promissory notes, were RMB10,368.8 million (US$1,605.9 million). Failure to service our debt would constitute an event of default under the terms of our outstanding debt, which would have a material adverse effect on our financial condition and results of operations. Furthermore, if our bond rating is downgraded or we incur any change of control event, our financial condition or results of operations would be materially and adversely affected.

Our substantial level of indebtedness could adversely affect our ability to raise additional capital to fund our operations, expose us to interest rate risk to the extent of our variable rate debt, and if we are unable to comply with the restrictions and covenants contained in our debt agreements, an event of default could occur under the terms of such agreements, which could cause repayment of such debt to be accelerated.

We have substantial indebtedness. As of June 30, 2021, we had total consolidated indebtedness (including borrowings, bonds payable and convertible promissory notes) of RMB8,492.6 million (US$1,315.3 million). Based on our current expansion plans, we expect to continue to finance our operations partially through the incurrence of debt. Our indebtedness could, among other consequences:

- make it more difficult for us to satisfy our obligations under our indebtedness, exposing us to the risk of default, which, in turn, would negatively affect our ability to operate as a going concern;

- require us to dedicate a substantial portion of our cash flows from operations to interest and principal payments on our indebtedness, reducing the availability of our cash flows for other purposes, such as capital expenditures, acquisitions and working capital;

- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;

- increase our vulnerability to general adverse economic and industry conditions;

- place us at a disadvantage compared to our competitors that have less debt;

- expose us to fluctuations in the interest rate environment because the interest rates on borrowings under our project financing agreements are variable;

- increase our cost of borrowing;

- limit our ability to borrow additional funds; and

- require us to sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes.

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

If we are unable to comply with the restrictions and covenants in our current or future debt and other agreements, or we are unable to timely obtain waivers from relevant counterparties under such debt or other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, whichever the case may be. In addition, one of our variable interest entities and two of our subsidiaries have pledged the equity interests they hold in certain of their subsidiaries to the financial institutions as collateral to secure the loans or finance leases provided by these financial institutions. If there is any default under these loans or finance leases and we are unable to repay the debt, the pledged equity interests may be foreclosed by these creditors and our business could be adversely affected.

Furthermore, some of our debt agreements may contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of debt or result in a default under our other debt agreements. If any of these events occur, we cannot assure you that our assets and cash flows would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Increased power costs and limited availability of electrical resources could adversely affect our results of operations.

We are a large consumer of power and costs of power account for a significant portion of our overall costs for both our self-built data centers and partnered data centers. We may not be able to pass on increased power costs to our customers, which could harm our results of operations. For example, the Development and Reform Commission of Shenzhen Municipality, or Shenzhen DRC, issued regulations in the first half of 2017 to tighten the requirements for energy conservation review of fixed-asset investment projects for data centers by requiring all such projects to obtain an energy conservation review opinion from Shenzhen DRC regardless of the amount of their energy consumption and conditioning its approval of power supply applications on the receipt of such energy conservation review opinion. In September 2018, the General Office of the People’s Government of Beijing Municipality issued the Beijing Municipality’s Catalogue for the Prohibition and Restriction of Newly Increased Industries (2018 Edition) to strictly control new construction or expansion of data centers in Beijing. In January 2019, the Shanghai Municipal Commission of Economy and Informatization and the Shanghai Municipal Development and Reform Commission jointly published their Guideline Opinion on Coordinated Construction of Internet Data Centers in Shanghai to control the aggregate number of newly increased IDC racks from 2019 to 2020 in Shanghai. In April 2019, the Shenzhen DRC published a Notice on the Relevant Matters of Energy Conservation Examination for Data Centers to strictly control the amount of annual comprehensive energy consumption of newly constructed data centers. In November 2020, the General Office of the People’s Government of Guangdong Province issued the Three-year Implementation Plan (2020-2022) on Promotion of the Construction of New Infrastructures in Guangdong Province, pursuant to which the average designed PUE of data centers in Guangdong Province should be lower than 1.3 as of the year 2022. In April 2021, the Beijing Municipal Bureau of Economy and Information Technology published the Implementation Plan (2021-2023) on Coordinated Development of Data Centers in Beijing, which stipulated lower PUE and other energy conservation requirements applicable to the upgrade of existing data centers and new construction of data centers in Beijing. In April 2021, the Shanghai Municipal Commission of Economy and Informatization and the Shanghai Municipal Development and Reform Commission jointly published their Notice on Coordinated Construction of Data Centers in Shanghai in year 2021, pursuant to which the aggregate scale of new data center projects to be supported in 2021 (first batch) in Shanghai will be around 30,000 standard racks, and the comprehensive PUE of newly constructed data centers should be lower than 1.3 and reconstructed data centers should be lower than 1.4. In April 2021, the Energy Bureau of Guangdong Province published the Notice on Guangdong Province Data Center Energy Consumption Protection Requirement, according to which in 2021 to 2022, as a principle, increases in new data center racks will not be approved in Guangdong Province, except for projects integrating existing resources and constructed by enterprises for self-use (small scale data centers with 1,000 or fewer standard racks). In July 2021, the Development and Reform Commission of Beijing Municipality, published a Notice on Further Strengthening the Regulations on Energy Conservation Monitoring of Data Center Projects to stipulate further energy conservation requirements applicable to data center projects, including, among others, a limitation on the proportion of racks for data storage function, a requirement for higher usage percentage of renewable energy sources and lower PUE, as well as a restriction on the minimum actual utilized rate of the data center within two years after obtaining an energy conservation review opinion.

Power and cooling requirements at our data centers are also increasing as a result of the increasing power demands of today's servers. Since we rely on third parties to provide our data centers with power, our data centers could have a limited or inadequate access to power. Our customers' demand for power may also exceed the power capacity in our older data centers, which may limit our ability to fully utilize these data centers. This could adversely affect our relationships with our customers, which could harm our business and have an adverse effect on our results of operations.

If we are unable to successfully identify and analyze changing market trends and adjust our growth strategies accordingly in a timely and cost-effective manner, our results of operations could be adversely affected.

As China's internet infrastructure market remains at an early stage, especially compared to those in more advanced economies, we generally operate in a more complex business environment with changing market dynamics. On the one hand, the imbalance between material growth in internet traffic and the relative limited supply of high quality internet infrastructure services drives strong demand for not only data center services, but also complementary value-added services in adjacent markets, including among others, interconnectivity services, network transmission services and cloud services. On the other hand, the potential changes in competitive landscape and regulations in an otherwise highly regulated market continue to present ambiguities and challenges. Therefore, we need to evaluate, on a continuous basis, the changing market dynamics and from time to time make adjustments to our growth strategies and operations accordingly. Any material changes to our strategies and operations, including adjustments to business models, new business areas and acquisitions, are evaluated financially, strategically and operationally by our management and approved by our board of directors. If we fail to capture new growth opportunities, or become unsuccessful in modifying our strategies and operations to adapt to these changing market conditions in a timely and cost-effective manner, our results of operations could be materially and adversely affected.

In addition, we have expanded, and may continue to expand, into new business areas that we believe can either strengthen our competitive position or benefit our future growth. Some of these new business areas require substantial upfront investments before generating any revenues. If we fail to successfully manage the progress of our new growth initiatives, or if changing market conditions work against our proposed business plans, or if we fail to compete effectively with other market players, we may not be able to attract new customers and generate revenues and profits as anticipated, which may materially and adversely affect our business expansion.

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

To be successful, we must improve the performance, features and reliability of our services and adapt our business strategies to the rapidly changing market, which may cause us to incur substantial costs. We may not be able to adapt on a timely basis to changing technologies, if at all. Our ability to sustain and grow our business would suffer if we fail to respond to these changes in a timely and cost-effective manner. New technologies or industry standards have the potential to replace or provide lower cost alternatives to our data center service. The adoption of such new technologies or industry standards could render some or all of our services obsolete or unmarketable. We cannot guarantee that we will be able to identify the emergence of all of these new service alternatives successfully, modify our services accordingly, or develop and bring new products and services to market in a timely and cost-effective manner to address these changes. If and when we do identify the emergence of new service alternatives and introduce new products and services, those new products and services may need to be made available at lower price points than our then-current services. Failure to provide services to compete with new technologies or the obsolescence of our services could lead us to lose current and potential customers or could cause us to incur substantial costs, which would harm our results of operations and financial condition. Our introduction of new alternative products and services that have lower price points than current offerings may result in our existing customers switching to the lower cost products, which could reduce our revenues and have a material adverse effect of our results of operations.

If we fail to maintain a strong brand name, we may lose our existing customers and have difficulties attracting new customers, which may have an adverse effect on our business and results of operation.

We have built a strong brand in Chinese, "世纪互联", among our customers. As our business grows or changes, we plan to continue to focus our efforts to establish a wider recognition of our brand to attract potential customers, and we may also introduce additional brands in relation to our business. We cannot assure you that we will effectively allocate our resources for these activities or succeed in maintaining and broadening our brand recognition among customers. Our major brand names and logos are registered trademarks in China. However, preventing trademark and trade name infringement or misuse could be difficult, costly and time-consuming, particularly in China. There had been incidents in the past where third parties used our brand without our authorization and we had to resort to litigation to protect our intellectual property rights. See "Business – Legal Proceedings" for our dispute with Shanghai 21Vianet Information Systems Co., Ltd. We may continue to experience similar disputes in the future or otherwise fail to fully protect our brand name, which may have an adverse effect on our business and financial results.

Any negative publicity and allegations against us may adversely affect our brand, public image and reputation, which may harm our ability to attract and retain users and business partners and result in material adverse impact on our business, results of operations and prospects.

Negative publicity and allegations about us, our products and services, our financial results or our market position in general, including by short sellers or investment research firms, regardless of their veracity, may adversely damage our brand, public image and reputation, harm our ability to attract and retain users and result in material adverse impact on our share price, business and results of operations. For example, in September 2014, Trinity Research Group, or Trinity, a short seller that was allegedly formed in 2014, issued reports alleging that we operated through a Ponzi scheme and reported fraudulent financials and operating metrics. The trading price of our ADSs declined and two shareholder class action lawsuits were filed against us and some of our directors and senior executive officers. See “Business – Legal Proceedings.” Although through two separate and comprehensive rebuttal reports, we rejected all the allegations set out in Trinity’s reports, and such class action lawsuits were settled in 2018, our share price fluctuated after such negative publicity. We may be involved in similar class action lawsuits in the future. Any negative publicity could adversely damage our brand, public image and reputation, which may have an adverse impact on our business and results of operations.

Our directors and employees may face claims and lawsuits as a result of their position in other companies, which may also harm our reputation.

Our directors and employees may face additional exposure to claims and lawsuits as a result of their position in other public companies. For example, one of our directors, Mr. Sean Shao, an independent director and chairman of the audit committee of Jumei International Holding Limited, was named as a defendant in an ongoing securities class action lawsuit filed in the U.S. against Jumei International Holding Limited, a company formerly listed on the New York Stock Exchange, regarding an alleged omission and misrepresentation in that company’s solicitation/recommendation statement filed with the SEC in connection with its privatization transaction. Mr. Shao was also an independent director and chairman of the audit committee of Luckin Coffee Inc. from May 2019 through July 2020 and was chairman of a special committee of the board which investigated accounting improprieties at Luckin Coffee Inc. during 2020. Luckin Coffee Inc. and its directors, including Mr. Shao, have been named as defendants in several lawsuits brought with respect to these accounting improprieties. The existence of litigation, claims, investigations and proceedings against our directors and employees, even if they do not involve our company, may harm our reputation and adversely affect the value of our Notes.

Rapid urbanization and changes in zoning and urban planning in China may cause our leased properties to be demolished, removed or otherwise affected.

China is undergoing a rapid urbanization process, and zoning requirements and other governmental mandates with respect to urban planning of a particular area may change from time to time. When there is a change in zoning requirements or other governmental mandates with respect to the areas where our data centers are located, the affected data centers may need to be demolished and removed. As a result, we may have to relocate our data centers to other locations. We have not experienced such demolition and relocation in the past, but we cannot assure you that we will not experience demolitions or interruptions of our data center operations due to zoning or other local regulations. Any such demolition and relocation could cause us to lose primary locations for our data centers and we may not be able to achieve comparable operation results following the relocations. While we may be reimbursed for such demolition and relocation, we cannot assure you that the reimbursement, as determined by the relevant government authorities, will be sufficient to cover our direct and indirect losses. Accordingly, our business, financial condition and results of operations may be materially and adversely affected.

Our leases for data centers could be terminated early, we may not be able to renew our existing leases on commercially reasonable terms, and our rent could increase substantially in the future, which could materially and adversely affect our operations.

We lease buildings with suitable power supplies and safe structures meeting our data center requirements and convert them into data centers by installing power generators, air conditioning systems, cables, cabinets and other equipment. We also build our own data centers from the ground up after obtaining suitable land. We also purchase data centers in use or under construction from third parties. We generally refer to these three types of data centers as “self-built” data centers. Our operating leases generally have two to twenty years lease terms with renewal options. As of June 30, 2021, our self-built data centers house 58,905 cabinets, or 93.7% of the total number of our cabinets under our management. We plan to renew our existing leases upon expiration. However, we may not be able to renew these leases on commercially reasonable terms, if at all. We may experience an increase in our rent payments. In addition, although the lessors of our self-built data centers generally do not have the right of early termination and we have not experienced any early termination as of the date of this offering memorandum, the lease could be terminated early if we are in material breach of the lease agreements or the leased premises become unavailable due to reasons beyond the lessors’ control. If our leases for data centers were terminated early, we may have to relocate our data center equipment and the servers and equipment of our customers to a new building and incur significant costs related to relocation. Any relocation could also affect our ability to provide services and harm our reputation. As a result, our business and results of operations could be materially and adversely affected.

We may be subject to legal proceedings or arbitration claims in the ordinary course of our business, and the court rulings or arbitration awards may not be favorable to us.

We have been involved, and may continue to be involved, in legal proceedings or arbitration claims in the ordinary course of our business, including those in relation to contract disputes between us and our customers, suppliers or other business partners as well as labor disputes with our employees. Such proceedings or claims, regardless of their outcome, could harm our reputation, divert our management’s attention and cause us to incur a substantial amount of legal expenses. If the outcomes of these legal proceedings or arbitration claims are unfavorable to us, we may incur significant legal liabilities and our reputation, financial condition and results of operations could be materially and adversely affected.

We were named as a defendant in a putative shareholder class action lawsuit in the past, if we are involved in similar class action lawsuits, such proceedings could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.

In the past, we have been named as defendant in a putative shareholder class action lawsuit described in "Business – Legal Proceedings," which has been settled, but we may be involved in similar class action lawsuits in the future. Any such class action lawsuit, whether or not successful, may utilize a significant portion of our cash resources, divert management's attention from the day-to-day operations of our company, harm our reputation and restrict our ability to raise capital in the future, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results.

Our business depends substantially on the continuing efforts of our executives, and our business may be severely disrupted if we lose their services.

Our future success heavily depends upon the continued services of our executives and other key employees. In particular, we rely on the expertise and experience of Sheng Chen, our co-founder and executive chairman of the board of directors. We rely on their industry expertise, their experience in our business operations and sales and marketing, as well as their relationships with our employees, major shareholders, customers and government authorities. If one or more of our senior executives were unable or unwilling to continue in their present positions, we might not be able to replace them easily or at all. If any of our senior executives joins a competitor or forms a competing company, we may lose customers, suppliers, key professionals and staff members. Each of our executive officers has entered into an employment agreement with us, which contains non-competition provisions. However, if any dispute arises between our executive officers and us, we cannot assure you the extent to which any of these agreements could be enforced in China, where these executive officers reside, in light of the uncertainties with China's legal system. See "– Risks Related to Doing Business in China – Uncertainties with respect to the PRC legal system could limit legal protections available to you and us."

If we are unable to recruit or retain qualified personnel, our business could be harmed.

We must continue to identify, hire, train, and retain IT professionals, technical engineers, operations employees, and sales and management personnel who maintain relationships with our customers and who can provide the technical, strategic, and marketing skills required for our company to grow. There is a shortage of qualified personnel in these fields, and we compete with other companies for the limited pool of these personnel. Any failure to recruit and retain necessary technical, managerial, sales, and marketing personnel, including but not limited to members of our executive team, could harm our business and our ability to grow.

If we fail to protect our intellectual property rights in general, our business may suffer.

We consider our copyrights, trademarks, trade names and internet domain names invaluable to our ability to continue to develop and enhance our brand recognition. Historically, the PRC has afforded less protection to intellectual property rights than the United States. We utilize proprietary know-how and trade secrets and employ various methods to protect such intellectual property. Unauthorized use of our copyrights, trademarks, trade names and domain names may damage our reputation and brand. Preventing copyright, trademark and trade name infringement or misuse could be difficult, costly and time-consuming, particularly in China. The measures we take to protect our copyrights, trademarks and other intellectual property rights are currently based upon a combination of trademark and copyright laws in China and may not be adequate to prevent unauthorized uses. Furthermore, application of laws governing intellectual property rights in China is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our trademarks, copyrights and other intellectual property rights in the future, we may lose these rights, our brand name may be harmed, and our business may suffer materially. Furthermore, our management's attention may be diverted by violations of our intellectual property rights, and we may be required to enter into costly litigation to protect our proprietary rights against any infringement or violation.

We may face intellectual property infringement claims that could be time-consuming and costly to defend. If we fail to defend ourselves against such claims, we may lose significant intellectual property rights and may be unable to continue providing our existing services.

Our technologies and business methods, including those relating to data center service, may be subject to third-party claims or rights that limit or prevent their use. Companies, organizations or individuals, including our competitors, may hold or obtain patents or other proprietary rights that would prevent, limit or interfere with our ability to make, use or sell our services or develop new services, which could make it more difficult for us to operate our business. Intellectual property registrations or applications by others relating to the type of services that we provide may give rise to potential infringement claims against us. In addition, to the extent that we gain greater visibility and market exposure as a public company, we are likely to face a higher risk of being subject to intellectual property infringement claims from third parties. We expect that infringement claims may further increase as the number of products, services and competitors in our market increases. Further, continued success in this market may provide an impetus to those who might use intellectual property litigation as a tool against us.

It is critical that we use and develop our technology and services without infringing the intellectual property rights of third parties, including but not limited to patents, copyrights, trade secrets and trademarks. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. A successful infringement claim against us, whether with or without merit, could, among others things, require us to pay substantial damages, develop non-infringing technology or enter into royalty or license agreements that may not be available on acceptable terms, if at all, and cease making, licensing or using products that have infringed a third party's intellectual property rights. Protracted litigation could also result in existing or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation, or could require us to indemnify our customers against infringement claims in certain instances. Any intellectual property litigation could have a material adverse effect on our business, financial condition and results of operations or financial condition.

If we fail to defend ourselves against any intellectual property infringement claim, we may lose significant intellectual property rights and may be unable to continue providing our existing services, which could have a material adverse effect on our results of operations and business prospects.

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

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

The benefits from our partnership with Warburg Pincus may take longer than expected to realize, if at all.

In March 2017, we signed an investment agreement with Warburg Pincus to establish a multi-stage joint venture and build a digital real estate platform in China. The cooperation was expected to allow us to reduce capital expenditures as Warburg Pincus will take primary responsibilities to build new wholesale data centers. In July 2019, we reached a supplemental agreement with Warburg Pincus to restructure the partnership, pursuant to which the assets and projects of one joint venture were distributed, the shareholding structure of other joint ventures were adjusted and a new joint venture was established for sourcing and developing new projects. For more details, see "Business – Our Infrastructure – Our Data Centers." There is no guarantee that the joint venture will turn out to be successful, and the benefits from our partnership with Warburg Pincus may take longer than expected to realize, if at all.

Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and operations.

We generate substantially all of or revenues from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are influenced by economic, political and legal developments in China. Economic reforms begun in the late 1970s have resulted in significant economic growth. However, any economic reform policies or measures in China may from time to time be modified or revised. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 30 years, growth has been uneven across different regions and among different economic sectors. In addition, the rate of growth has been slowing since 2012, and the impact of COVID-19 on the Chinese and global economies in 2021 is likely to be severe.

The PRC government exercises significant control over China's economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Some of these measures may benefit the overall PRC economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past, the PRC government has implemented certain measures, including interest rate adjustment, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and results of operations. In addition, the increased global focus on social, ethical and environmental issues may lead to China's adoption of more stringent standards in these areas, which may adversely impact the operations of China-based companies. Any adverse changes in economic conditions in China, in the policies of the PRC government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business, financial condition and results of operations, lead to reduction in demand for our solutions and adversely affect our competitive position.

Our business could be adversely affected by trade tariffs or other trade barriers.

There have recently been heightened tensions in international economic relations, particularly between the U.S. and China. Since July 2018, the U.S. government has imposed, and has proposed to impose additional, new or higher tariffs on certain products imported from China to penalize China for what it characterizes as unfair trade practices. China has responded by imposing, and proposing to impose additional, new or higher tariffs on certain products imported from the U.S. In May 2019, the U.S. government announced to increase tariffs to 25%, and China responded by imposing tariffs on certain U.S. goods on a smaller scale, and proposed to impose additional tariffs on U.S. goods. On June 1, 2019, the tariffs announced in May 2019 came into effect on US$60 billion worth of U.S. goods exported to China. On September 1, 2019, as announced, the U.S. began implementing tariffs on more than US$125 billion worth of Chinese imports. On September 2, 2019, China lodged a complaint before the World Trade Organization against the U.S. over import tariffs. In December 2019, the U.S. and China reached a limited trade agreement to roll back existing tariff rates on certain Chinese goods and cancel new levies set to take effect on December 15, 2019 in exchange for Chinese purchases of U.S. farm goods and obtain other concession. However, there can be no assurances that the U.S. or China will not increase tariffs or impose additional tariffs in the future. Although we do not currently export any products to the U.S., it is not yet clear what impact these tariffs may have on our business. On May 15, 2020, the U.S. Department of Commerce took two sets of actions further targeting Chinese firms, including further tightening export controls against Huawei and its non-U.S. affiliates and adding additional China-related entities to the Entity List, which imposes restrictions on the transfer of technology to these entities. On August 17, 2020, the U.S. Department of Commerce imposed further export control restrictions on Huawei and its affiliates on the Entity List and added additional Huawei affiliates to the Entity List. The Entity List identifies foreign parties that are prohibited from acquiring – whether by export, reexport, or transfer in-country – some or all items subject to the U.S. Export Administration Regulations ("EAR"), unless the exporter secures a license. Licenses, and exceptions to the license requirement, are rarely granted to exporters. Exporting, reexporting or transferring items subject to the EAR in violation of licensing requirements could result in criminal and/or civil penalties. The U.S. Department of Commerce has indicated that engaging in activities contrary to U.S. national security and/or foreign policy interests would be grounds for inclusion on the Entity List. In June and August of 2020, the U.S. Department of Defense ("DOD") made public two lists of Chinese companies, including the major Chinese telecommunications carriers that have been determined to be "Communist Chinese military companies" operating directly or indirectly in the United States. While not sanctions lists, the DOD lists may lead to future sanctions by the U.S. government of companies on the DOD lists, including the PRC telecommunications carriers who provide network services to our customers. Additionally, the United States has ended trade preferences for Hong Kong as well as imposed sanctions on certain officials of Hong Kong and PRC government. Although we only provide services, tariffs could potentially impact the businesses of our suppliers, customers and business partners which may in turn affect our business and results of operations. In addition, these developments could have a material adverse effect on global economic conditions and the stability of global financial markets. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

We could be adversely affected by political tensions between the United States and China.

Political tensions between the United States and China have escalated due to, among other things, trade disputes, the COVID-19 outbreak, the PRC National People's Congress' passage of the Hong Kong National Security Law, sanctions imposed by the U.S. Department of Treasury on certain officials of the Hong Kong Special Administrative Region and the central government of the PRC, as well as the executive orders issued by U.S. President Donald J. Trump in August 2020 that prohibit certain transactions with ByteDance Ltd., Tencent Holdings Ltd. and the respective subsidiaries of such companies. In August 2020, the U.S. government further tightened export controls on Huawei, including by confirming that the expired Temporary General License authorizing certain dealings with Huawei will not be renewed and restricting non-U.S. chipsets based on or using U.S. technology from being exported to Huawei. On September 18, 2020, the U.S. Department of Commerce announced prohibitions on certain services and transactions relating to mobile applications WeChat and TikTok. In addition, in November 2020, U.S. President Donald J. Trump issued further executive order (E.O. 13959) that prohibits U.S. persons from transacting publicly traded securities of certain "Communist Chinese Military Companies" named in such executive order, the U.S. Department of Defense designated Xiaomi Corporation, which is one of our largest customers, as one of the "Chinese Communist Military Company" on January 15, 2021. On May 11, 2021, the U.S. Department of Defense removed Xiaomi Corporation from its list of "Communist Chinese Military Companies". Relations between the two countries may also deteriorate due to the imposition of U.S. sanctions on four Chinese officials from China's central government and the Hong Kong Special Administrative Region in November 2020, as well as the imposition of Chinese sanctions on four individuals from the U.S. in the same month. On January 5, 2021, U.S. President Donald J. Trump signed an executive order prohibiting transactions with Alipay, QQ Wallet, Tencent QQ, WeChat Pay, and other popular Chinese software applications in the U.S. China has implemented, and may further implement, measures in response to the Chinese trade policies, treaties, tariffs and sanctions and restrictions against Chinese companies initiated by the U.S. government. On September 19, 2020, the Ministry of Commerce of the PRC, or the MOFCOM issued the Provisions on the Unreliable Entity List, pursuant to which foreign entities or individuals may be subject to, among others, restriction or prohibition from engaging in China-related import or export activities and investment in China if such entities or individuals are designated to be an "unreliable entity list" by the PRC government. The MOFCOM further published the Rules on Counteracting Unjustified Extra-territorial Application of Foreign Legislation and Other Measures on January 9, 2021, which applies to cases where the extraterritorial application of foreign laws and measures violates international law and basic norms of international relations, and improperly prohibits or restricts PRC citizens, legal persons or other organizations from conducting normal economic, trade and related activities with third countries (regions) and their citizens, legal persons or other organizations. On June 3 2021, President Biden Signed an executive order to amend E.O. 13959 by expanding the scope of named "Communist Chinese military companies" to 59 Chinese companies. On June 9, 2021, President Biden issued Executive Order 14034 to revoke the three Trump administration executive orders that targeted TikTok, WeChat and eight other Chinese applications. On July 9, 2021, the Biden administration added 14 Chinese companies and other entities to its economic blacklist over alleged human rights abuses and high-tech surveillance in Xinjiang, China. With the political tension between China and the U.S. deepening, on July 30, 2021, the SEC issued a public statement requiring its staff to seek certain disclosures from offshore issuers associated with China-based operating companies before their registration statements will be declared effective.

Rising political tensions could reduce levels of trade, investments, technological exchanges and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. Any of these factors could have a material adverse effect on our business, prospects, financial condition and results of operations. Furthermore, there have been recent media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets. If any such deliberations were to materialize, the resulting legislation may have a material and adverse impact on the stock performance of China-based issuers listed in the United States. It is unclear if this proposed legislation would be enacted.

Based on our current assessment of the situation, we do not believe that our business operations or financial performance will be materially and adversely affected by the above developments, though Huawei and Bytedance Ltd. are our current customers. Huawei, Bytedance Ltd. together contributed to less than 5% of our net revenues for 2019 and 2020 and the six months ended June 30, 2021. However, we cannot assure you that, if the political tension between the United States and China intensifies and further regulations affecting our business or customers are passed, our business will not be materially and adversely affected.

Our results of operations have fluctuated and may continue to fluctuate, which could make our future results difficult to predict. This may also result in significant volatility in, and otherwise adversely affect, the market for our Notes.

Our results of operations have fluctuated and may continue to fluctuate due to a variety of factors, which are outside of our control. As a result, comparing our results of operations on a period-to-period basis may not be meaningful. You should not rely on our results of operations for any prior periods as an indication of our future operating performance. Fluctuations in our revenue can lead to even greater fluctuations in our results of operations. Our budgeted expense levels depend in part on our expectations of long-term future revenue. Given relatively fixed operating costs related to our personnel and facilities, any substantial adjustment to our expenses to account for lower than expected levels of revenue will be difficult and time consuming. Consequently, if our revenues do not meet projected levels, our operating performance will be negatively affected. Fluctuations in our results of operations could result in significant volatility in, and otherwise adversely affect, the market for our Notes.

If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud, and investor confidence in our company and the market price of our Notes may be adversely affected.

The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring most public companies to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, when a company meets the SEC's criteria, an independent registered public accounting firm must report on the effectiveness of the company's internal control over financial reporting.

Our management and independent registered public accounting firm have concluded that our internal control over financial reporting as of December 31, 2020 was effective. However, we cannot assure you that in the future our management or our independent registered public accounting firm will not identify material weaknesses during the Section 404 of the Sarbanes-Oxley Act audit process or for other reasons. In addition, because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. As a result, if we fail to maintain effective internal control over financial reporting or should we be unable to prevent or detect material misstatements due to error or fraud on a timely basis, investors could lose confidence in the reliability of our financial statements, which in turn could harm our business, results of operations and negatively impact the market price of our Notes, and harm our reputation. Furthermore, we have incurred and expect to continue to incur considerable costs and to use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

Compliance with rules and regulations applicable to companies publicly listed in the United States is costly and complex and any failure by us to comply with these requirements on an ongoing basis could negatively affect investor confidence in us and cause the value of the Notes to decrease.

In addition to Section 404, the Sarbanes-Oxley Act also mandates, among other things, that companies adopt corporate governance measures, imposes comprehensive reporting and disclosure requirements, sets strict independence and financial expertise standards for audit committee members, and imposes civil and criminal penalties for companies, their chief executive officers, chief financial officers and directors for securities law violations. For example, in response to the Sarbanes-Oxley Act, NASDAQ has adopted additional comprehensive rules and regulations relating to corporate governance. These laws, rules and regulations have increased the scope, complexity and cost of our corporate governance and reporting and disclosure practices. Our current and future compliance efforts will continue to require significant management attention. In addition, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers to fill critical positions within our company. Any failure by us to comply with these requirements on an ongoing basis could negatively affect investor confidence in us and cause the value of the Notes to decrease.

We are subject to anti-corruption laws including China's Criminal Law and Anti-unfair Competition Law and the U.S. Foreign Corrupt Practices Act. Our failure to comply with these laws could result in penalties, which could harm our reputation and have an adverse effect on our business, financial condition and results of operations.

We are subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, which generally prohibits companies and anyone acting on their behalf from offering or making improper payments or providing benefits to foreign officials for the purpose of obtaining or keeping business, along with various other anti-corruption laws, including China's anti-corruption laws such as China's Criminal Law and Anti-unfair Competition Law. Our existing policies prohibit any such conduct and we are in the process of implementing additional policies and procedures designed to ensure that we, our employees and intermediaries comply with the FCPA and other anti-corruption laws to which we are subject. There is, however, no assurance that such policies or procedures will work effectively all the time or protect us against liability under the FCPA or other anti-corruption laws for actions taken by our employees and intermediaries with respect to our business or any businesses that we may acquire. We operate in the data center service industry in China and generally purchase our hosting facilities and telecommunications resources from state or government-owned enterprises and sell our services domestically to customers that include state or government-owned enterprises or government ministries, departments and agencies. This puts us in frequent contact with persons who may be considered "foreign officials" under the FCPA, resulting in an elevated risk of potential FCPA violations. If we are found to be in violation with the FCPA and other applicable anti-corruption laws governing the conduct of business with government entities or officials, we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, financial condition and results of operations. Any investigation of any potential violations of the FCPA or other anti-corruption laws by U.S. or foreign authorities, including Chinese authorities, could adversely impact our reputation, cause us to lose customer sales and access to hosting facilities and telecommunications resources, and lead to other adverse impacts on our business, financial condition and results of operations.

We have granted, and may continue to grant, stock options and other forms of share-based incentive awards, which may result in significant share-based compensation expenses.

As of June 30, 2021, options to purchase 474,864 ordinary shares and 3,679,785 restricted stock units, or RSUs, have been granted under our 2010 share incentive plan, or the 2010 Plan, 2014 share incentive plan, or the 2014 Plan, and 2020 share incentive plan, or the 2020 Plan. For details about our share incentive plans, see "Management – Share Incentive Plans." For the years ended December 31, 2019 and 2020 and the six months ended June 30, 2021, we recorded RMB43.9 million, RMB136.8 million (US$21.2 million) and RMB62.4 million (US$9.7 million), respectively, for share-based compensation expenses. We believe share-based incentive awards enhance our ability to attract and retain key personnel and employees, and we will continue to grant stock options, restricted stock units and other share-based awards to employees in the future.

We are required to account for share-based compensation in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 718, *Compensation – Stock Compensation*, which generally requires that share-based awards granted to employees be measured and recognized, as an expense, based on the grant date fair value and recognized as compensation expenses over the requisite service period or performance period. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, we incurred share-based compensation expense of RMB59.5 million, RMB43.9 million, RMB136.8 million (US$21.2 million) and RMB62.4 million (US$9.7 million), respectively. If our share-based compensation expenses continue to be significant, our results of operations would be materially and adversely affected. However, if we limit the size of grants under our share incentive plans to minimize share-based compensation expenses, we may not be able to attract or retain key personnel.

Our use of certain leased properties could be challenged by third parties or governmental authorities, which may cause interruptions to our business operations.

Some of the lessors of our leased properties have not provided us with their property ownership certificates or any other documentation proving their rights to lease those properties to us. If our lessors are not the owners of the properties and they have not obtained consents from the owners or their lessors or permits from the relevant governmental authorities, our leases could be invalidated. If this occurs, we may have to renegotiate the leases with the owners or other parties who have the right to lease the properties, and the terms of the new leases may be less favorable to us. If we were to not able to find replacement premises for our operation due to any lease deficiencies, the daily operations of such premises may be negatively affected. In addition, a substantial portion of our leasehold interests in leased properties have not been registered with the relevant PRC governmental authorities as required by relevant PRC laws. The failure to register leasehold interests may expose us to potential fines.

Title defects with respect to or encumbrances on certain land and buildings or failure to obtain requisite approvals, licenses or permits in carrying out our property construction may cause interruptions to our business operations. As of the date of this offering memorandum, we had not obtained property ownership certificates with respect to two buildings currently used by us for operating our data centers. We are in the process of applying for the registration of the land use right and property ownership certificates pursuant to the applicable contracts for assignment of state-owned construction land use right, but we are unable to estimate the time required to complete such registration and obtain such certificates.

We may not have adequate insurance coverage to protect us from potential losses.

Our operations are subject to hazards and risks normally associated with daily operations for our data centers. Currently, we maintain insurance policies for our equipment, but we do not maintain any business interruption insurance or third-party liability insurance. The insurance policies for our equipment may only be sufficient to cover a portion of the total value of all equipment in the event that losses occur. Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies do in more developed economies. The occurrence of any events not covered by our limited insurance coverage may result in interruption of our operations and subject us to significant losses or liabilities. In addition, any losses or liabilities that are not covered by our current insurance policies or are not insured at all may have a material adverse effect on our business, financial condition and results of operations.

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

We are vulnerable to natural disasters and other calamities. Fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide services to our customers. If a nature disaster were to occur in the future that affected at any location where we have major operations, our operations could be materially and adversely affected due to loss of personnel and damages to property. In addition, a natural disaster affecting a larger, more developed area could also cause an increase in our costs resulting from the efforts to resurvey the affected area. Even if we are not directly affected, such a disaster could affect the operations or financial condition of our customers and suppliers, which could harm our results of operations.

Our ADSs may be delisted under the Holding Foreign Companies Accountable Act if the PCAOB is unable to inspect auditors who are located in China. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections deprives our investors with the benefits of such inspections.

The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. The HFCA Act states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange or in the over the counter trading market in the U.S.

Our auditor, the independent registered public accounting firm that issues the audit report included in our 2020 Form 20-F incorporated by reference in this offering memorandum and the interim financial information included in this offering memorandum, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is currently not inspected by the PCAOB.

On March 24, 2021, the SEC adopted interim final rules relating to the implementation of certain disclosure and documentation requirements of the HFCA Act. We will be required to comply with these rules if the SEC identifies us as having a “non-inspection” year under a process to be subsequently established by the SEC. The SEC is assessing how to implement other requirements of the HFCA Act, including the listing and trading prohibition requirements described above.

On June 22, 2021, the U.S. Senate passed a bill which, if passed by the U.S. House of Representatives and signed into law, would reduce the number of consecutive non-inspection years required for triggering the prohibitions under the HFCA Act from three years to two.

The SEC may propose additional rules or guidance that could impact us if our auditor is not subject to PCAOB inspection. For example, on August 6, 2020, the President’s Working Group on Financial Markets, or the PWG, issued the Report on Protecting United States Investors from Significant Risks from Chinese Companies to the then President of the United States. This report recommended the SEC implement five recommendations to address companies from jurisdictions that do not provide the PCAOB with sufficient access to fulfill its statutory mandate. Some of the concepts of these recommendations were implemented with the enactment of the HFCA Act. However, some of the recommendations were more stringent than the HFCA Act. For example, if a company was not subject to PCAOB inspection, the report recommended that the transition period before a company would be delisted would end on January 1, 2022.

The SEC has announced that the SEC staff is preparing a consolidated proposal for the rules regarding the implementation of the HFCA Act and to address the recommendations in the PWG report. It is unclear when the SEC will complete its rulemaking and when such rules will become effective and what, if any, of the PWG recommendations will be adopted. The implications of this possible regulation in addition to the requirements of the HFCA Act are uncertain. Such uncertainty could cause the market price of our ADSs to be materially and adversely affected, and our securities could be delisted or prohibited from being traded "over-the-counter" earlier than would be required by the HFCA Act. If our securities are unable to be listed on another securities exchange by then, such a delisting would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with a potential delisting would have a negative impact on the price of our ADSs.

The PCAOB's inability to conduct inspections in China prevents it from fully evaluating the audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in our ordinary shares are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause investors and potential investors in our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

If we are unable to manage our growth effectively, our financial results could suffer.

The growth of our business and our service offerings may strain our operating and financial resources. Furthermore, we intend to continue expanding our overall business, customer base, headcount, and operations. Managing a geographically dispersed workforce requires substantial management effort and significant additional investment in our operating and financial system capabilities and controls. If our information systems are unable to support the demands placed on them by our growth, we may need to implement new systems, which would be disruptive to our business. We may also initiate similar network upgrade in the future if required by our operations. We may be unable to manage our expenses effectively in the future due to the expenses associated with these expansions and such expansions or upgrade may cause disruption of services to our customers, which may negatively impact our net revenues and operating expenses. If we fail to improve our operational systems or to expand our customer service capabilities to keep pace with the growth of our business, we could experience customer dissatisfaction, cost inefficiencies, and lost revenue opportunities, which may materially and adversely affect our results of operations.

Proceedings instituted recently by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934.

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese affiliates of the "big four" accounting firms, (including our auditors) and also against Dahua (the former BDO affiliate in China). The Rule 102(e) proceedings initiated by the SEC relate to these firms' inability to produce documents, including audit work papers, in response to the request of the SEC pursuant to Section 106 of the Sarbanes-Oxley Act of 2002, as the auditors located in the PRC are not in a position lawfully to produce documents directly to the SEC because of restrictions under PRC law and specific directives issued by the CSRC. The issues raised by the proceedings are not specific to our auditors or to us, but affect equally all audit firms based in China and all China-based businesses with securities listed in the United States.

In January 2014, the administrative judge reached an initial decision that the "big four" accounting firms should be barred from practicing before the Commission for six months. The "big four" accounting firms appealed the initial administrative law decision to the SEC in February 2014. In February 2015, each of the "big four" accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via CSRC. If the firms do not follow these procedures, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or Exchange Act, including possible delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of the Notes may be adversely affected.

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

Risks Related to Our Corporate Structure

There are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulation, and rules relating to the agreements that establish the variable interest entities structure for our operations in China, including potential future actions by the PRC government, which could affect the enforceability of our contractual arrangements with our variable interest entities, and consequently, significantly affect our financial condition and results of operations. If the PRC government finds the agreements with our variable interest entities non-compliant with relevant PRC laws, regulations, and rules, of these laws, regulations, and rules or the interpretation thereof change in the future, we could be subject to severe penalties or be forced to relinquish our interest in our variable interest entities.

The PRC government regulates telecommunications-related businesses through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership of PRC companies that engage in telecommunications-related businesses. Specifically, pursuant to the 2020 Negative List, foreign investors are not allowed to own more than a 50% equity interest in any PRC company engaging in value-added telecommunications businesses (except for e-commerce, domestic multi-party communications services, information storage and re-transmission services, and call center services), and the major foreign investor of a telecommunication business in China must also have experience and a sound track record in providing value-added telecommunications services overseas. See “Regulation – Regulations on Foreign Investments in Telecommunication Enterprises.”

Because we are a Cayman Islands company, we are classified as a foreign enterprise under PRC laws and regulations, and our wholly-owned PRC subsidiaries, 21Vianet Data Center Co., Ltd., or 21Vianet China, Joytone Infotech Co., Ltd., or SZ Zhuoaiyi, Abitcool (China) Broadband Inc., or aBitCool DG, and Shanghai Edge Connect Technology Co., Ltd. or SH Edge Connect, are foreign-invested enterprises, or FIEs. To comply with PRC laws and regulations, we do not have equity ownership in our variable interest entities and we conduct our business in China through contractual arrangements with our variable interest entities and their shareholders. These contractual arrangements provide us with effective control over our variable interest entities, and enable us to receive substantially all of the economic benefits of our consolidated affiliated entities in consideration for the services provided by our wholly-owned PRC subsidiaries, and have an exclusive option to purchase all of the equity interest in our variable interest entities when permissible under PRC laws. If the PRC government deems that our contractual arrangements with our consolidated affiliated entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change or are interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. We may not be able to repay the Notes and other indebtedness, and our shares may decline in value and become worthless, if we are unable to assert our contractual control right over the assets of our wholly-owned PRC subsidiaries and consolidated affiliated entities that conduct all or substantially all of our operations. Our holding company in the Cayman Islands, our consolidated affiliated entities, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with our consolidated affiliated entities and, consequently, significantly affect the financial performance of our consolidated affiliated entities and our company as a group.

The MIIT issued a circular in July 2006 requiring foreign investors to set up an FIE and obtain a value-added telecommunications business operating license, or the VAT License, in order to conduct any value-added telecommunications business in China. Pursuant to this circular, a domestic license holder is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including resources, sites or facilities, to foreign investors that conduct value-added telecommunications business in China illegally. Furthermore, the relevant trademarks and domain names that are used in the value-added telecommunications business must be owned by the local license holder or its shareholder. The circular further requires each license holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunications service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. Companies in violation of the circular will be ordered by relevant authorities to take remedial actions within a specific period and licenses may be withdrawn if such remedial actions cannot be completed within the specific period. As of the date of this offering memorandum, we have not been notified by relevant authorities regarding any violation of the circular when conducting our value-added telecommunications business.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business, or the enforcement and performance of our contractual arrangements with our consolidated affiliated entities, including but not limited to 21Vianet Technology, BJ iJoy, WiFire Network and SH Zhiyan. These laws and regulations may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. Due to the uncertainty and complexity of the regulatory environment, we cannot assure you that we would always be in full compliance with applicable laws and regulations, the violation of which may have adverse effect on our business and our reputation.

We believe that we, our wholly-owned PRC subsidiaries and our consolidated affiliated entities comply with the current applicable PRC laws and regulations as of the date of this offering memorandum. Han Kun Law Offices, our PRC legal counsel, based on its understanding of the relevant laws and regulations, is of the opinion that each of the contracts composing the contractual arrangements among us, our wholly-owned PRC subsidiaries, our variable interest entities and their shareholders is valid, legally binding and enforceable upon each party of such agreements under PRC laws and regulations, and both currently and immediately after giving effect to this offering will not result in any violation of PRC laws or regulations currently in effect. However, as there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, the telecommunications circular described above and the Telecommunications Regulations of the People's Republic of China, and the relevant regulatory measures concerning the telecommunications industry, therefore, we cannot assure you that the PRC government that regulate providers of data center service and other telecommunication services and other participants in the telecommunications industry would agree that our corporate structure or any of the above contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations.

If our corporate and contractual structure is deemed by the MIIT, or other regulators having competent authority, to be illegal, either in whole or in part, we may lose control of our consolidated affiliated entities and have to modify such structure to comply with regulatory requirements. However, we cannot assure you that we can achieve this without material disruption to our business. Further, if our corporate and contractual structure is found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking our consolidated affiliated entities' business and operating licenses;
- levying fines on our consolidated affiliated entities;
- confiscating any of our consolidated affiliated entities' income that they deem to be obtained through illegal operations;
- shutting down a portion or all of our consolidated affiliated entities' networks and servers;
- discontinuing or restricting our consolidated affiliated entities' operations in China;
- imposing conditions or requirements with which our consolidated affiliated entities may not be able to comply;
- requiring our consolidated affiliated entities to restructure our corporate and contractual structure, including terminating the contractual arrangement with our variable interest entities and deregistering the equity pledges of our variable interest entities, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our variable interest entities;
- restricting or prohibiting our consolidated affiliated entities use of the proceeds from overseas offering to finance our PRC affiliated entities' business and operations; and
- taking other regulatory or enforcement actions that could be harmful to our consolidated affiliated entities' business.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of our variable interest entities in our consolidated financial statements, if the PRC government authorities were to find our legal structure and contractual arrangements to be non-compliant with PRC laws and regulations. We also cannot be certain that equity interests in our variable interest entities will be disposed of in accordance with the contractual arrangements among our PRC subsidiaries, our variable interest entities and the nominee shareholders of our variable interest entities. In addition, new PRC laws, regulations, and rules may be introduced to impose additional requirements, posing additional challenges to our corporate structure and contractual arrangements. If the imposition of any of these government actions causes us to lose our right to direct the activities of our variable interest entities or our right to receive substantially all the economic benefits and residual returns from our variable interest entities and we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of our variable interest entities in our consolidated financial statements. Furthermore, in connection with litigation, arbitration or other judicial or dispute resolution proceedings, assets under the name of any of record holder of equity interest in our variable interest entities, including such equity interest, may be put under court custody. As a consequence, we cannot be certain that the equity interest will be disposed pursuant to the contractual arrangement or ownership by the record holder of the equity interest. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and contractual arrangements. Occurrence of any of these events could materially and adversely affect our business, financial condition and results of operations. In addition, if the imposition of any of these penalties or requirement to restructure our corporate structure causes us to lose the rights to direct the activities of our variable interest entities or our right to receive their economic benefits, we would no longer be able to consolidate such variable interest entities. However, we do not believe that such actions would result in the liquidation or dissolution of our company, our wholly-owned subsidiaries in China or our variable interest entities or their subsidiaries. In 2018, 2019, 2020 and the six months ended June 30, 2021, we derived 73.9%, 74.6%, 79.8% and 84.5% of our external revenues from our consolidated affiliated entities, respectively.

Our contractual arrangements with our variable interest entities may result in adverse tax consequences to us.

We could face material and adverse tax consequences if the PRC tax authorities determine that our contractual arrangements with our variable interest entities were not made on an arm's length basis and may adjust our income and expenses for PRC tax purposes by requiring a transfer pricing adjustment. A transfer pricing adjustment could adversely affect us by (i) resulting in a reduction of expense deductions recorded by our VIEs for PRC tax purposes, which could in turn increase their tax liabilities without reducing their respective tax expenses, which could further result in late payment fees and other penalties to our variable interest entities for underpaid taxes; or (ii) limiting the ability of our variable interest entities to obtain or maintain preferential tax treatments and other financial incentives. Under the PRC Enterprise Income Tax Law, or the EIT Law, an enterprise must submit its annual tax return together with information on related-party transactions to the PRC tax authorities. The PRC tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm's-length principles. For example, the PRC tax authorities could request that our VIEs adjust their taxable income upward for PRC tax purposes. Such adjustment could adversely affect us by increasing our VIEs' tax expenses without reducing our subsidiaries' tax expenses, which could subject our VIEs to interest due on late payments and other penalties for under-payment of taxes.

We rely on contractual arrangements with our variable interest entities and their shareholders for our China operations, which may not be as effective as direct ownership in providing operational control. Any failure by our variable interest entities or their shareholders to perform their obligations under our contractual arrangements with them would have a material adverse effect on our business.

Due to certain restrictions under the PRC laws on foreign ownership of entities engaged in data center and telecommunications value-added services, we conduct our operations in China through contractual arrangements among us, our wholly-owned PRC subsidiaries, our variable interest entities and their shareholders. We do not have any equity interest in our consolidated affiliated entities. However, as a result of these contractual arrangements, we control our variable interest entities and have consolidated the financial information of our consolidated affiliated entities in our consolidated financial statements in accordance with U.S. GAAP. We rely on contractual arrangements with our variable interest entities and their shareholders to operate our business in China. For a description of these contractual arrangements, see "Related Party Transactions – Contractual Arranges with our VIE and Their Shareholders." Most of our revenues are attributed to our consolidated affiliated entities. These contractual arrangements may not be as effective as direct ownership in providing us with control over our variable interest entities. For example, our consolidated affiliated entities and their shareholders could breach their contractual arrangements with us by, among other things, failing to operate our business in an acceptable manner or taking other actions that are detrimental to our interests. If our consolidated affiliated entities or their shareholders fail to perform their respective obligations under these contractual arrangements, our recourse to the assets held by our consolidated affiliated entities is indirect and we may have to incur substantial costs and expend significant resources to enforce such arrangements in reliance on legal remedies under PRC law. These remedies may not always be effective, particularly in light of uncertainties in the PRC legal system.

All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing these contractual arrangements, it would be very difficult to exert effective control over our variable interest entities. As a result, our ability to conduct our business may be materially and adversely affected, and we may not be able to consolidate the financial results of the relevant affiliated entities into our consolidated financial statements in accordance with the U.S. GAAP, which may materially and adversely affect our results of operations and damage our reputation. See "– Risks Related to Doing Business in China – Uncertainties with respect to the PRC legal system could limit legal protections available to you and us."

The shareholders of our variable interest entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

We conduct our operations in China through contractual arrangements among us, our wholly-owned PRC subsidiaries, our variable interest entities and their shareholders and we rely on the shareholders of our variable interest entities to abide by the obligations under such contractual arrangements. In particular, 21Vianet Technology is 70% owned by Mr. Sheng Chen, our executive chairman and 30% owned by Mr. Jun Zhang, our co-founder. Mr. Sheng Chen and Mr. Jun Zhang are also the ultimate shareholders of our company. The interests of Mr. Sheng Chen and Mr. Jun Zhang as the shareholders of 21Vianet Technology may differ from the interests of our company as a whole, as what is in the best interests of 21Vianet Technology may not be in the best interests of our company. We cannot assure that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or that conflicts of interest will be resolved in our favor. In addition, these individuals may breach or cause our variable interest entities and their subsidiaries to breach or refuse to renew the existing contractual arrangements with us.

Currently, we do not have arrangements to address potential conflicts of interest the shareholders of 21Vianet Technology may encounter, on one hand, and as a beneficial owner of our company, on the other hand; provided that we could, at all times, exercise our option under the optional share purchase agreement to cause them to transfer all of their equity ownership in 21Vianet Technology to a PRC entity or individual designated by us as permitted by the then applicable PRC laws. In addition, if such conflicts of interest arise, we could also, in the capacity of attorney-in-fact of the then existing shareholders of 21Vianet Technology as provided under the power of attorney, directly appoint new directors of 21Vianet Technology. We rely on the shareholders of our variable interest entities to comply with the laws of China, which protect contracts and provide that directors and executive officers owe a duty of loyalty to our company and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains, and the laws of the Cayman Islands, which provide that directors have a duty to act in good faith in the best interests of the company, a duty not to make a personal profit based on his position as director (unless the company permits him to do so), a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third party and a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company also owes to the company a duty to act with skill and care. However, the legal frameworks of China and Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of our variable interest entities, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

We may lose the ability to use and enjoy assets held by our variable interest entities that are material to the operation of certain portion of our business if the variable interest entities go bankrupt or become subject to a dissolution or liquidation proceeding.

As part of our contractual arrangements with our variable interest entities, our variable interest entities and their subsidiaries hold certain assets that are material to the operation of our business, including intellectual property and premises and licenses. If our variable interest entities go bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. Under the contractual arrangements, our variable interest entities may not, in any manner, sell, transfer, mortgage or dispose of their assets or legal or beneficial interests in the business without our prior consent. If our variable interest entities undergo a voluntary or involuntary liquidation proceeding, independent third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

If the chops of our PRC subsidiaries and our VIEs are not kept safely, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised.

In China, a company chop or seal serves as the legal representation of the company towards third parties even when unaccompanied by a signature. Each legally registered company in China is required to maintain a company chop, which must be registered with the local Public Security Bureau. In addition to this mandatory company chop, companies may have several other chops which can be used for specific purposes. The chops of our PRC subsidiaries and VIEs are generally held securely by personnel designated or approved by us in accordance with our internal control procedures. To the extent those chops are not kept safely, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised and those corporate entities may be bound to abide by the terms of any documents so chopped, even if they were chopped by an individual who lacked the requisite power and authority to do so. In addition, if the chops are misused by unauthorized persons, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve while distracting management from our operations.

Risks Related to Doing Business in China

The approval of the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval.

The M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, requires an overseas special purpose vehicle formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC persons or entities to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear, and our offshore offerings may ultimately require approval of the CSRC. If the CSRC approval is required, it is uncertain whether we can or how long it will take us to obtain the approval and, even if we obtain such CSRC approval, the approval could be rescinded. Any failure to obtain or delay in obtaining the CSRC approval for any of our offshore offerings, or a rescission of such approval if obtained by us, would subject us to sanctions imposed by the CSRC or other PRC regulatory authorities, which could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of China, and other forms of sanctions that may materially and adversely affect our business, financial condition, and results of operations.

On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities. These opinions emphasized the need to strengthen regulation over illegal securities activities and the supervision on overseas listings by China-based companies and propose to take effective measures, such as promoting the development of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As these opinions are recently issued, official guidance and related implementation rules have not been issued yet and the interpretation of these opinions remains unclear at this stage. We cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us. If it is determined in the future that approval from the CSRC or other regulatory authorities or other procedures, including the cybersecurity review under the enacted version of the revised Cybersecurity Review Measures, are required for our offshore offerings, it is uncertain whether we can or how long it will take us to obtain such approval or complete such procedures and any such approval or completion could be rescinded. Any failure to obtain or delay in obtaining such approval or completing such procedures for our offshore offerings, or a rescission of any such approval if obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or other government authorization for our offshore offerings. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from our offshore offerings into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our shares. The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt our offshore offerings before settlement and delivery of the shares offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for our prior offshore offerings, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of the ADSs and/or Notes.

Adverse changes in political and economic policies or political or social conditions of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our services and adversely affect our competitive position.

Most of our operations are conducted in China and most of our sales are made in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, the level of development, the growth rate, the control of foreign exchange and allocation of resources. While the PRC economy has grown significantly over the past several decades, the growth has been uneven across different periods, regions and among various economic sectors of China. We cannot assure you that the PRC economy will continue to grow, or that if there is growth, such growth will be steady and uniform, or that if there is a slowdown, such a slowdown will not have a negative effect on our business.

The PRC government exercises significant control over China's economic growth through various measures, such as allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by governmental control over capital investments or changes in tax regulations that are applicable to us.

It is unclear whether PRC economic policies will be effective in maintaining stable economic growth in the future. Any slowdown in China's economic growth could lead to reduced demand for our solutions, which could in turn materially and adversely affect our business, financial condition and results of operations. In addition, the increased global focus on social, ethical and environmental issues may lead to China's adoption of more stringent standards in these areas, which may adversely impact the operations of China-based companies including us.

Uncertainties with respect to the PRC legal system could limit legal protections available to you and us.

We conduct most of our business through our PRC subsidiaries and consolidated affiliated entities in China. Our operations in China are governed by PRC laws and regulations. Our PRC subsidiaries are FIEs and are subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to FIEs.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but are not binding.

Since late 1970s, the PRC government has been developing a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past several decades has significantly enhanced the protections afforded to various forms of foreign investments in China.

However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules, some of which may not be published on a timely basis or at all, and some of which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may also impede our ability to enforce the contracts we have entered into. As a result, these uncertainties could materially and adversely affect our business and results of operations.

PRC government has significant oversight over the conduct of our business.

PRC government has significant oversight over the conduct of our business and may intervene or influence our operations at any time, which may potentially result in a material adverse effect on our operations. PRC government has also recently indicated an intent to exert more oversight over offerings that are conducted overseas and foreign investment in China-based issuers, which could impact our ability to raise additional capital in international capital markets. In addition, the PRC government has recently published new policies that significantly affected certain industries, and we cannot rule out the possibility that it will in the future release regulations or policies regarding our industry that could adversely affect our business, financial condition and results of operations. Any such action could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless.

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

Shareholder claims or regulatory investigations that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of a mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigations or evidence collection activities within the territory of the PRC. While a detailed interpretation of, or implementing rules under Article 177 are yet to be promulgated, the inability of an overseas securities regulator to directly conduct investigations or evidence collection activities within China may further increase difficulties faced by you in protecting your interests.

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

On January 1, 2020, the PRC Foreign Investment Law, or the Foreign Investment Law, as well as the Regulations for Implementation of the Foreign Investment Law of the People's Republic of China, or the Implementation Regulations, came into effect and replaced the trio of prior laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations.

The Foreign Investment Law and the Implementation Regulations embody an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since they are relatively new, uncertainties still exist in relation to their interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. The "variable interest entity" structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See "– Risks Related to Our Corporate Structure."

Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations. In the worst-case scenario, we may be required to unwind our existing contractual arrangements and/or dispose of the relevant business operations, which could have a material adverse effect on our current corporate structure, corporate governance, business, financial condition, results of operations and prospects.

We may rely on dividends paid by our operating subsidiaries to fund cash and financing requirements, and limitations on the ability of our operating subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business and fund our operations.

We are a holding company incorporated in Cayman Islands and conduct our business primarily through our operating subsidiaries and our consolidated affiliated entities, most of which are limited liability companies established in China. We may rely on dividends paid by our subsidiaries for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities organized in China is subject to limitations. In particular, regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with the PRC accounting standards and regulations. Our PRC subsidiaries are also required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their statutory reserves until the accumulative amount of such reserves reaches 50% of their registered capital. These reserves are not distributable as cash dividends. Furthermore, any portion of its after-tax profits that a subsidiary has allocated to its staff welfare and bonus fund at the discretion of its board of directors is also not distributable as cash dividends. Moreover, if our operating subsidiaries incur any debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. Any limitation on the ability of our operating subsidiaries, including 21Vianet China, to distribute dividends and other distributions to us could materially and adversely limit our ability to make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

If we fail to acquire, obtain or maintain applicable telecommunications licenses, or are deemed by relevant governmental authorities to be operating without full compliance with the laws and regulations, our business would be materially and adversely affected.

Pursuant to the PRC Telecommunications Regulations promulgated in September 2000 and amended in July 2014 and February 2016, respectively, telecommunications businesses are divided into (i) basic telecommunications businesses, which provide public network infrastructure, public data transmission and basic voice communications services, and (ii) value-added telecommunications businesses which provide telecommunications and information services through the public network infrastructure. If the value-added telecommunications services cover two or more provinces, autonomous regions or municipalities, such services must be approved by the MIIT and the service provider is required to obtain a cross-regional value added telecommunications operation license, or the Cross-Regional VAT License.

Some of our subsidiaries and the key subsidiaries of our variable interest entities have obtained the Cross-Regional VAT Licenses issued by competent government agencies. However, we cannot assure you that PRC governmental authorities will continue to deem our hosting service and any of our newly developed technologies, network and services used in our business as a type of value-added telecommunications business covered under the Cross-Regional VAT Licenses issued and currently held by our subsidiaries and our variable interest entities' subsidiaries. Furthermore, we cannot rule out the possibility that PRC legislators or governmental authorities will promulgate any new laws or regulations or update the current and existing laws and regulations which may clearly define or categorize our hosting service and any of our newly developed technologies, network and services used in our business as a type of basic telecommunication business, which is not covered by our VAT Licenses. As we expand our networks across China, it is also possible that the MIIT, in the future, may deem our operations to have exceeded the terms of our existing licenses. Further, we cannot assure you that our subsidiaries and our variable interest entities' subsidiaries that currently hold the Cross-Regional VAT Licenses will be able to successfully renew their value added telecommunications business operation licenses upon the expiration, nor can we ensure that we will be able to obtain any other licenses necessary for us to carry out our business, or that our existing licenses will continue to cover all aspects of our operations upon their renewal. For example, we have learned that the MIIT will not approve any expansion of authorization by an internet data center operator to its subsidiaries, and that it will not allow any such subsidiary of an internet data center operator to renew its current authorization in the future. Instead, the MIIT will require such subsidiaries to apply for their own VAT Licenses to provide internet data center service. Beijing 21Vianet Broad Band Data Center Co., Ltd., or 21Vianet Beijing, which holds a Cross-Regional VAT License has authorized some of its subsidiaries to conduct internet data center business. As of this offering memorandum, such policy is not supported by any published laws or regulations. However, we cannot assure you that the applicable subsidiaries will be able to obtain approvals from the MIIT for their own VAT Licenses for conducting internet data center business in a timely manner or at all, or obtain approvals from the MIIT for an expansion of authorization from 21Vianet Beijing under its Cross-Regional VAT Licenses to allow internet data center service to be provided by other subsidiaries, or that we will be able to renew such authorizations and expansions in due course.

The PRC government has adopted various regulations governing the internet access services provided by enterprises engaged in the internet data center, or IDC, and internet service provider, or ISP, services, including requirements related to capital, personnel, facility, equipment and licenses, as well as territorial and business scope. In addition, such regulations prohibit ISP service providers from providing internet access services to enterprises or individuals that have not obtained operation licenses or completed required filings. If any of our customers use our services without obtaining required licenses or completing required filings, we may be subject to penalties. In addition, new laws, regulations or government interpretations may also be promulgated from time to time to regulate the hosting service or any of our related technology or services, which may require us to obtain additional, or expand existing, operating licenses or permits. Any of these factors could result in our disqualification from carrying out our current business, causing significant disruption to our business operations which may materially and adversely affect our business, financial condition and results of operations.

Under the New PRC Enterprise Income Tax Law, we may be classified as a "resident enterprise" of China. Such classification could result in unfavorable tax consequences to us and our non-PRC holders of the Notes.

Pursuant to the EIT Law, as recently amended on December 29, 2018, and its implementation rules, which became effective on January 1, 2008 and most recently amended on April 23, 2019, an enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise," meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax, or EIT, purposes. Under the implementation rules of the EIT Law, the term "de facto management body" is defined as the management body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. On April 22, 2009, the State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, which was amended in 2013 and 2017, respectively. Circular 82 and its amendments sets out certain specific criteria and process for determining whether the "de facto management body" of a Chinese-controlled offshore incorporated enterprise is located in China.

We do not believe that our holding company is a "resident enterprise" for PRC EIT purposes However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body." If the PRC tax authorities determine that we are a "resident enterprise" for PRC EIT purposes, a number of unfavorable PRC tax consequences could follow: (i) we may be subject to EIT at a rate of 25% on our worldwide taxable income as well as PRC EIT reporting obligations; (ii) a 10% withholding tax may be imposed on interest we pay to non-PRC enterprise holders (20% for non-PRC individual holders) of the Notes; and (iii) a 10% PRC tax may apply to gains realized by non-PRC enterprise holders (20% for non-PRC individual holders) of the Notes from transferring the Notes, if such income is considered PRC-source income. Any PRC tax liability with respect to payments or disposition gain on the Notes may be reduced under applicable tax treaties. However, it is unclear whether in practice non-PRC holders of Notes would be able to obtain the benefits of tax treaties between their countries and the PRC. If we are required to withhold PRC taxes from payments on the Notes, our obligation to pay Additional Amounts with respect to any PRC tax withheld (subject to certain exceptions, as more fully described under "Description of the Notes – Additional Amounts") will increase the cost of servicing our debt and will adversely affect our cash flows and financial positions.

Similarly, such unfavorable tax consequences could apply to our Hong Kong, Cayman and BVI subsidiaries, if either of them is deemed to be a "resident enterprise" by the PRC tax authorities. Notwithstanding the foregoing provisions, the EIT Law also provides that the dividends paid between "qualified resident enterprises" are exempt from EIT. If our Hong Kong, Cayman and BVI subsidiaries are deemed "resident enterprises" for PRC EIT purposes, the dividends they receive from their PRC subsidiaries, including 21Vianet China, may constitute dividends between "qualified resident enterprises" and therefore qualify for tax exemption. However, the definition of "qualified resident enterprise" is unclear and the relevant PRC government authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC EIT purposes. Even if such dividends qualify as "tax-exempt income," we cannot guarantee that such dividends will not be subject to any withholding tax.

We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

On February 3, 2015, the State Administration of Tax issued the Notice on Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or Circular 7. Circular 7 extends its tax jurisdiction to not only indirect transfers but also transactions involving transfer of other taxable assets, through the offshore transfer of a foreign intermediate holding company. Circular 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-tax resident enterprise conducts an "indirect transfer" by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-tax resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a "substance over form" principle, the PRC tax authority may recharacterize such indirect transfer as a direct transfer of the equity interests in the PRC tax resident enterprise and other properties in China. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of up to 10% for the transfer of equity interests in a PRC resident enterprise. Nevertheless, Circular 7 has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market.

On October 17, 2017, the State Administration of Tax issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Bulletin 37, which came into effect on December 1, 2017 and was amended on June 15, 2018. The SAT Bulletin 37 further clarifies the practice and procedure of the withholding of non-tax resident enterprise income tax. Pursuant to Circular 7 and SAT Bulletin 37, both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes. However, as these rules and notices are relatively new and there is a lack of clear statutory interpretation, we face uncertainties on the reporting and consequences on future private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by shareholders that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our Cayman Islands holding company and other non-PRC resident enterprises in our group may be subject to filing obligations or may be taxed if our Cayman Islands holding company and other non-PRC resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our Cayman Islands holding company and other non-PRC resident enterprises in our group are transferees in such transactions. For the transfer of shares in our Cayman Islands holding company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under Circular 7 and/or SAT Bulletin 37. As a result, we may be required to expend valuable resources to comply with these rules and notices or to request the relevant transferors from whom we purchase taxable assets to comply, or to establish that our Cayman Islands holding company and other non-tax resident enterprises in our group should not be taxed under Circular 7 and/or SAT Bulletin 37, which may have a material adverse effect on our financial condition and results of operations. There is no assurance that the tax authorities will not apply Circular 7 and/or SAT Bulletin 37 to our offshore restructuring transactions where non-PRC resident investors were involved if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our non-PRC resident investors may be at risk of being taxed under Circular 7 and/or SAT Bulletin 37 and may be required to comply with or to establish that we should not be taxed under Circular 7 and/or SAT Bulletin 37, which may have a material adverse effect on our financial condition and results of operations or such non-PRC resident investors' investments in us. We have conducted acquisition transactions in the past and may conduct additional acquisition transactions in the future. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

Discontinuation of any of the preferential tax treatments available to us or imposition of any additional taxes could adversely affect our financial condition and results of operations.

The EIT Law and its implementation rules unified the previously-existing separate income tax laws for domestic enterprises and FIEs and adopted a unified 25% EIT rate applicable to all resident enterprises in China, except for certain entities established prior to March 16, 2007 that are eligible for their existing preferential tax incentives, adjusted by certain transitional phase-out rules promulgated by the State Council on December 26, 2007. In addition, certain enterprises may enjoy a preferential EIT rate of 15% under the EIT Law if they qualify as High and New Technology Enterprise, or HNTE, subject to various qualification criteria.

A number of our PRC subsidiaries and consolidated affiliated entities, including 21Vianet Beijing, SH Blue Cloud, TenxCloud Technology Co., Ltd. and Shenzhen Diyixian Telecommunication Co., Ltd., or SZ DYX, are entitled to enjoy a preferential tax rate of 15% due to their qualification as HNTE. The qualification as a HNTE is subject to annual administrative evaluation and a three-year review by the relevant authorities in China. If 21Vianet Beijing, SH Blue Cloud, TenxCloud Technology Co., Ltd. and SZ DYX fail to maintain or renew their HNTE status, their applicable EIT rate may be increased to 25%, which could have a material adverse effect on our financial condition and results of operations.

In April 2011, 21Vianet (Xi'an) Information Outsourcing Industry Park Services Co., Ltd., or 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. This qualification will need to be assessed on an annual basis. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the tax rate assessed for Xi'an Sub was 15%, 15%, 15% and 15%, respectively.

For the year ended December 31, 2020, our other PRC subsidiaries would be subject to an EIT rate of 25%, unless they are qualified as Small Scale and Low Profit Enterprises which would be entitled to exempt fifty percent (50)% or twenty five percent (25)% of their income from tax, depending on their annual taxable income, and enjoy a reduced EIT rate of 20%.

The M&A Rules establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it difficult for us to pursue growth through acquisitions in China.

The M&A Rules and other recently adopted regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. In addition, the Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic Enterprises, issued by the MOFCOM, in August 2011, specify that mergers and acquisitions by foreign investors involved in "an industry related to national security" are subject to strict review by the MOFCOM, and prohibit any activities attempting to bypass such security review, including by structuring the transaction through a proxy or contractual control arrangement. We believe that our business is not in an industry related to national security, but we cannot preclude the possibility that the MOFCOM or other government agencies may publish explanations contrary to our understanding or broaden the scope of such security reviews in the future, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Moreover, the Anti-Monopoly Law requires that the State Administration for Market Regulation of the PRC, or the SAMR, be notified in advance of any concentration of undertaking if certain filing thresholds are triggered. Part of our growth strategy includes acquiring complementary businesses or assets in China. Complying with the requirements of the laws and regulations mentioned above and other PRC regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the SAMR, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share. If any of our acquisitions were subject to the M&A Rule and were found not to be in compliance with the requirements of the M&A Rule in the future, relevant PRC regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects.

In December 2020, the NDRC and the MOFCOM promulgated the Measures for the Security Review of Foreign Investment, which became effective on January 18, 2021. The NDRC and the MOFCOM will establish a working mechanism office in charge of the security review of foreign investment. Such measures define foreign investment as direct or indirect investment by foreign investors in the PRC, which includes (i) investment in new onshore projects or establishment of wholly foreign owned onshore companies or joint ventures with foreign investors; (ii) acquiring equity or asset of onshore companies by merger and acquisition; and (iii) onshore investment by and through any other means. Investment in certain key areas with bearing on national security, such as important cultural products and services, important information technology and internet services and products, key technologies and other important areas with bearing on national security which results in the acquisition of de facto control of investee companies, shall be filed with a specifically established office before such investment is carried out. What may constitute "onshore investment by and through any other means" or "de facto control" is not clearly defined under such measures, and could be broadly interpreted. It is likely that control through contractual arrangement be regarded as de facto control based on provisions applied to security review of foreign investment in the free trade zone. Failure to make such filing may subject such foreign investor to rectification within prescribed period, and will be recorded as negative credit information of such foreign investor in the relevant national credit information system, which would then subject such investors to joint punishment as provided by relevant rules. If such investor fails to or refuses to undertake such rectification, it would be ordered to dispose of the equity or asset and to take any other necessary measures so as to return to the status quo and to erase the impact to national security. As these measures are recently promulgated, official guidance has not been issued by the designated office in charge of such security review yet. At this stage, the interpretation of those measures remains unclear in many aspects and whether these measures may apply to foreign investment that is implemented or completed before the enactment of these new measures. As our business may be deemed to constitute the foregoing circumstances, we cannot assure you that our current business operations will remain fully compliant, or we can adapt our business operations to new regulatory requirements on a timely basis, or at all.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds from our overseas offerings to make loans or additional capital contributions to our PRC subsidiaries or consolidated affiliated entities, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

In utilizing the proceeds we received from our overseas offerings or in other financing activities, as an offshore holding company, we may make loans to our PRC subsidiaries or our consolidated affiliated entities in the PRC, or we may make additional capital contributions to our PRC subsidiaries or consolidated affiliated entities. Any loans to our PRC subsidiaries or our consolidated affiliated entities in the PRC are subject to PRC regulations. For example, loans by us to our PRC subsidiaries, which are FIEs, to finance their activities cannot exceed a statutory cap and must be filed with the State Administration of Foreign Exchange, or SAFE, through the online filing system of SAFE after the loan agreement is signed and no later than three business days prior to the borrower withdraws any amount.

In addition, our PRC subsidiaries and consolidated affiliated entities are also required to withhold a 10% (or 7% if paid to a Hong Kong resident who qualifies for the benefits of the tax treaty between China and Hong Kong) tax on interest paid under any cross-border shareholder loan. Prior to the payment of any interest and principal on any such shareholder loan, our PRC subsidiaries must present evidence of registration with SAFE regarding any such shareholder loan and may be required to provide evidence of payment of withholding tax on the interest payable on that loan.

We may also decide to finance our PRC subsidiaries for operations in China by means of capital contributions. These capital contributions are subject to the registration with the SAMR or its local counterpart and registration with a local bank authorized by SAFE. We cannot assure you that we will be able to obtain these government approvals or complete such registration on a timely basis, if at all, with respect to future capital contributions by us to our subsidiaries. If we fail to complete such registration or filing, our ability to use the proceeds from our overseas offerings and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

Governmental control of currency conversion may limit our ability to receive and utilize our revenues effectively.

We earn most of our revenues and incur most of our expenses in Renminbi. However, Renminbi is not freely convertible at present.

The PRC government continues to regulate conversion between Renminbi and foreign currencies, despite the significant reduction in its control in recent years over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items. However, remittance of Renminbi by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually. Currently, our PRC subsidiaries may purchase foreign currencies for settlement of current account transactions, including payments of dividends to us, without the approval of the SAFE. However, foreign exchange transactions by our PRC subsidiaries under the capital account continue to be subject to significant foreign exchange controls and require the approval of or need to register or file with PRC governmental authorities, including the SAFE. In particular, if our PRC subsidiaries borrow foreign currency loans from us or other foreign lenders, these loans must be filed with the SAFE after the loan agreement is signed and at least three business days before the borrower draws any amount from the foreign loan, and the accumulative amount of foreign currency loans borrowed by a PRC subsidiary may not exceed a statutory upper limit. If we finance our PRC subsidiaries by means of additional capital contributions, these capital contributions are subject to the registration with the SAMR or its local counterpart and registration with a local bank authorized by SAFE. Any existing and future restrictions on currency exchange may affect the ability of our PRC subsidiaries or affiliated entities to obtain foreign currencies, limit our ability to meet our foreign currency obligations or otherwise materially and adversely affect our business.

In March 2015, SAFE promulgated the Circular on Reforming the Administration Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises, or SAFE Circular No. 19, which was most recently amended on December 30, 2019. SAFE Circular No. 19 provides that, among other things, a foreign-invested enterprise may convert up to 100% of the foreign currency in its capital account into RMB on a discretionary basis according to the actual needs. On June 9, 2016, SAFE further issued the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular No. 16, to further expand and strengthen such discretionary conversion reform under SAFE Circular No. 19. SAFE Circular No. 16 provides an integrated standard for conversion of foreign exchange under capital account items on a discretionary basis which applies to all enterprises registered in the PRC. Pursuant to SAFE Circular No. 16, in addition to foreign currency capital, the discretionary conversion policy expands to foreign currency debts borrowed by an enterprise (except financial institutions) and repatriated funds raised through overseas listing. In addition, SAFE Circular No. 16 has narrowed the scope of purposes for which an enterprise must not use the RMB funds so converted, which include, among others, (i) payment for expenditure beyond its business scope or otherwise as prohibited by the applicable laws and regulations; (ii) investment in securities or other financial products other than banks' principal- secured products; (iii) provision of loans to non-affiliated enterprises, except where it is expressly permitted in the business scope of the enterprise; and (iv) construction or purchase of non-self-used real properties, except for the real estate developer. On October 23, 2019, the SAFE issued the Circular on Further Advancing the Facilitation of Cross Border Trade and Investment, or SAFE Circular 28. SAFE Circular 28 provides, among others, that the foreign-invested enterprises can use RMB converted from foreign currency denominated capital for equity investment in China, provided that the equity investments are genuine and in compliance with the applicable foreign investment- related laws and regulations.

Pursuant to the Circular of the State Administration for Foreign Exchange on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business promulgated and effective on April 10, 2020 by SAFE, the reform of facilitating the payments of incomes under the capital accounts shall be promoted nationwide. Under the prerequisite of ensuring true and compliant use of funds and compliance and complying with the prevailing administrative provisions on use of income from capital projects, enterprises which satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing, for domestic payment, without the need to provide proof materials for veracity to the bank beforehand for each transaction.

Fluctuation in exchange rates could have a material adverse effect on our results of operations and the value of your investment.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. The value of Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. We cannot assure you that Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

As our costs and expenses are mostly denominated in RMB, any 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. To the extent that we need to convert any portion of the proceeds denominated in U.S. dollars that we received from our securities issuances 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 Renminbi 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 interest on our Notes, 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. These and other effects on our financial data resulting from fluctuations in the value of the RMB against the U.S. dollar could have a material and adverse effect on the value of the Notes.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents may subject our PRC resident beneficial owners to personal liability and limit our ability to acquire PRC companies, to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us, or otherwise materially and adversely affect us.

In October 2005, SAFE issued the Circular on the Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies by Residents Inside China, or Circular 75, which is now replaced by the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or Circular 37, issued by SAFE on July 4, 2014. According to Circular 37, PRC residents are required to register with local SAFE branches in connection with their direct establishment or indirect control of an offshore entity for the purposes of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a "special purpose vehicle." The term "control" under Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. Circular 37 further requires amendment to the registration in the event of any changes with respect to the basic information of the special purpose vehicle, such as changes in a PRC resident individual shareholder, name or operation period; or any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. If the shareholders of the offshore holding company who are PRC residents do not complete their registration with the local SAFE branches, the PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with SAFE registration and amendment requirements described above could result in liability under PRC law for evasion of applicable foreign exchange restrictions. On February 13, 2015, SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, which became effective on June 1, 2015. SAFE Notice 13 has delegated to the qualified banks the authority to register all PRC residents' investment in "special purpose vehicle" pursuant to the Circular 37, except that those PRC residents who have failed to comply with Circular 37 will remain to fall into the jurisdiction of the local SAFE branches and must make their supplementary registration application with the local SAFE branches.

Our current PRC resident beneficial owners, including our co-founders Sheng Chen and Jun Zhang, have filed the foreign exchange registration in connection with their respective overseas shareholding in our Company in accordance with the Circular 37 on June 10, 2014. We cannot assure you when our co-founders can successfully complete their registrations. We have also requested other PRC residents who we know hold direct or indirect interest in our company to make the necessary applications, filings and amendments as required under Circular 37 and other related rules. We attempt to comply, and attempt to ensure that these PRC residents holding direct or indirect interest in our company comply, with the relevant requirements, and those persons holding direct or indirect interests in our securities whose identities and addresses we know and who are subject to Circular 37 and the relevant SAFE regulations have conducted the registration procedures prescribed by Circular 37 and will update such registration. However, we may not be informed of the identities of all the PRC residents holding direct or indirect interest in our company, and we cannot provide any assurances that these PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements required by Circular 37 or the relevant SAFE regulations. The failure or inability of PRC residents, including our co-founders, to make any required registrations or comply with other requirements under Circular 37 and the relevant SAFE regulations may subject such PRC residents or our PRC subsidiaries to fines and legal sanctions and may also limit our ability to contribute additional capital into or provide loans to our PRC subsidiaries and our consolidated affiliated entities, limit our PRC subsidiaries' ability to pay dividends or otherwise distribute profits to us, or otherwise materially and adversely affect us.

Failure to comply with the registration requirements for employee share option plans may subject our equity incentive plan participants who are PRC residents or us to fines and other legal or administrative sanctions.

Since 2007, SAFE has implemented rules requiring PRC residents who participate in employee stock option plans of overseas publicly listed companies to register with SAFE or its local office and complete certain other procedures. Effective on February 15, 2012, SAFE promulgated the Circular on the Relevant Issues Concerning Foreign Exchange Administration for Domestic Individuals Participating in an Employees Share Incentive Plan of an Overseas-Listed Company, or SAFE Notice 7. Under SAFE Notice 7, PRC residents who participate in a share incentive plan of an overseas publicly listed company are required to register with SAFE and complete certain other procedures. PRC residents include directors, supervisors, management and employees of PRC domestic companies specified in the Administrative Regulations of the People's Republic of China on Foreign Exchange, regardless of nationality. SAFE Notice 7 further requires that an agent should also be designated to handle matters in connection with the exercise or sale of share options granted under the share incentive plan to participants. We and the PRC residents to whom we have granted stock options are subject to SAFE Notice 7. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and other legal or administrative sanctions.

Exhibit 99.4

INDUSTRY OVERVIEW

OVERVIEW

Data centers are a key component of the internet and enterprise information technology, or IT, infrastructure. Data center service providers offer infrastructure, managed hardware and software services, including providing physical facilities, housing large amounts of network and computing equipment, running mission-critical applications, storing valuable and confidential information, providing internet connectivity and facilitating various software solutions to satisfy data storage, interconnectivity, computing and security.

Depending on the operators, data centers are classified into the following three categories in terms of the type of services providers:

- *Carrier-neutral*. Carrier-neutral data centers offerer access to a number of different carriers. They are network agnostic and offer interconnection to networks operated by multiple network service carriers and internet services providers, or ISPs. According to Frost and Sullivan, the market share of carrier-neutral data centers out of the China's overall data center market is expected to grow rapidly from 45.8% in 2020 to 62.0% in 2025.

- *Carrier-operated*. Carrier-operated data centers are operated by network services carriers who own or manage networks and typically require their customers to use the carrier’s own network. They may only allow interconnection to a limited number of alternative networks for backup and reliability.

- *In-house*. In-house data centers are owned or operated by end users, including corporations and organizations.

The growth of the digital economy has hastened the advent of technology and intensified the transformation of the global economy. Increasing broadband and mobile internet penetration drive the significant growth of data types and volume, resulting in demand for high-quality data centers services and effective digital solutions. To ease enterprises’ workloads, enterprises tend to outsource data centers and other value-added services, mainly due to the non-core nature of IT operations, complex IT requirements and the preference for asset-light business models. We believe a carrier-neutral data center service offering a full-stack and one-stop holistic solution to a diversified customer base is well positioned to capture the significant opportunities in an era of digitalization. Typical carrier-neutral IDC services include:

- *Hosting Services*. Data centers provide customers with high quality, secure and reliable infrastructure for customers’ network and computing needs, including building space, power, cooling and security systems and network connectivity. Managed hosting services may include hardware, operating systems or networking services for customers, allowing customers to focus on managing their own applications.

- *Cloud Services and Managed Services*. Cloud services and managed services offer on-demand access to a shared pool of configurable, computing and storage resources which can be instantaneously deployed and easily scaled to enterprises. We believe cloud services and applications are central to the future of the data center industry.

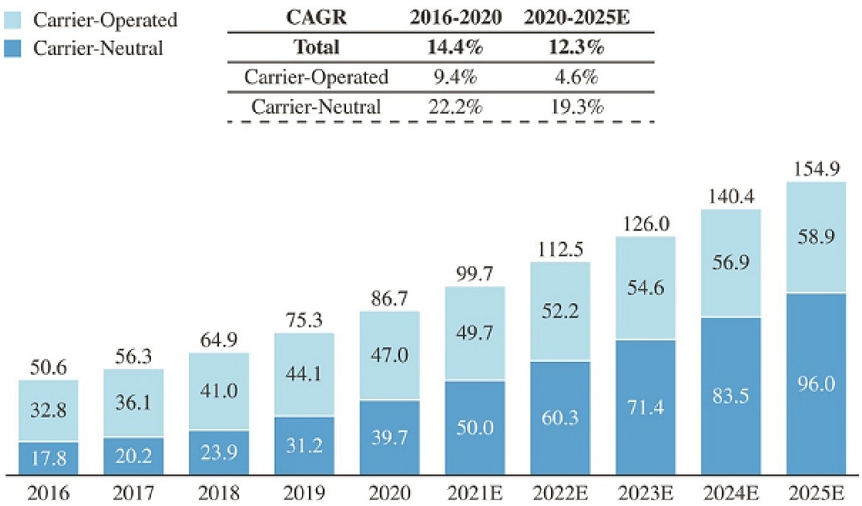
- *Enterprise Connection Services*. Enterprise connection services refer to utilization of proprietary networks and specialized routing technologies to optimize internet connectivity and interconnection across networks to facilitate efficient application and content delivery over the internet.

CHINA'S RAPIDLY GROWING DATA CENTER SERVICE MARKET

According to Frost & Sullivan, China's data center service market has experienced significant growth in recent years and is expected to continue to grow rapidly. According to Frost & Sullivan, the total revenue of China's data center service market increased from RMB50.6 billion in 2016 to RMB86.7 billion in 2020, representing a CAGR of 14.4%, and is expected to grow at a CAGR of 12.3% from 2020 to 2025, reaching RMB154.9 billion by 2025.

China's Data Center Service Market Size, 2016 – 2025

RMB billion



Source: Frost & Sullivan

China's carrier-neutral data center service market has gained growing momentum and the market share of carrier-operated data center market has gradually decreased, mainly due to the advantages of multi-network access and quality services provided by carrier-neural data centers. According to Frost & Sullivan, China's carrier-neutral data center service market has experienced outsized growth, expanding at a CAGR of 22.2% from RMB17.8 billion in 2016 to RMB39.7 billion in 2020, faster than the average growth of the carrier-operated data center service market, which grew at a CAGR of 9.4% during the same period. As a result of the evolution of the digital economy and increasing adoption of cloud services, China is now one of the fastest growing carrier-neutral data center service markets globally, expected to achieve a CAGR of 19.3% between 2020 to 2025, according to Frost & Sullivan.

KEY GROWTH DRIVERS OF CHINA'S CARRIER-NEUTRAL DATA CENTER SERVICE MARKET

The following factors are expected to drive the development and growth of China's carrier-neutral data center service market:

Growing IT outsourcing capacity by enterprises. Enterprises are increasingly outsourcing IT infrastructure to third-party data centers to reduce complexity, address staffing and budget constraints, and more effectively cope with dynamically challenging IT needs to support key business objectives. Third-party data center services are able to bring value to companies and are helping IT departments manage increasing complexity and do more with less. In addition, outsourcing is more cost-effective than managing systems internally, as third-party data center solution providers can spread their costs across multiple customers and pass the resultant economies-of-scale to customers. Moreover, many businesses are seeking for agility to take advantage of new market opportunities, and third-party data center service can typically deliver a critical project faster than internal IT. According to Frost & Sullivan, the total IT outsourcing services market in China is expected to grow at a CAGR of 5.4%, from RMB297.6 million in 2020 to RMB386.9 million in 2025.

Implementation of next-generation 5G network and disruptive technologies. As 5G network begins its commercialization progress, the speed of mobile connectivity will be greatly enhanced, facilitating the growth of mobile applications reliant upon data centers. The speed of 5G network can be over 100 times over 4G network, enable substantial amount of data to be transmitted within a shorter period of time, according to Frost & Sullivan. In recent years, due to the continuous support of government policies and the rapid development of new technology and Internet enterprises, the market size of emerging disruptive technologies, represented by the Internet of Things ("IoT"), artificial intelligence ("AI"), big data, 5G technology and AR/VR technology, has been growing rapidly. The number of data center service will also grow rapidly in the future due to the increasing demand for data from the development of disruptive technologies. According to Frost & Sullivan, the IoT market size reached RMB2,068.0 billion in 2020 and is estimated to reach RMB4,702.8 billion in 2025, growing at a CAGR of 17.9%; the AI market reached RMB185.8 billion in 2020 and is estimated to reach RMB1,045.7 billion in 2025, growing at a CAGR of 41.3%. Big data market size reached RMB26.9 billion in 2020 and is forecast to reach RMB67.8 billion in 2025 at a CAGR of 20.3%; 5G base station country investment reached RMB109.3 billion in 2020 and is estimated to reach RMB537.4 billion in 2025 with a CAGR of 37.5%; AR/VR market size reached RMB20.6 billion in 2020, and it is estimated that the AR/VR market size will reach RMB295.5 billion in 2025 at a CAGR of 70.3%.

Growing data center service demand from China's cloud service providers and enterprise digital transformation. Cloud computing has brought fundamental changes to the market landscape of IT infrastructure in China. Substantial demand from China's cloud service providers will be a critical catalyst for China's data center service market. Major cloud service providers, such as AliCloud, Tencent Cloud, Huawei Cloud and Kingsoft Cloud, are examples of hyperscale data center service customers. In addition, benefitting from the significant growth of smartphone and internet penetration, traditional China's largest internet giants have been and will continue to be the key growth drivers for the carrier-neutral data center service market. These major cloud services providers and large-scale internet giants are outsourcing the construction and operation of hyperscale data center to significantly reduce upfront capital expenditures, enjoy flexibility and cost advantages, and focus on their core businesses. In particular, when choosing to outsource the construction and operation of hyperscale data center, they will also evaluate the providers' capabilities such as design, development and operational expertise, energy efficiency and response time.

Government policies remain supportive, despite the recent regulatory headwinds. The PRC government has taken multiple actions to promote the healthy growth of the data center industry. In March 2020, the PRC government announced it would accelerate the construction of new infrastructure, including integrated large-scale quality data centers and 5th generation mobile networks, or 5G networks, as part of the "new infrastructure" campaign to boost sustainable growth and transform into a digitalized economy. In May 2020, the draft of "2020 National Economic and Social Development Plan" submitted by the National Development and Reform Commission clearly indicated the implementation of integrated large-scale data center construction projects across the nation, with the planning of approximately ten regional data center clusters and intelligent computing centers. On June 10, 2021, the Standing Committee of the National People's Congress promulgated the PRC Data Security Law, which took effect on September 1, 2021. Overall, regulatory requirements on cybersecurity and data privacy are constantly evolving and can be subject to varying interpretations or significant changes, resulting in uncertainties.

Customer segments drive data center service demand. Data is a crucial resource for public and private enterprises nowadays. With the evolution of big data, the IoT, cloud computing technologies, etc. organizations increasingly track and analyze volumes of business data in real-time and make the necessary adjustments to their business processes accordingly. The rapid development of China's cloud service providers and internet giants are expected to drive the growth of the data center industry. For the cloud service providers, the demand for online services in China still has plenty of room for growth, particularly in the cloud computing sector. The resource needs of applications such as big data, IoT, social networks and IaaS are leading to the growing demand for hyperscale data center architectures. These allow users to add on-demand computing resources from any location seamlessly. For the internet giants, China is expected to be a leader globally in data center construction, with more China's internet giants looking to scale up their data centers to ensure reliability and stability of data services, as the application of 5G, the IoT, wearable devices and artificial intelligence spurs a burgeoning demand for computing power. In recent years, the market has seen rapid growth in industry verticals, such as emerging consumer model segments, e-commerce, fintech, and pan-entertainment segments, etc. According to Frost & Sullivan, the online healthcare market in China reached RMB92.1 billion in 2020 and is estimated to grow to RMB284.1 billion by 2025, at a CAGR of 25.3%; the e-commerce market in China reached RMB11.8 trillion in 2020 and is estimated to grow to RMB23.0 trillion in 2025, growing at a CAGR of 14.3%; the fintech service industry reached RMB203.6 billion in 2020 and is estimated to grow to RMB708.8 billion in 2025, at a CAGR of 28.3%; the game industry reached RMB311.4 billion and is estimated to increase to RMB517.5 billion in 2025, at a CAGR of 10.7%; and the live-streaming industry reached RMB68.8 billion and is estimated to increase to RMB160.7 billion in 2025, by a CAGR of 18.5%.

The overall growing trend of generating and processing data and robust growth in data traffic. Mobile data traffic has grown at a CAGR of 108.3% from 2016 to 2020 and reached 165.7 exabytes ("EB") in 2020, which demonstrated the robust demand for capability to generate and process data. 5G networks are expected to be commercialized in the near future, enabling mobile users to use data-intensive applications. The mobile data traffic market is expected to reach 658.2 EB by 2025, growing at a CAGR of 31.8% for the period of 2020 to 2025.

COMPETITIVE LANDSCAPE OF CHINA'S CARRIER-NEUTRAL DATA CENTER SERVICE MARKET

According to Frost & Sullivan, the carrier-neutral data center service industry in China is highly competitive and fragmented. The market size of carrier-neutral data center service industry, by revenue, reached RMB39.7 billion in 2020 that the top five players accounted for the market share of 36.4% in total, according to Frost & Sullivan. We have achieved a 10.8% market share and are the second largest data center service provider in China in terms of revenues in 2020, according to Frost & Sullivan.

The following table sets forth the market share of key players in China's carrier-neutral data center service market in terms of data center service related revenue in 2020.

Company	Ranking	Market Share (%)
Player A	1	13.1
VNET Group, Inc.	2	10.8
Player C	3	4.6
Player D	4	4.2
Player E	5	3.7

Source: Frost & Sullivan

According to Frost & Sullivan, we had the largest customer base among carrier-neutral data center service providers with a total of approximately 1,300 customers as of December 31, 2020.

The following table sets forth the ranking by total number of customers of key carrier-neutral data center service providers in China in 2020.

Company	Ranking	Total number of customers
VNET Group, Inc.	1	Approximately 1,300
Player E	2	Approximately 1,100
Player D	3	Approximately 1,000
Player A	4	Approximately 700
Player C	5	Approximately 480

Source: Frost & Sullivan

ENTRY BARRIERS AND SUCCESS FACTORS

Ability to adapt to enhanced governmental requirements. National licenses and operation permits issued by regulatory authorities are prerequisites to enter into the data center service market. In addition, an established and transparent track record of operation is required for data center service providers to secure power quota, prime land-use rights or other long-term resources from the government especially in tier-1 cities, defined as cities including Beijing, Shanghai, Guangzhou and Shenzhen, or nearby cities. The Chinese government continuously tightened up regulation on data processing activities to safeguard data security, promote data development and utilization, protect the lawful rights and interests of individuals and organizations, and maintain national sovereignty, security, and development interests. For example, the Standing Committee of the National People's Congress of China published the Data Security Law, which took effect on September 1, 2021. The Data Security Law introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, and the degree of harm it may cause to national security, public interests, or legitimate rights and interests of individuals or organizations if such data are tampered with, destroyed, leaked, illegally acquired or illegally used. Faced with enhanced governmental requirements, it has become apparent that only leading players, such as us, with strong ability to adapt and track record of compliance will be able to continue benefiting from the increasingly regulated market.

National wide network of fully connected IDCs. Large enterprise customers typically require their data centers to be located throughout the country and in close proximity to their business operations. It takes a considerable amount of time and resources to build a broad geographic data center footprint that allows customers to enjoy fast interconnectivity in multiple prime locations across tier-1 cities, such as Beijing, Shanghai, Guangzhou and Shenzhen, or nearby cities.

Multi-carrier and cloud-dense connectivity. Enterprise customers require reliable and cost- effective connectivity to China's major telecommunication carriers, non-major carriers and ISPs, as well as rapid interconnectivity across data centers. Furthermore, as an increasing number of enterprise customers adopt public cloud services, connectivity to cloud service providers is becoming more and more critical. An extensive interconnected nationwide network of fully connected IDCs is one of the key differentiators when enterprise customers select data center service providers.

Diversified customer base and high switching cost. Data center service providers who accumulated a large and diversified customer base are well positioned to maintain healthy long-term recurring revenues, timely ramp-up and high utilization rate. The diversified customer base in a variety of different industry verticals would make the business model more defensive. In addition, the customer churn is generally low as customers will incur significant switching costs if they move out equipment from existing data center facilities. Additionally, a large customer base is also important for wholesale customers such as cloud service providers to leverage the customer ecosystem.

Capabilities in providing full-stack IDC solutions and exceptional operational and technical expertise. There is an increasing need for data center service providers to provide full-stack solutions and a large variety of complementary value-added services, such as hybrid IT services, cloud managed services, interconnectivity, technical maintenance, and disaster recovery. Capability to develop unique and innovative solutions is crucial to retaining and monetizing from customers for future growth. In addition, it takes data center service providers' decades of operational experience to build and operate data centers with low power usage effectiveness, short construction periods, high uptime and sustainable profitability. Furthermore, enterprise customers also prefer service providers with long track record of strong operational experience and longstanding strong reputation in the industry.

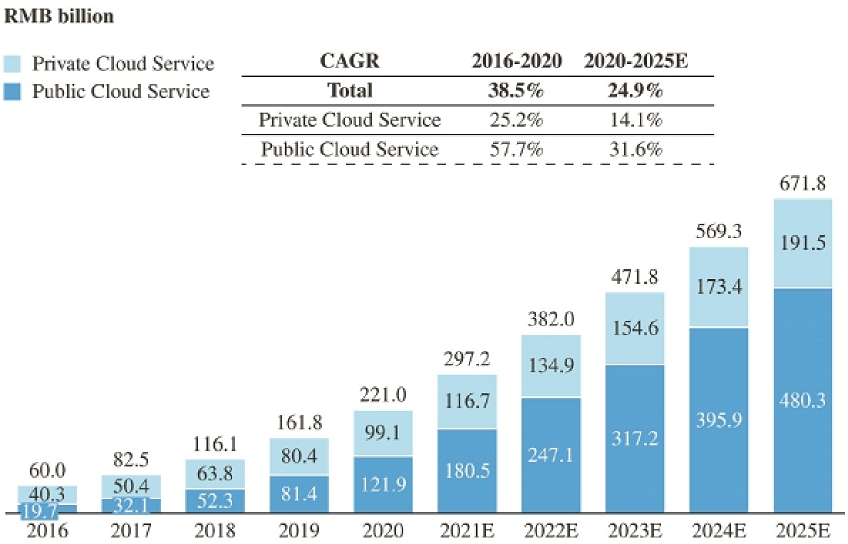
Leadership in operation with ESG commitments. In recent years, increasingly more enterprises are increasingly focused on and committed to corporate social responsibility and meeting society's changing needs despite the challenging economic environment. In particular, since the data center service industry is proned to consume high level of energy during its operation, and being able its ability to establish energy-conserving and cost effective business model has become imperative and one of the most important differentiating factors for operators. The Chinese government has put forward a few proposals that call for greener and sustainable IDC construction and operations, such as National Integrated Big Data Center Collaborative Innovation System Computing Hub Implementation Plan (《全國一體化大數據中心協同創新體系算力樞紐實施方案》) and Three-year Action Plan (2021-2023) for the Development of New Data Centers (《新型數據中心發展三年行動計劃(2021-2023年)》). Enterprises now increasingly strive to create and establish ESG-related functions within their corporate structures.

Access to cost-effective capital. The data center service industry is a capital-intensive industry. Data center service providers are required to commit a large amount of capital for data center construction and equipment procurement before data centers commence operations. To cope with exponential growth in demand for data centers from enterprise customers and cloud service providers, access to capital in a cost effective and expeditious fashion is critical for capacity expansion. Leverage taken on the project level and financing cost will have an impact on investment returns and thus the competitiveness of data center service providers.

EMERGENCY OF CLOUD SERVICES AND RELATED MANAGED SERVICES IN CHINA

According to Frost & Sullivan, the cloud service industry has grown significantly from RMB60.0 billion in 2016 to RMB221.0 billion in 2020, achieving a CAGR of 38.5% from 2016 to 2020. It's estimated that cloud service industry will continue to develop, achieving a CAGR of 24.9% from 2020 to 2025 and reaching RMB671.8 billion by the end of 2025, according to Frost & Sullivan.

Market Size of Cloud Service Industry in China, by Revenue



Source: Frost & Sullivan

The cloud service market in China is fragmented, with a large number of cloud services providers. As an increasing number of enterprises adopt hybrid cloud or multi-cloud strategies to avoid relying on a single cloud services provider, this has created a huge opportunity for service providers that are able to offer hybrid cloud and multi-cloud services. Among all the major players in cloud service industry in China, Microsoft Azure is a leading public cloud service provider in terms of revenue in 2020, according to Frost & Sullivan.

Exhibit 99.5

BUSINESS

OVERVIEW

We are a leading carrier-neutral and cloud-neutral data center service provider in China. We have one of the largest carrier-neutral data center networks in China with our 36 self-built data centers and 59 partnered data centers with an aggregate capacity of 62,876 cabinets under our management as of June 30, 2021. We adopt a distributed deployment method when choosing locations for our partnered data centers based on the specific requests of our customers, demands in different cities and our strategy for POP establishment; therefore, the locations and number of our partnered data centers are subject to change from to time. Our data transmission network includes 180 POPs, which are access points from one place to the rest of the internet. Most of our data centers and our POPs are connected across China. Our data centers are concentrated in tier-1 cities and their surrounding regions, which have favorable supply-demand dynamics, owing to dense internet traffic, scarce resources and high demand for data center facilities. According to Frost & Sullivan, the continuing drivers for the data center demands consist of (i) growing IT outsourcing capacity by enterprises; (ii) implementation of next-generation 5G network and disruptive technologies; (iii) growing data center service demand from China's cloud service providers and enterprise digital transformation; (iv) supportive government policies, despite the recent regulatory headwinds; (v) customer segments drive data center service demand; and (vi) the overall growing trend of generating and processing data and robust growth in data traffic. From 2016 to 2020, China's carrier-neural data center service market has been growing by a CAGR of 22.2% and is expected to grow by a CAGR of 19.3% from 2020 to 2025. China's cloud service market has been growing by a CAGR of 38.5% from 2016 to 2020 and is expected to grow by a CAGR of 24.9% from 2020 to 2025. As a leading carrier-neutral and cloud-neutral data center service provider in China, we had a 10.8% market share in the carrier-neutral data center service market in terms of data center service revenues in 2020.

We are a pioneer in the carrier-neutral data center industry in China and commenced our operations in 1999. According to Frost & Sullivan, we are the first carrier-neutral data center service provider in China with infrastructure interconnected with all major network providers, which connect and share data traffic to help scale the rapid development of the early internet industry in China. Based on our partnership with Microsoft to introduce Azure and Office 365 in China in 2013, we are also the first carrier-neutral data center service provider to offer global cloud services in China and our services have helped accelerate the digital transformation of our enterprise customers.

As a carrier-neutral internet infrastructure services provider, our infrastructure is interconnected with the networks operated by all China's telecommunications carriers, major non-carriers and local internet service providers. The interconnectivity enables each of our data centers to function as a network access point for our customer's data traffic. In addition, we believe that our proprietary smart routing technology allows us to automatically select an optimized route to direct our customers' data traffic to ensure fast and reliable data transmission. We believe this advanced interconnectivity within and beyond our network distinguishes ourselves from our competitors and provides an effective solution to address our customers' needs that arise from inadequate public internet infrastructure and network interconnectivity in China. As a result, businesses are increasingly relying upon internet infrastructure services providers and in particular, carrier-neutral internet infrastructure services providers, to enhance and optimize key elements of their IT and network infrastructure.

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 have adopted a "dual-core" strategy to address both retail and wholesale data center market opportunities. Our managed retail services provide different levels of services that are scalable to meet our customers' needs, from a single cabinet up to megawatt- scale deployments. Our managed wholesale services provide customers with new data center sites constructed and developed by us based on their specified standards. We believe that the scale of our data center footprint and networking assets as well as our carrier- and cloud-neutrality, position us well to capture the vast opportunities in the rapidly expanding market of internet and cloud computing infrastructure services in China.

In addition, we are a first mover among China's carrier-neutral data center service providers in offering cloud services through partnerships to cover public, private and hybrid cloud scenarios. We provide customized enterprise VPN services and solutions, including software-defined wide area network, or SD-WAN, to enterprises across various industries. These value-added services strengthen our capability to provide quality services and meet our customers' additional demands.

With a nationwide data center network and comprehensive service offerings, we have attracted a diversified and loyal customer base. As of June 30, 2021, we had approximately 1,300 customers for our managed hosting services and over 6,000 enterprise customers in total. We also enjoy long-standing relationships with our customers and have high customer retention, as evidenced by our low average monthly hosting churn rate for managed hosting services, which was 0.3%, 0.5%, 0.3% and 0.1% in 2018, 2019 and 2020 and the six months ended June 30, 2021, respectively.

OUR COMPETITIVE STRENGTHS

We believe that the following key competitive strengths have contributed significantly to our success and differentiate us from our competitors:

A pioneer and leader in China's carrier-neutral IDC market

We are a pioneer and a market leader in China's carrier-neutral data center service industry. Our services have helped accelerate the digital transformation of enterprise customers. According to Frost & Sullivan, we are the first carrier-neutral data center service provider in China with infrastructure interconnected with all major network providers, which could connect and share data traffic to help scale the rapid growth of the early internet in China. We are the first Chinese carrier-neutral data center service provider that completed an overseas listing in 2011. Based on our partnership with Microsoft to introduce Azure and Office 365 in China in 2013, we are the first carrier-neutral data center service provider to offer global cloud services in China. We believe we are a pioneer in adopting cutting-edge technologies to meet enterprises' evolving demands. For example, we are one of the first carrier-neutral data center service providers that started to provide VPN, bare metal services and hybrid IT services in China.

In China's highly competitive and fragmented carrier-neutral data center market, we have achieved a 10.8% market share and are the largest data center service provider in terms of total number of customers, according to Frost & Sullivan. We have established a strong brand and reputation for advanced data center infrastructure and high quality services, as evidenced by the numerous awards and recognitions we have received, including the "2020 Beijing Energy Efficiency Leader (Data Center) – Advanced Technology Award" by GDCT in 2021, "China's Top 100 Internet Companies Award" by the Internet Society of China in 2020, "Top 10 Influential Carrier-neutral Data Center Service Providers in 2020 Award" granted by ODCC, "2019 Best IDC Services Provider Award" by CTDC Summit in 2019 and the "China's Top 100 Internet Companies Award" by the Internet Society of China and the MIIT in 2018. As a market leader in China's carrier-neutral data center service industry, we believe we are able to leverage our scale and reputation to effectively lower our customer acquisition costs and better serve our customers.

Strategically located network of premium data centers

We have one of the largest carrier-neutral data center networks in China with 36 self-built data centers and 59 partnered data centers housing an aggregate of 62,876 cabinets as of June 30, 2021. Our data centers are concentrated in tier-1 cities in China and their surrounding regions, which have favorable supply-demand dynamics, owing to dense internet traffic, scarce resources and high demand for data center facilities. As of June 30, 2021, we had 58,905 cabinets in 36 self-built data centers, consisting of 24,374 cabinets in Beijing, 9,340 cabinets in Shanghai and Hangzhou, 9,313 cabinets in the Greater Bay Area, 12,393 cabinets in satellite cities of these regions, and 3,485 cabinets in other regions, including Xi'an and Chengdu. We believe that we have benefited from an early mover advantage given the difficulties for competitors in securing new sites in tier-1 cities and to roll out nationwide coverage within a short period of time.

We distinguish ourselves by our superior interconnectivity enabled by our large number of data centers and connection to extensive data transmission networks. As a carrier-neutral and cloud-neutral data center service provider, our infrastructure is interconnected with the networks operated by all of China's telecommunication carriers, major non-carriers and local ISPs. The interconnectivity of our infrastructure enables each of our data centers to function as a network access point for our customers' data traffic. In addition, our proprietary smart routing technology allows us to automatically select an optimal route to direct our customers' data traffic to help ensure fast and reliable data transmission. This advanced interconnectivity within and beyond our network provides an effective solution to address our customers' needs for reliable internet infrastructure and interconnectivity in China.

Differentiated business model with comprehensive offerings

We have been able to adapt our growth strategies to the evolving development of China's data center service industry and maintained our leadership in the market by identifying emerging market opportunities and continually expanding and upgrading our services. In 2019, we introduced our "dual-core" strategy with the aim of addressing the needs of both the retail and wholesale segments. With this strategy, we continue to strengthen our leading position in the retail data center service market segment by offering different levels of tailored server administration services that are scalable to meet our customers' needs. In addition to data centers' colocation services, we offer a comprehensive suite of solutions, including interconnectivity services, such as BGP network, direct line connection, bare metal services, multi-cloud management, business continuity and disaster recovery services, as well as value-added services, including VPN and Microsoft public cloud services.

Highly visible revenue stream from diversified and loyal customer base

Delivering on our differentiated value proposition and best-in-class customer service, we have built and maintained a large base of diversified and long-term customers over the years. As of June 30, 2021, we had over 6,000 enterprise customers, of which approximately 1,300 customers are using our managed hosting services. Our top twenty largest customers contributed only 40% of overall revenue in the six months ended June 30, 2021. Our customer base includes several of Asia's most prominent internet and technology companies and spans across diversified platforms, such as eCommerce, social, information services, media, local services, financial services, cloud services and other enterprise customers.

We enjoy long-standing relationships with our customers and have high customer retention, as evidenced by our low average monthly hosting churn rate for managed hosting services, which was 0.3%, 0.5%, 0.3% and 0.1% in 2018, 2019, 2020 and the six months ended June 30, 2021, respectively. Our loyal customer base has enabled us to achieve sustainable business growth with our recurring revenue model, which provides us with significant visibility into future financial performance. In 2018, 2019, 2020 and the six months ended June 30, 2021, our recurring revenues were consistently over 90% of our net revenues. Our average monthly recurring revenues per cabinet for managed retail services were RMB8,258, RMB8,747, RMB8,984 (US$1,391.4), RMB8,853 and RMB9,078 (US$1,406.0) in 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively.

Our experience in serving market leaders in different sectors with comprehensive offerings provides us with industry knowledge, operational expertise and credibility that we can leverage on to cross-sell additional services to our existing customers and attract new customers.

In-depth industry expertise with strong engineering capabilities

Leveraging on the deep experience accumulated over an operating history of more than two decades in the data center service industry, we have developed a number of innovative solutions for the operation and maintenance of data centers.

Since the inception of our business, we have continually focused on the adoption of new technologies in designing, constructing and operating data centers with reliability, efficiency and resiliency. We have developed many proprietary technologies in the areas of energy saving, data center design, facility maintenance and operations, as well as network operation and maintenance management. We are able to provide service-level agreements for 99.9% uptime for power and 99.9% uptime for network connectivity for our self-built data centers, demonstrating high reliability, availability, security and manageability.

We believe our focus on research and development is key to supporting our growth in both our mature and emerging businesses. We have cultivated an innovation-focused corporate culture and are committed to enhancing our technological capabilities and expanding our service offerings through in-house research and development. As of June 30, 2021, we had an experienced team of 133 professional engineers, many of whom have more than ten years of relevant industry experience. We have also been promoting research and development training for our professional engineers. Our research and development efforts have resulted in 80 patents, 80 patent applications and 228 copyright registrations as of June 30, 2021.

Visionary leadership with stellar track record of execution

We have an innovative and entrepreneurial management team. Our founder and executive chairman, Mr. Sheng Chen, has been instrumental to the development and success of our business. With more than 20 years of experience in the internet and telecommunication industry in China, Mr. Chen provides vision, overall management and strategic decision-making relating to marketing, investment planning and corporate development of our company. Our senior management team has extensive experience in relevant industries and brings a strong track record of execution. Our chief executive officer, Mr. Samuel Shen, has extensive experience in the fields of cloud, edge computing, big data, and artificial intelligence, or AI, services. Mr. Shen served as President for JD Cloud and held several senior positions at Microsoft. Mr. Tim Chen, our chief financial officer, has strong expertise and execution capability in the fields of corporate development and corporate finance.

Mr. Shiqi Wang, the chief executive officer of our wholesale IDC business group, is an industry veteran with rich experience and proven capabilities for pursuing and executing new business initiatives. Under the leadership of our tech-savvy management team, we have created industry- leading solutions, and continue to drive innovation in our industry by identifying new business opportunities, exploring new business models, and developing new solutions and services.

OUR STRATEGIES

We indent to pursue the following strategies:

Accelerate capacity roll-out

We plan to further increase our core data center capacity and backbone interconnection in key markets, to meet the growing demand for carrier- and cloud-neutral data center solutions. We plan to continue to invest and increase our capacity through new self-built data centers, as well as expand the capacity of our existing data centers. In addition, we may also prudently pursue acquisitions or investments to secure data center locations in key markets. We plan to continue to partner with telecommunication carries and internet service providers and integrate connection points to expand our backbone coverage via software-defined network, aiming to provide customers with high performance, reliability, redundancy and low latency network services.

All-in “dual-core” strategy and full-stack services

To further implement our “dual-core” strategy, we plan to continue catering our service offerings to meet the demands of both retail and wholesale data center service markets. We plan to further strengthen our leading position in the retail data center service market by expanding our value-added services for customers and further enhancing interconnection within our data centers. For wholesale data center service, we plan to acquire new customers targeting internet giants, cloud services providers and certain industry verticals, such as the financial services sector. We intend to strengthen our capabilities in data center design, construction and delivery to meet their customized requirements.

Strengthen customer relationships and attract new customers

We intend to strengthen and deepen our relationships with existing customers of our retail data center business and enhance their stickiness to our platform. To further develop our wholesale data center business, we plan to continue to leverage our industry expertise to secure opportunities from large wholesale and hyperscale customers and to provide fast delivery of customized data centers and solutions that address their needs. Additionally, leveraging our large customer base, high retention subscription model and scalable multi-cloud, we plan enhance our sales and marketing efforts to attract industry-leading partners to join our ecosystem and tap into the opportunities arising from these customers' digital transformation.

Harness the ecosystem to solidify platform play

We intend to further expand our value-added services to provide one-stop full-stack data center solutions for customers. We intend to continue growing our public cloud management services. In addition, by leveraging on our partnership with various cloud services providers, we plan to expand and deepen our interconnectivity products and our private and hybrid cloud management turn-key solutions to capture the rapidly growing demand for such services in order to become a leading cloud computing infrastructure services provider in China. We also plan to expand our enterprise interconnection service offerings from VPN to a full spectrum of SD-WAN offerings to capture additional opportunities in that market.

Continue to invest in technology

We are committed to technological innovations. We plan to continue to enhance our overall technology and solution offerings to better serve our customers and increase the overall efficiency of our operations. We believe that the increasing focus by our customers on AI, big data, IoT and industrial digitalization provides opportunities for us to cater to our customer's demands for services that complement our core hosting services. To achieve our goals and widen our technology advantage, we intend to continue to invest in engineering talent by competitive recruiting and retaining measures, as well as proactively offering them training and career development opportunities.

OUR SERVICE OFFERINGS

Through our quality data center network, we offer comprehensive hosting and related services, including:

- *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 agreement for 99.9% 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 the inception of our operations in 1999 and started to provide managed wholesale services in 2019 to implement our "dual-core" strategy that we developed 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. Customers can also 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. Some of our customers choose to connect their servers only to one telecommunication carrier in China. Based on their selections, we provide them with network connection to the major telecommunication carriers, including China Telecom, China Unicom and China Mobile; 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 two or multiple networks, which provides more cost-effective internet access and ensures better business continuity. Our interconnectivity services connect our customers with each other, connect our data centers with telecommunication carriers' backbone network and other networks. We provide cross-connection services to our customers. Upon the request of the customers, we utilize single or multi-mode fibers 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 infrastructure-as-a-service, or 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. From October 2019 to June 2021, we signed seven memoranda of understandings ("MoU") with Alibaba to construct and deploy Alibaba's data center facilities in Eastern China. At its inception, our total wholesale capacity was 4 megawatts as of September 30, 2019 and increased to 41 megawatts as of December 31, 2019, and maintained at 41 megawatts as of March 31, 2020 (12 megawatts in service and 29 megawatts under MoU). Our total wholesale capacity increased to 130 megawatts (49 megawatts in service and 81 under MoU) as of June 30, 2020 and further increased to 137 megawatts (68 megawatts in service and 69 under MoU) as of September 30, 2020. By the end of 2020, our total wholesale capacity reached 179 megawatts (69 megawatts in service and 110 under MoU). In 2021, our total wholesale capacity continued to increase to 185 megawatts (103 megawatts in service and 82 megawatts under MoU) as of March 31, 2021. As of June 30, 2021, our total wholesale capacity reached 228 megawatts (154 megawatts in service and 74 megawatts under MoU). 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.

- *Planning*: We engage with our clients from the site selection and planning stage and choose the sites for wholesale data centers at the strategic locations which fits into our clients' IT infrastructure deployment and provides great access to power and connectivity. Backed by multi-year experience and strong presence in key markets, we are able to conduct in-depth analysis and select the most suitable location based on clients' requirements by acquiring or leasing green-field sites or existing industrial buildings from third parties. Our team works closely with local government authorities to obtain necessary permits and approvals and with electric utilities to obtain sufficient power supply. We also actively cooperate with telecommunication carriers to ensure multi-carrier connectivity to our wholesale data centers.

- *Design*: Leveraging our technological know-how from our internal design teams and a comprehensive data center product portfolio, developing and accumulating through the designs and construction of retail data centers, we are dedicated to ensuring that each of our wholesale data centers meets the specific requirements of our clients and achieves industry leading energy efficiency and operating performance. Our technology strengths, such as advanced cooling technology and power management technology, are integrated due to close collaboration among our internal design team, research and development team and external design institutes.

- *Construction*: We believe our well-established relationships with high quality contractors and suppliers, combined with our specialized construction team consisting of experienced professionals, help us to ensure fast delivery and cost effectiveness in data center construction. As opposed to retail data centers, typically the wholesale data centers are built to suit and customized to fulfill our clients' different technical requirements. Furthermore, our clients require us to deliver wholesale data centers in large volumes within a prescribed construction period.

- *Operations*: We are one of the first carrier neutral data center service providers in China and commenced operations in 1999. Since then, we haven't encountered any disastrous accident over the last 20 years, demonstrating our strong operational expertise. We are able to provide service-level agreement for 99.9% uptime for power and 99.9% uptime for network connectivity for our self-built data centers. Our operational excellence to deliver wholesale data centers with high reliability, availability, security and manageability are sought by our wholesale clients. As a result, operations and management expertise becomes an increasingly important criteria when they select their data center partners.

Cloud Services

We started to provide 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 infrastructure-as-a-service, IaaS, platform-as-a-service, or PaaS, and software-as- a-service, or 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.

The total customer billing amounts are divided between Microsoft and us and we retain a portion of the total customer billing amounts based on the agreed-upon metrics. All sales amounts from our services to customers are deposited into an escrow account which are jointly administered by Microsoft and us and we settle the payments to Microsoft on a monthly basis. In addition, we are entitled to receive incentive payments from Microsoft upon the completion of certain sales or services conditions. Our current agreement with Microsoft has a term of ten years till 2027.

VPN Services

We offer 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 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 180 POPs across Asia, of which 70 POPs are for VPN services. 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 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. We also obtained the SD-WAN Ready certificate for overall solutions issued by China Academy of Information and Communications Technology in 2020.

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 June 30, 2021, we operate 36 self-built data centers and 59 partnered data centers located in tier-1 and their surrounding cities, including all of China's major internet hubs, with 62,876 cabinets under management. Our extensive network, consisting of 180 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 June 30, 2021, we operate 36 self-built data centers housing 58,905 cabinets and 59 partnered data centers housing 3,971 cabinets.

The table below sets forth the number of data centers and cabinets under our management housed in our data centers as of December 31, 2018, 2019 and 2020 and June 30, 2021.

	As of December 31,			As of June 30,
	2018	2019	2020	2021
Data Centers				
Self-built	20	26	32	36
Partnered	38	51	52	59
Total	58	77	84	95
Cabinets				
Self-built	25,711	32,047	49,876	58,905
Partnered	4,943	4,244	3,677	3,971
Total	30,654	36,291	53,553	62,876

Our data centers are located in over 30 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 June 30, 2021.

	As of June 30, 2021	
	Number of Self-built Data Centers	Cabinets Housed
Beijing	14	24,374
Shanghai and Hangzhou	7	9,340
Greater Bay Area	6	9,313
Satellite cities(1)	4	12,393
Others	5	3,485
Total	36	58,905

(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-programed 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 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.

In March 2017, we signed an investment agreement with Warburg Pincus to establish a multi-stage joint venture and build a digital real estate platform in China. The cooperation was expected to allow us to reduce capital expenditures as Warburg Pincus will take primary responsibilities to build new wholesale data centers. In July 2019, we reached a supplemental agreement with Warburg Pincus to restructure the partnership. Pursuant to the agreed restructuring arrangement, one of the joint ventures has distributed its assets and projects to us and to Princeton Digital Group (PDG), a Warburg Pincus-backed company, on a pro rata basis in principle, respectively. After distribution, we obtained 100% ownership of a project under development in the Shanghai Waigaoqiao Free Trade Zone, as well as a certain amount of cash. In addition, we and Warburg Pincus have (i) adjusted the existing holding structure for operating the current projects, and (ii) jointly established an additional holding vehicle for sourcing and developing new projects in China. All the projects under our cooperation with Warburg Pincus are operated at our self-built data centers.

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, 2018, 2019 and 2020 and June 30, 2021, our network connected 172, 165, 165 and 180 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 June 30, 2021, 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 IDC business, was 0.3%, 0.5%, 0.3%, 0.4% and 0.1% in 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively. Our average monthly recurring revenue from our top 20 customers were RMB105.9 million, RMB110.3 million, RMB140.3 million (US$21.7 million), RMB129.2 million and RMB169.8 (US$26.3 million) in 2018, 2019 and 2020 and the six months ended June 20, 2020 and 2021, 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.

Our 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.

TECHNOLOGY AND INTELLECTUAL PROPERTY

Innovative Solutions and Services

We offer a comprehensive suite of solutions with cutting-edge technologies for customers, and continually expand our service offerings to provide full stack solutions consisting of interconnectivity, colocation or data center managed hosting services and cloud services. Examples of our innovative products and services include:

- *Hybrid IT service*: We are the first among data center service providers in China to provide hybrid IT services since March 2015. Our hybrid IT services are designed to be connected to customers' existing operating systems and achieve real-time response to customers' IT requests. Our hybrid IT services cover computing and storage of data, facility management and maintenance, as well as operation support, which can effectively meet the growing IT outsourcing demand of enterprise customers due to the increasing complexity of IT requirements resulting from new technologies and applications;

- *Bare metal services*: We developed our proprietary bare metal services technology in August 2018. Our bare metal services can be integrated with high-quality BGP, VPN and other services provided by us. Our bare metal services are based on automated operation and maintenance technologies and can be delivered to customers through the cloud platform on a fully automated basis without manual operations. It is equipped with security modules and network functions which can be integrated with other cloud services and network services provided by us; and

- *Hybrid cloud management platform*: In order to provide superior cloud management services under various cloud scenarios to its customers, we developed a proprietary cloud management platform in June 2019. This platform can manage major public clouds and private clouds on a centralized basis and connect to our self-developed bare metal services, hybrid IT services, SD-WAN and other services to achieve one-stop multi-cloud management service capability. Our hybrid cloud management platform enables the customers to manage all the services, products and resources provided by us, including private cloud, public cloud, enterprise virtual data centers, enterprise hosted private cloud, bare metal services, as well as underlying data center and network connectivity services, on a centralized basis. Data analytics can be performed based on the information collected, which we believe can realize the value of customers' data assets.

Technologies for Data Centers

We have implemented many technologies in designing and constructing our data centers, such as power transfer switch, cooling, lighting and energy recycling technologies, to improve the electricity power consumption and energy efficiency of our data centers. We are the first data center service provider that passed the ISO50001: 2011 Energy Management System Certification in 2017. One of our data centers in Beijing, M6 data center, is among the first National Green Data Centers named by Chinese Institute of Electronics in 2018. We also apply heat recovery technologies at certain of our data centers to recover the waste heat from the exhaust of data centers to generate domestic hot water, which have improved our data center's energy efficiency.

With the vision to build artificial intelligence defined data centers, we intend to develop artificial intelligence for IT operations platform which utilizes big data, modern machine learning and other advanced analytics technologies to enhance IT operation functions for our data centers. Such platform can collect a variety of data from various IT operations tools and device to aggregate data (such as that in monitoring systems and job logs) and then applies machine learning and advanced analytics on such data in order to automatically spot and react to issues. For example, our analytical data warehouse can analyze the working condition of data centers' cooling systems to build a model which provides optimization solutions enabling us to lower operating costs and achieve environmentally friendly operations.

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. We incurred RMB92.1 million, RMB88.8 million, RMB112.9 million (US$17.5 million), RMB44.6 million and RMB71.9 million (US$11.1 million) in research and development expenses for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively. As of June 30, 2021, our experienced research and development team consisted of 133 engineers, many of whom have more than 10 years of relevant industry experience.

Our research and development efforts have yielded 80 patents, 80 patent applications and 228 software copyright registrations as of June 30, 2021, 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 services and solutions through our direct sales force and we use a mix of horizontal and vertical segmentation strategies to divide the market into groups with similar characteristics. Horizontal segmentation is used for products or solutions such as retail colocation, interconnection, bare metal services, and generic hybrid cloud managed services which are applicable to most of the enterprise customers. For more industry specific solutions, we employ vertical segmentation for wholesale build-outs, wholesale colocation as well as customized hybrid cloud managed services. Our teams focus on key customers within each of the focus industries, including public cloud, financial, media and online education. Our sales and marketing teams are primarily based in Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, Xi'an, Hong Kong and Taiwan. Aside from standard products, we are also leveraging and embedding our ecosystem's offerings to provide turnkey hybrid cloud solutions for our key customers.

Our strong brand recognition, neutrality positioning, and large customer installed base have proven to be the 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. In addition, we collaborate with various partners either on solution integration or "go to market" alignment to accelerate customers' digital transformation. Our sales and marketing staffs are not just focused on demand generation but also equally focus on providing high quality customer services to proactively retain existing 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, carrier-operated data centers took a share of 54.2% of the data center service market in 2020. 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 sales 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 service, 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 service 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 service 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. In addition, as we expand our service offerings, such as cloud services, we expect to face more competition in those areas as well.

OUR ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INITIATIVES

As a leading carrier-neutral and cloud-neutral data center service provider in China, we are committed to corporate social responsibility and meeting society's changing needs despite the challenging economic environment. We focus on environmental, social and governance communications and management mechanism to improve working environment of our employees. We also explore multi-dimensional use cases for our technology, to empower traditional industries with our capabilities and to promote a healthier lifestyle and the long-term sustainability of our society.

ESG Related Governance Structure

In strict compliance with the Company Law of the PRC, Securities Exchange Acts of the United States, and relevant Nasdaq Listing Rules, we have improved our corporate governance structure, which involves shareholders' meetings, a Board of Directors, several special committees to ensure effective supervision of senior management by the Board of Directors and to protect the rights and interest of shareholders. In addition, we plan to establish an ESG working group within our corporate structure, which reports progress of ESG-related functions to the Strategic Advisory Committee on a regular basis and the Strategic Advisory Committee undertakes the primary duty to supervise and manage the implementation of our ESG work by the ESG working group. The key responsibilities of the ESG working group consist of (i) determine the annual responsibility goals and key improvement plan based on our sustainability strategy; (ii) communicated with stakeholders on important ESG issues and promote key projects to collect information required for ESG disclosure; (iii) produce ESG reports and submit to Strategic Advisory Committee; and (iv) communicate with major rating agencies and keep up with ESG work and marketing.

Diversified Employment; Employee Development and Care for Employees

In strict compliance with the laws and regulations, including the Labor Law of the PRC and Labor Contract Law of the PRC, we have developed 21Vianet Employee Handbook that outlines our employment policies and standards. We adhere to the principle of impartiality and oppose any form of discrimination because of race, belief, gender, age, etc. We oppose child labor and forced labor. We provide employees with equal employment, promotion, and training opportunities. We are committed to creating a diversified, inclusive, and open workplace. As of June 30, 2021, we had a total of 2,784 employees, of which female employees accounted for 26.0% and employees of ethnic minorities accounted for 4.0%.

While we recruit high-potential talents from outside the organization, we also focus on training and development for our existing employees. We have established our lecturer system and learning platform to motivate employees and provide them with diversified development channels. Our training courses cover three themes, namely leadership, professional skills and general skills. The training programs and courses prepared for each employee depend on their career levels. For our new hires, we provide onboard training programs, which consist of online and face-to-face courses on corporate rules and regulations, operating procedures, information security and work safety. For our junior managers, we provide primary management training programs, which consist of two components. The first component includes self-management, team management and performance management. The second component includes practice in simulation, such as inter-department collaboration, team conflict management and high-level performance management. For our middle- level managers, we provide navigator programs, which feature a strong association between practical goals and learning goals.

We are committed to creating an equal, open and transparent workplace. Employees can make complaints or provide suggestions through public channels such as the whistleblower mailbox or hotline, the labor union and the Internal Control and Internal Audit Department. We will address the concerns raised by employees in a prompt and organized manner, striving to improve our systems and policies while addressing existing problems.

Green Data Centers and Green Offices

We are a strong supporter of green data centers. We have developed our Energy Management System, Cabinet Power Management System, Diesel Use Management Regulations and other rules and regulations to standardize and guide energy conservation and consumption reduction work, and continue to explore new ways to improve resource efficiency and cut carbon emission. We have set PUE target for each of our data centers. Through the use of natural sources, conversion equipment, independent dehumidifiers, and heat recovery systems, we implement our environmentally sustainable policies and initiatives. Moreover, we are dedicated to reducing carbon footprint generated by our data centers by sourcing renewable energy. As a result of these measures, we achieved an average PUE reduction of 2% in 2020 compared to that in 2019. Three of our data centers are named as National Green Data Center and are among the first few data centers in China to obtain such certification.

For our equipment, we ensure preferential procurement of equipment with good energy efficiency indicators. Our current energy-saving devices include new air conditioners, lithium batteries and LED lights. All of our cooling units employ frequency converters and air conditioner use EC motors. We have also adopted energy-saving technologies such as heat recovery, high voltage direct current, free cooling, indirect evaporative cooling have been applied. Our well-established water/electric meter system and environmental monitoring system provide accurate, efficient information analysis, and produce key data trends and carbon emissions. We develop energy conversation and emission reduction goals and countermeasures based on these information and analyzes.

We have received the ISO14001 environmental management certification for all environmental management activities of our computer system integration and software development services, including data center service, cloud computing, dedicated internet access and server and network equipment holding services. We have also received the ISO50001 energy management system certification for the energy management activities of our data center, cloud computing, dedicated internet access, server and network equipment hosting services and office operations.

We attach importance to the environment management at our offices. A series of energy-saving and consumption-reducing measures have been taken as part of our green office initiatives. Slogans are posted in offices to promote conversation of power, paper and water. As the garbage classification policy has been adopted, we have followed the policy to implement garbage classification to raise awareness among employees. We encourage employees to commute by new energy vehicles. As of the date of this offering memorandum, we have provided commuter shuttles for more than 40% of employees. Some of the busses consume new energy. In the future, all shuttle busses will be powered by new energy. There are a large number of lights in data centers that operate long hours each day. We have decided to replace the lights that are highly energy consuming with low heat and eco-friendly lights. It is estimated that the new 18W LED light will reduce electricity consumption by 44% per day. Additional, cold aisle lighting in stably operating data centers have been spaced out to reduce the overall quantity and thus save electricity consumption.

Quality Product and Customer Service

We place great emphasis on product quality and is committed to ensuring the safety, quality and stability of data centers. We continuously upgrade existing businesses and develop new businesses to cater to customers' requirements. We strictly practice procurement compliance, and have established quality and safety assurance systems and work processes to deliver quality products and services. In strict accordance with national laws and applicable industry regulations, we have developed the Supplier Approval System to comprehensively evaluate the behavior, business size, industry experience, trust records, and other aspects of suppliers. Diverse assessment is employed to ensure supplier performance in product quality, delivery capability and green supply chain. In addition, we are incorporating carbon footprint into supplier evaluation. In terms of existing suppliers, we perform regular evaluations and reviews. Our procurement department takes the lead to assess suppliers' performance against contracts, product quality, and service support among other criteria. Subsequent cooperation depends on the results of such assessment to ensure the quality of the supply chain. In addition, we have established our anti-corruption system and circulated it among suppliers. We have drafted the Anti-Commercial Bribery Statement (Supplier) and signed it with 100% of suppliers to ensure unbiased supplier screening.

We have developed rules and systems such as the Complaint Handling Process and Customer Service Email Response Quality Assurance Standards, setting forth strict requirements of aftersales response and service quality. We also assess whether email communications are compliant with our standards through quality assurance and spot checks. We have a customer response center to attend to and follow up with all complaints. The heads of the functional departments involved are responsible for approving complaint handling measures and the escalation of complaints, as well as analyzing the reasons behind the complaints and developing corrective and preventive measures. In 2020, 100% of customers were satisfactory with our customer response engineers, sustaining our record of zero complaint. Although we have the strictest service requirements in the industry, our customer response team surpassed their goals.

Business Integrity

We have been making continuous efforts to comply with all applicable laws and regulations affecting our business. To set up an effective risk prevention and control mechanism, we have established three lines of defense for risk management to clarify specific control procedures of various risks. We have also formulated a series of anti-corruption policies, including management measures on integrity talk and integrity inspection, and letter of commitment to anti-commercial bribery, to guide our employees. To encourage reporting of any non-compliant behaviors, we have established a complete anonymous reporting system and anti-corruption training programs. For the six months ended June 30, 2021, 100% of our employees have completed anti-corruption related trainings and 100% of our suppliers have signed our letter of commitment to anti-commercial bribery.

Organizational Development

Our employees are our most important asset. We provide our employees with career development programs including training course for new joiners, entry level employee and middle level team leaders. In 2020, more than 2,000 of our employees have participated in our training programs, recording a total of approximately 50,000 training hours. In addition, we encourage and support employees to obtain external certificates to improve their skills and competitiveness.

We also care about our employees' wellbeing. We provide a multitude of benefits to our employees and their family members, such as supplementary medical insurance, maternity rooms for female employees and regular sports activities.

Data Privacy and Data Security

As a reputable company serving a large community of users, we consider data privacy a crucial part of our service quality. We comply with the privacy protection requirement of ISO27018 Protection of Personally Identifiable Information in Public Cloud and have adopted a series of measures to keep track of personally identifiable information. We utilize a set of technologies to protect our customers' data, such as remote data recovery, encrypted transmission and firewall application. For the year ended December 31, 2020 and the six months ended June 30, 2021, we did not report any data leaking incidents.

Social Responsibility

We strive to utilize our advantages and resources to contribute back to the society we live in. During the COVID-19 pandemic, we donated anti-epidemic materials to frontline doctors to minimize virus infection. We also provide donations and essential daily supplies to charities and education funds to make our community a better place.

EMPLOYEES

We had 2,220, 2,295, 2,599 and 2,784 employees as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. The following table sets forth the number of our employees by function as of June 30, 2021:

Functional Area	Number of Employees	% of Total
Operations	1,471	53%
Sales, marketing and customer support	350	13%
Research and development	243	8%
General and administrative	720	26%
Total	2,784	100%

Among our total employees as of June 30, 2021, 1,423 were located in Beijing, and 1,361 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.

As required by regulations in China, we participate in various government statutory employee benefit plans, including social insurance funds, namely a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund. We are required under the PRC laws to contribute to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees up to a maximum amount specified by the local government from time to time.

We entered into standard labor contracts with our employees. We also entered into standard confidentiality and non-compete agreements with our senior management. The non-compete restricted period typically expires two years after the termination of employment, and we agree to compensate the employee with a certain percentage of his or her pre-departure salary during the restricted period.

PROPERTY, PLANTS AND EQUIPMENT

Our headquarters are located at Guanjie Building Southeast, 1st Floor, 10# Jiuxianqiao East Road, Chaoyang District, Beijing and 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 June 30, 2021, our offices occupied an aggregate of 27,408 square meters of leased space.

We have also leased the following facilities for our self-built data centers:

Location	Total Lease Area as of June 30, 2021
Beijing	157,023
Shengzhen	4,866
Shanghai	42,196
Hangzhou	11,020
Guangzhou	52,264
Ningbo	1,200
Hebei	21,792

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.

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes thereto included elsewhere in this offering memorandum and the section titled "Operating and Financial Review and Prospects" in our annual report on Form 20-F for the year ended December 31, 2020 and the unaudited condensed consolidated financial statements as of and for the six months ended June 30, 2021 and the related notes thereto included elsewhere in this offering memorandum. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" or in other parts of this offering memorandum.

OVERVIEW

We are a leading carrier-neutral and cloud-neutral data center service provider in China. We have one of the largest carrier-neutral data center networks in China with our 36 self-built data centers and 59 partnered data centers with an aggregate capacity of 62,876 cabinets under our management as of June 30, 2021.

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.

Our total net revenues generated from providing hosting and related services increased from RMB3,401.0 million in 2018 to RMB3,789.0 million in 2019 and further to RMB4,829.0 million (US$747.9 million) in 2020, representing a CAGR of 19.2% from 2018 to 2020. Our total net revenues generated from providing hosting related services amounted to RMB2,234.9 million and RMB2,883.9 million (US$446.7 million) for the six months ended June 30, 2020 and 2021, respectively. The total number of cabinets under our management increased from 30,654 as of December 31, 2018, 36,291 as of December 31, 2019 and further to 53,553 as of December 31, 2020. The Total number of cabinets under our management amounted to 62,876 as of June 30, 2021. Our average monthly recurring net revenues from hosting and related services increased from RMB275.4 million in 2018 to RMB289.1 in 2019 and further to RMB374.0 million (US$57.9 million) in 2020.

Our average monthly recurring net revenues from hosting and related services amounted to RMB355.3 million and RMB434.4 million (US$67.3 million) for the six months ended June 30, 2020 and 2021, respectively. We recorded a net loss of RMB186.7 million, RMB181.2 million, RMB2,680.3 million (US$415.1 million), RMB1,786.3 million in 2018, 2019 and 2020 and the six months ended June 30, 2020, respectively, net income of RMB379.5 million (US$58.8 million) for the six months ended June 30, 2021, which reflected share-based compensation expenses of RMB59.5 million, RMB43.9 million, RMB136.8 million (US$21.2 million), RMB31.7 million and RMB62.4 million (US$9.7 million), respectively. Our results of operations also reflect the effects of our acquisitions and dispositions during the respective periods.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business and results of operations are generally affected by the development of China's data center service market, which has grown rapidly in recent years. According to Frost & Sullivan, the total revenue of China's data center service market increased from RMB50.6 billion in 2016 to RMB86.7 billion in 2020, representing a CAGR of 14.4%, and is expected to grow at a CAGR of 12.3% from 2020 to 2025, reaching RMB154.9 billion by 2025. However, any adverse changes in the data center service market in China may harm our business and results of operations.

While our business is generally influenced by factors affecting the data center service 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 30,654, 36,291, 53,553 and 62,876 cabinets under management as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. Our annualized average monthly cabinet utilization rates were 70.6%, 66.0%, 61.2% and 60.3% in 2018, 2019 and 2020 and the six months ended June 30, 2021, 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 amount of our billable cabinets and average 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 2018, 2019 and 2020 and the six months ended June 30, 2021, our recurring revenues were consistently over 90% of our net revenues. Our average monthly recurring revenues from hosting and related services were RMB275.4 million, RMB289.1 million, RMB374.0 million (US$57.9 million), RMB355.3 million and RMB434.4 million (US$67.3 million) in 2018, 2019 and 2020 and for the six months ended June 30, 2020 and 2021. Our average monthly recurring revenues per cabinet for managed retail services was RMB8,258, RMB8,747, RMB8,984 (US$1,391.4), RMB8,853 and RMB9,078 (US$1,046.0) for the years ended December 31, 2018 and 2019 and 2020 and the six months ended June 30, 2020 and 2021.

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 0.3% in 2018, 0.5% in 2019, 0.3% in 2020 and 0.1% for the six months ended June 30, 2021.

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 New and 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 stages. 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, Shenzhen, Guangzhou, Yangtze Delta, 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.

IMPACT OF THE COVID-19 PANDEMIC ON OUR BUSINESS

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

KEY COMPONENTS OF RESULTS OF OPERATIONS

Net Revenues

The following table sets forth our net revenues for the years presented:

	For the Years Ended December 31,				For the Six Months Ended June 30,		
	2018	2019	2020		2020	2021	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in thousands, except percentages)						
Net revenues	3,401,037	3,788,967	4,829,019	747,920	2,234,858	2,883,901	446,659

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. 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.

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 Years Ended December 31,							For the Six Months Ended June 30,				
	2018		2019		2020			2020		2021		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)											
Cost of revenues:												
Telecommunications costs	1,332,280	39.2	1,570,825	41.5	2,092,887	324,147	43.3	1,004,730	45.0	1,200,113	185,874	41.6
Others	1,123,886	33.0	1,278,693	33.7	1,660,121	257,120	34.4	723,685	32.3	1,000,961	155,029	34.7
Total cost of revenues	2,456,166	72.2	2,849,518	75.2	3,753,008	581,267	77.7	1,728,415	77.3	2,201,074	340,903	76.3

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.

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 Years Ended December 31,							For the Six Months Ended June 30,				
	2018		2019		2020			2020		2021		
	RMB	% Net of Revenues	RMB	% Net of Revenues	RMB	US$	% Net of Revenues	RMB	% Net of Revenues	RMB	US$	% Net of Revenues
						(in thousands, except percentages)						
Operating expenses:												
Sales and marketing expenses[1]	172,176	5.1	206,309	5.4	235,012	36,399	4.9	100,362	4.5	133,565	20,687	4.6
Research and development expenses[1]	92,109	2.7	88,792	2.3	112,891	17,485	2.3	44,649	2.0	71,861	11,130	2.5
General and administrative expenses[1]	462,637	13.5	415,277	11.0	535,111	82,878	11.1	244,696	10.9	289,489	44,836	10.0
Reversal/(allowance) for doubtful debt	(598)	(0.0)	1,557	0.0	2,393	371	0.1	1,183	0.1	7,920	1,227	0.3
Changes in the fair value of contingent purchase consideration payables	(13,905)	(0.4)	–	–	–	–	–	–	–	–	–	–
Impairment of receivables from equity investees	–	–	52,142	1.4	–	–	–	–	–	–	–	–
Impairment of long-lived assets	–	–	–	–	81,619	12,641	1.7	–	–	–	–	–
Impairment of loan receivable to potential investee	–	–	–	–	–	–	–	–	–	2,816	436	0.1
Other operating income	(5,027)	(0.1)	(6,862)	(0.1)	(7,619)	(1,180)	(0.2)	–	–	–	–	–
Total Operating Expenses[1]	707,392	20.8	757,215	20.0	959,407	148,594	19.9	390,890	17.5	505,651	78,316	17.5

Note:

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

	For the Years Ended December 31,				For the Six Months Ended June 30,		
	2018	2019	2020		2020	2021	
	RMB	RMB	RMB	US$	RMB	RMB	US$
				(in thousands)			
					(unaudited)	(unaudited)	
Allocation of share-based compensation expenses:							
Sales and marketing expenses	2,139	354	38,247	5,924	1,791	20,912	3,239
Research and development expenses	1,385	1,177	634	98	85	362	57
General and administrative expenses	53,346	40,501	82,672	12,804	28,757	33,518	5,191
Total share-based compensation expenses	56,870	42,032	121,553	18,826	30,633	54,792	8,487

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 RSUs granted under our 2010 Plan, 2014 Plan and 2020 Plan. As of June 30, 2021, options to purchase 474,864 ordinary shares and 3,679,785 RSUs have been granted to our employees, directors and consultants. We recorded share-based compensation expenses in the amount of RMB56.9 million, RMB42.0, RMB121.6 million (US$18.8 million), RMB30.6 million and RMB54.8 million (US$8.5 million) for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively, in connection with our share-based incentive grants.

TAXATION

The 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.

Payments of dividends and capital in respect of the shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of the Shares, nor will gains derived from the disposal of the shares be subject to Cayman Islands income or corporation tax.

The British Virgin Islands

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.

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, 2018, 2019 and 2020 and the six months ended June 30, 2021. 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 20% for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, respectively.

The 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 and 2020, 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, 2018, 2019 and 2020 and the six months ended June 30, 2021, the tax rate for 21Vianet Beijing was 15%.

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, 2018, 2019 and 2020 and the six months ended June 30, 2021, the tax rate assessed for Xi'an Sub was 15%.

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 2020 and the six months ended June 30, 2021, 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, 2018, 2019 and 2020 and the six months ended June 30, 2021, 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, 2018, 2019 and 2020 and the six months ended June 30, 2021, 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 June 30, 2021, 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 may be exempted from 25% PRC income tax although no assurance can be given in this regard. See "Risk Factors – Risks Related to Doing Business in China – Under the New PRC Enterprise Income Tax Law, we may be classified as a 'resident enterprise' of China. Such classification could result in unfavorable tax consequences to us and our non-PRC holders of the Notes" for further information. 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 a summary of our consolidated results of operations for the periods indicated both in absolute amount and as a percentage of our total net revenues. 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 Years Ended December 31,				For the Six Months Ended June 30,		
	2018	2019	2020		2020	2021	
	RMB	RMB	RMB	US$(2)	RMB (unaudited)	RMB	US$(2)
						(unaudited)	
	(in thousands, except share, per share and per ADS data)						
Consolidated Statement of Operations Data:							
Net revenues:							
Hosting and related services	3,401,037	3,788,967	4,829,019	747,920	2,234,858	2,883,901	446,659
Cost of revenues(1):							
Hosting and related services	(2,456,166)	(2,849,518)	(3,753,008)	(581,267)	(1,728,415)	(2,201,074)	(340,903)
Gross profit	944,871	939,449	1,076,011	166,653	506,443	682,827	105,756
Operating income (expenses) Sales and marketing expenses(1)	(172,176)	(206,309)	(235,012)	(36,399)	(100,362)	(133,565)	(20,687)
Research and development expenses(1)	(92,109)	(88,792)	(112,891)	(17,485)	(44,649)	(71,861)	(11,130)
General and administrative expenses(1)	(462,637)	(415,277)	(535,111)	(82,878)	(244,696)	(289,489)	(44,836)
Reversal (allowance) for doubtful debt	598	(1,557)	(2,393)	(371)	(1,183)	(7,920)	(1,227)
Impairment of receivables from equity investees	–	(52,142)	–	–	–	–	–
Changes in the fair value of contingent purchase consideration payables	13,905	–	–	–	–	–	–
Impairment of long-lived assets	–	–	(81,619)	(12,641)	–	–	–
Impairment of loan receivable to potential investee	–	–	–	–	–	(2,816)	(436)
Other operating income	5,027	6,862	7,619	1,180	–	–	–
Total operating expenses	(707,392)	(757,215)	(959,407)	(148,594)	(390,890)	(505,651)	(78,316)
Operating profit	237,479	182,234	116,604	18,059	115,553	177,176	27,440
Interest income	45,186	54,607	31,711	4,911	21,095	13,812	2,139
Interest expense	(236,066)	(345,955)	(380,609)	(58,949)	(205,000)	(171,574)	(26,573)
Gain on deconsolidation of subsidiaries	4,843	–	–	–	–	–	–
Loss on debt extinguishment	–	(18,895)	–	–	–	–	–
Other income	58,033	36,380	16,539	2,562	9,056	7,435	1,152
Other expense	(4,103)	(5,632)	(36,912)	(5,717)	(23,991)	(15,294)	(2,369)
Changes in the fair value of convertible promissory notes	–	–	(2,544,220)	(394,049)	(1,612,054)	415,466	64,347
Impairment of long-term investment	–	–	(13,030)	(2,018)	–	–	–
Foreign exchange (loss) gain, net	(81,055)	(27,995)	228,125	35,332	(41,472)	44,180	6,843
Income (loss) before income taxes and (loss) gain from equity method investments	24,317	(125,256)	(2,581,792)	(399,869)	(1,736,813)	471,201	72,979
Income tax expenses	(24,411)	(5,437)	(109,336)	(16,934)	(42,896)	(66,798)	(10,346)
(Loss) gain from equity method investments	(186,642)	(50,553)	10,869	1,683	(6,590)	(24,910)	(3,858)
Net (loss) profit	(186,736)	(181,246)	(2,680,259)	(415,120)	(1,786,299)	379,493	58,775
Net income attributable to noncontrolling interest	(18,329)	(1,046)	(29,088)	(4,505)	(4,814)	(8,300)	(1,286)
Net (loss) profit attributable to VNET Group, Inc.	(205,065)	(182,292)	(2,709,347)	(419,625)	(1,791,113)	371,193	57,489
(Loss) earning per share:							
Basic	(0.30)	(0.27)	(4.47)	(0.69)	(3.42)	0.42	0.07
Diluted	(0.30)	(0.27)	(4.47)	(0.69)	(3.42)	(0.05)	(0.01)
(Loss) earning per ADS(3):							
Basic	(1.80)	(1.62)	(26.82)	(4.14)	(20.52)	2.52	0.42
Diluted	(1.80)	(1.62)	(26.82)	(4.14)	(20.52)	(0.30)	(0.06)
Shares used in (loss) earning per share computation:							
Basic	674,732,130	668,833,756	716,888,919	716,888,919	660,543,890	863,960,057	863,960,057
Diluted	674,732,130	668,833,756	716,888,919	716,888,919	660,543,890	905,136,178	905,136,178
Non-GAAP Financial Data(4):							
Adjusted cash gross profit	1,512,640	1,633,097	1,992,759	308,639	884,679	1,245,536	192,908
Adjusted operation expenses	(664,427)	(663,041)	(756,235)	(117,127)	(360,257)	(448,043)	(69,393)
Adjusted EBITDA	917,718	1,050,497	1,324,010	205,062	565,803	840,197	130,129

(1) Share-based compensation was included in the related operating expense categories as follows:

	For the Years Ended December 31,				For the Six Months Ended June 30,		
	2018	2019	2020		2020	2021	
	RMB	RMB	RMB	US$	RMB	RMB	US$
					(unaudited)	(unaudited)	
			(in thousands)				
Allocation of share-based compensation expenses:							
Cost of revenues	2,668	1,884	15,251	2,362	1,029	7,570	1,172
Sales and marketing expenses	2,139	354	38,247	5,924	1,791	20,912	3,239
Research and development expenses	1,385	1,177	634	98	85	362	57
General and administrative expenses	53,346	40,501	82,672	12,804	28,757	33,518	5,191
Total share-based compensation expenses	59,538	43,916	136,804	21,118	31,662	62,362	9,659

(2) In this Management's Discussion and Analysis of Financial Condition and Results of Operations section, translation from RMB amounts into U.S. dollars was made at a rate of RMB6.4566 to US$1.00 for the year ended December 31, 2020 and the six months ended June 30, 2021 data. See "Exchange Rate Information."

(3) Each ADS represents six Class A ordinary shares.

(4) See "– Discussion of Non-GAAP Financial Measures".

Six Months Ended June 30, 2021 Compared to Six Months Ended June 30, 2020

Net Revenues

Our net revenues increased by 29.0% from RMB2,234.9 million for the six months ended June 30, 2020 to RMB2,883.9 million (US$446.7 million) for the six months ended June 30, 2021, 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 services.

Cost of Revenues

Our cost of revenues increased by 27.3% from RMB1,728.4 million for the six months ended June 30, 2020 to RMB2,201.1 million (US$340.9 million) for the six months ended June 30, 2021, primarily due to (i) increases in our telecommunication, utility and depreciation costs attributable to the delivery of additional cabinets and (ii) increased customer demand for our cloud services.

Gross Profit

As a result of the foregoing, our gross profit increased by 34.8% from RMB506.4 million for the six months ended June 30, 2020 to RMB682.8 million (US$105.8 million) for the six months ended June 30, 2021. Our gross margin increased from 22.7% in 2019 to 23.7% in 2020, primarily due to our continued efforts in improving operating efficiency.

Operating Expenses

Our operating expenses increased by 29.4% from RMB390.9 million for the six months ended June 30, 2020 to RMB505.7 million (US$78.3 million) for the six months ended June 30, 2021. Our operating expenses as a percentage of net revenues remains stable at 17.5% for the six months ended June 30, 2020 and 2021.

Sales and Marketing Expenses. Our sales and marketing expenses increased by 33.1% from RMB100.4 million for the six months ended June 30, 2020 to RMB133.6 million (US$20.7 million) for the six months ended June 30, 2021, primarily due to the expansion of our business. As a percentage of net revenues, our sales and marketing expenses remains stable at 4.6% for the six months ended June 30, 2021 compared to that of 4.5% for the six months ended June 30, 2020.

Research and Development Expenses. Our research and development expenses increased by 60.9% from RMB44.6 million for the six months ended June 30, 2020 to RMB71.9 million (US$11.1 million) for the six months ended June 30, 2021, primarily due to our increased investments to strengthen our research and development capabilities. As a percentage of net revenues, our research and development expenses slightly increased from 2.0% for the six months ended June 30, 2020 to 2.5% for the six months ended June 30, 2021.

General and Administrative Expenses. Our general and administrative expenses increased by 18.3% from RMB244.7 million for the six months ended June 30, 2020 to RMB289.5 million (US$44.8 million) for the six months ended June 30, 2021, in line with the overall growth of our business. As a percentage of net revenues, our general and administrative expenses slightly decreased from 10.9% for the six months ended June 30, 2020 to 10.0% for six months ended June 30, 2021.

Allowance for doubtful debt. Our allowance for doubtful debt increased from RMB1.2 million for the six months ended June 30, 2020 to RMB7.9 million (US$1.2 million) for the six months ended June 30, 2021.

Impairment of loan receivable to potential investee. We recorded a loss of RMB2.8 million (US$0.4 million) for the six months ended June 30, 2021.

Interest Income

Our interest income decreased by 34.5% from RMB21.1 million for the six months ended June 30, 2020 to RMB13.8 million (US$2.1 million) for the six months ended June 30, 2021, primarily due to our increased use of funds in various business projects.

Interest Expense

Our interest expense decreased by 16.3% from RMB205.0 million for the six months ended June 30, 2020 to RMB171.6 million (US$26.6 million) for the six months ended June 30, 2021, primarily due to optimized financing structure.

Other Income

Our other income decreased by 17.9% from RMB9.1 million for the six months ended June 30, 2020 to RMB7.4 million (US$1.2 million) for the six months ended June 30, 2021. Other income comprises miscellaneous non-operating income that we generate.

Other Expenses

Our other expenses decreased by 36.3% from RMB24.0 million for the six months ended June 30, 2020 to RMB15.3 million (US$2.4 million) for the six months ended June 30, 2021.

Changes in the Fair Value of Convertible Promissory Notes

Changes in the fair value of convertible promissory notes were RMB415.5 million (US$64.3 million) for the six months ended June 30, 2021, which represent unrealized income on the fair value of our convertible promissory notes issued by us in March to June 2020 caused by changes in the market price of our ADSs.

Foreign Exchange Gain/Loss

We recorded foreign exchange gain in the amount of RMB44.2 million (US$6.8 million) for the six months ended June 30, 2021, compared with foreign exchange loss of RMB41.5 million for the six months ended June 30, 2020.

Income Tax Expenses

We recorded income tax expenses in the amount of RMB66.8 million (US$10.3 million) for the six months ended June 30, 2021, compared with income tax expenses of RMB42.9 million for the six months ended June 30, 2020, with the effective tax rates of negative 2.5% and positive 15.0% for the six months ended June 30, 2020 and 2021, respectively.

Net Income/Loss

As a result of the foregoing, we recorded a net income of RMB379.5 million (US$58.8 million) for the six months ended June 30, 2021, as compared to a net loss of RMB1,786.3 million for the six months ended June 30, 2020.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Net Revenues

Our net revenues increased by 27.4% from RMB3,789.0 million in 2019 to RMB4,829.0 million (US$747.9 million) in 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 47.6% from 36,291 as of December 31, 2019 to 53,553 as of December 31, 2020.

Cost of Revenues

Our cost of revenues increased by 31.7% from RMB2,849.5 million in 2019 to RMB3,753.0 million (US$581.3 million) in 2020, primarily due to (i) increases in our telecommunication, utility and depreciation costs attributable to the delivery of additional cabinets and (ii) increased customer demand for our cloud and VPN services.

Gross Profit

As a result of the foregoing, our gross profit increased by 14.5% from RMB939.4 million in 2019 to RMB1,076.0 million (US$166.7 million) in 2020. Our gross margin decreased from 24.8% in 2019 to 22.3% in 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 26.7% from RMB757.2 million in 2019 to RMB959.4 million (US$148.6 million) in 2020. Our operating expenses as a percentage of net revenues remains stable at 19.9% in 2020 compared to that of 20.0% in 2019.

Sales and Marketing Expenses. Our sales and marketing expenses increased by 13.9% from RMB206.3 million in 2019 to RMB235.0 million (US$36.4 million) in 2020, primarily due to the expansion of our business. As a percentage of net revenues, our sales and marketing expenses decreased from 5.4% in 2019 to 4.9% in 2020.

Research and Development Expenses. Our research and development expenses increased by 27.1% from RMB88.8 million in 2019 to RMB112.9 million (US$17.5 million) in 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 were both 2.3% in 2019 and 2020.

General and Administrative Expenses. Our general and administrative expenses increased by 28.9% from RMB415.3 million in 2019 to RMB535.1 million (US$82.9 million) in 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 slightly increased from 11.0% in 2019 to 11.1% in 2020.

Allowance for doubtful debt. Our allowance for doubtful debt increased from RMB1.6 million in 2019 to RMB2.4 million (US$0.4 million) in 2020.

Impairment of long-lived assets. We recorded a loss of RMB81.6 million (US$12.6 million) in 2020.

Interest Income

Our interest income decreased by 41.9% from RMB54.6 million in 2019 to RMB31.7 million (US$4.9 million) in 2020, primarily due to our increased use of funds in various business projects.

Interest Expense

Our interest expense increased by 10.0% from RMB346.0 million in 2019 to RMB380.6 million (US$58.9 million) in 2020, primarily due to interest expense recognized for the convertible promissory notes with an aggregate principal amount of US$200 million issued by us in 2020, and an increase in our bank borrowings in 2020.

Other Income

Our other income decreased by 54.5% from RMB36.4 million in 2019 to RMB16.5 million (US$2.6 million) in 2020. Other income comprises miscellaneous non-operating income that we generate.

Other Expenses

Our other expenses increased from RMB5.6 million in 2019 to RMB36.9 million (US$5.7 million) in 2020, primarily due to expenses incurred in connection with issuing the convertible promissory notes in 2020.

Changes in the Fair Value of Convertible Promissory Notes

Changes in the fair value of convertible promissory notes were RMB2.5 billion (US$0.4 billion) in 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 in 2020, compared to RMB18.9 million in 2019.

Foreign Exchange Gain

We had a foreign exchange gain of RMB228.1 million (US$35.3 million) in 2020, which represents unrealized net gain caused by the depreciation of the U.S. dollar against the Renminbi.

Income Tax Expenses

We recorded income tax expenses in the amount of RMB109.3 million (US$16.9 million) in 2020, compared with income tax expenses of RMB5.4 million in 2019, with the effective tax rate of negative 4.3%. This is primarily due to:

- Loss incurred outside China reduces the income tax benefit by RMB712.0 million (US$110.3 million) in 2020;
- Current and deferred tax rate differences lead to an income tax expense in the amount of RMB36.4 million (US$5.6 million) in 2020; and
- Change in valuation allowance leads to a decrease in the income tax expense in the amount of RMB6.5 million (US$1.0 million) in 2020.

Net Loss

As a result of the foregoing, we recorded a net loss of RMB2,680.3 million (US$415.1 million) in 2020, as compared to a net loss of RMB181.2 million in 2019.

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

Net Revenues

Our net revenues 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 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 13.6% in 2018 to 11.0% in 2019.

Changes in the Fair Value of Contingent Purchase Consideration Payables. 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 2021 Notes.

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 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, with the effective tax rates of negative 3.1%. This is primarily due to:

- Change in valuation allowance leads to a decrease in the income tax expense in the amount of RMB25.4 million in 2019;

- Loss incurred outside China reduces the income tax benefit by RMB77.1 million in 2019; and

- Current and deferred tax rate differences lead to an income tax expense in the amount of RMB8.7 million in 2019.

Consolidated 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.

LIQUIDITY AND CAPITAL RESOURCES

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 December 31, 2020, we had RMB2,710.3 million (US$419.8 million) in cash and cash equivalents, RMB270.5 million (US$41.9 million) in restricted cash, RMB135.6 million (US$21.0 million) in non-current portion of restricted cash and RMB285.9 million (US$44.3 million) in short-term investments. As of June 30, 2021, we had RMB4,603.7 million (US$713.0 million) in cash and cash equivalents, RMB286.3 million (US$44.3 million) in restricted cash, RMB131.5 million (US$20.4 million) in non-current portion of restricted cash and RMB12.9 million (US$2.0 million) in short-term investments.

As of December 31, 2019, we had short-term bank borrowings and long-term borrowings (current portion) with an aggregate outstanding balance of RMB267.0 million, and long-term borrowings (excluding current portion) from various commercial banks with an aggregate outstanding balance of RMB79.5 million. As of December 31, 2020, we had short-term bank borrowings and long-term borrowings (current portion) with an aggregate outstanding balance of RMB214.3 million (US$33.2 million), and long-term borrowings (excluding current portion) with an aggregate outstanding balance of RMB887.0 million (US$137.4 million). As of June 30, 2021, we had short-term bank borrowings and long-term borrowings (current portion) with an aggregate outstanding balance of RMB233.4 million (US$36.2 million), and long-term borrowings (excluding current portion) with an aggregate outstanding balance of RMB1,593.6 million (US$246.8 million). Our short-term bank borrowings bore average interest rates of 4.05%, 4.56% and 4.46% per annum, respectively, in 2018, 2019 and 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 borrowing arrangements since 2013 with maturity terms of two to fifteen years. The long-term borrowings (including current and non-current portions) outstanding as of December 31, 2018, 2019 and 2020 and June 30, 2021 bore weighted-average interest rates of 5.31%, 5.28%, 5.61% and 5.35% per annum, respectively.

We issued an aggregate of 150,000 Series A perpetual convertible preferred shares to Vector Holdco Pte. Ltd., BTO Vector Fund ESC (CYM) L.P. and BTO Vector Fund FD (CYM) L.P., collectively referred to as “Affiliates of Vector”, pursuant to an investment agreement dated June 22, 2020 among us, Affiliates of Vector and Blackstone Tactical Opportunities Fund – FD (Cayman) – NQ L.P. Dividends on each Series A perpetual convertible preferred share will accrue at 4.5% per annum from the issuance date until the date immediately prior to the conversion date. At any time after the issuance date, Series A convertible preferred shares are convertible into Class A ordinary shares or ADSs at the holder’s option, the number of which will be determined based on a conversion price which is initially US$2.8333 per Class A ordinary shares or US$17.00 per ADS, subject to certain adjustments therein. On March 1, 2021, Affiliates of Vector converted all of their 150,000 Series A perpetual convertible preferred shares into 54,507,816 Class A Ordinary Shares.

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 the principal amount of its convertible note of US$1,705,002.63 into 856,326 Class A Ordinary Shares at the conversion price of US$2 per share, or US$12 per ADS. In December, UBS SDIC Fund Management Co., Ltd partially converted the principal amount of its convertible note 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. Interest on the 2020 Notes is payable semi-annually in arrears on, or nearest to, August 17 and February 17 in each year, beginning on February 17, 2018.

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, and used a portion of the proceeds to purchase, pursuant to a tender offer, US$150,839,000 in principal amount of the 2020 Notes, representing 50.3% of the outstanding principal amount of the 2020 Notes. On August 12, 2019, we repurchased US$18,000,000 in principal amount of 2020 Notes at the par value. As of the date of this offering memorandum, the outstanding principal amount of the 2020 Notes and the 2021 Notes was nil and nil.

Both the 2020 Notes and 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 RMB1,634.1 million (US$253.1 million) as of June 30, 2021 under credit agreements with 11 banks. As of the same date, we used RMB1,529.1 million (US$236.8 million) of the credit lines under the credit agreements with 11 banks, pursuant to which we were granted credit lines in an aggregate amount of RMB3,163.2 million (US$489.9 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. In January 2021, we issued USD-denominated convertible senior notes due 2026 in an aggregate principal amount of US$600 million at a zero-coupon rate. The 2026 Convertible Notes Indenture does not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries or consolidated affiliate entities. We believe the working capital as of June 30, 2021 is sufficient for our present requirements.

As of June 30, 2021, we had total consolidated indebtedness (including borrowings, bonds payable and convertible promissory notes), of RMB8,492.6 million (US$1,315.3 million), consisting of onshore debt obligations of RMB1,827.0 million (US$283.0 million) and offshore debt obligations of RMB6,665.6 million (US$1,032.4 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 As of June 30, 2021, we had (i) short-term our outstanding debt mainly to construct new data centers and fund our acquisitions. As of June 30, 2021, we had purchase commitments made for acquisitions of machinery, equipment, construction in progress, bandwidth and cabinet capacity of RMB1,227.2 million (US$190.1 million) for the rest of 2021, 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 flow 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 offering and debt financing in capital markets, to meet such needs.

As of June 30, 2021, the total amount of cash and cash equivalents, restricted cash and short-term investments was RMB5,034.4 million (US$779.7 million), of which RMB1,079.0 million (US$167.1 million), RMB597.5 million (US$92.5 million) and RMB3,357.9 million (US$520.1 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.

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

	For the Years Ended December 31,				For the Six Months Ended June 30,		
	2018	2019	2020		2020	2021	
	RMB	RMB	RMB	US$	RMB	RMB	US$
					(unaudited)	(unaudited)	
			(in thousands)				
Net cash generated from operating activities	704,966	802,922	714,243	110,622	220,441	589,259	91,266
Net cash used in investing activities	(304,846)	(1,611,983)	(3,889,174)	(602,356)	(662,689)	(1,143,155)	(177,052)
Net cash (used in) generated from financing activities	(19,901)	461,557	4,163,255	644,806	2,882,860	2,454,084	380,089
Effect on foreign exchange rate changes on cash and cash equivalents and restricted cash	85,333	43,660	(229,064)	(35,477)	24,578	4,865	752
Net increase (decrease) in cash and cash equivalents and restricted cash	465,552	(303,844)	759,260	117,595	2,465,190	1,905,053	295,055
Cash and cash equivalents and restricted cash at beginning of the year/period	2,195,469	2,661,021	2,357,177	365,080	2,357,177	3,116,437	482,675
Cash and cash equivalents and restricted cash at end of the year/period	2,661,021	2,357,177	3,116,437	482,675	4,822,367	5,021,490	777,730
Cash and cash equivalents, restricted cash and short- term investments at end of the year/period	2,906,035	2,721,033	3,402,309	526,951	4,979,913	5,034,410	779,731

OPERATING ACTIVITIES

Net cash generated from operating activities was RMB589.3 million (US$91.3 million) for the six months ended June 30, 2021, primarily resulted from a net income of RMB379.5 million (US$58.8 million), positively adjusted for certain items such as (i) depreciation and amortization of RMB597.8 million (US$92.6 million), (ii) the lease expense of RMB253.2 million (US$39.2 million), and (iii) an increase in accounts and notes payables of RMB142.9 million (US$22.1 million), partially offset by certain item such as (i) the changes in the fair value of convertible promissory notes of RMB415.5 million (US$64.3 million) and (ii) the increase in accounts and notes receivable of RMB402.1 million (US$62.3 million).

Net cash generated from operating activities was RMB714.2 million (US$110.6 million) in 2020, primarily resulted from a net loss of RMB2,680.3 million (US$415.1 million), positively adjusted for certain items such as (i) depreciation and amortization of RMB989.0 million (US$153.2 million), (ii) the increase in advances from customers of RMB27.1 million (US$4.2 million), and (iii) loss from equity method investments of RMB10.9 million (US$1.7 million), partially offset by certain item such as the increase in prepaid expenses and other current assets of RMB117.1 million (US$18.1 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.

INVESTING ACTIVITIES

Net cash used in investing activities was RMB1,143.2 million (US$177.1 million) in the six months ended June 30, 2021, as compared to net cash used in investing activities of RMB662.7 million in the six months ended June 30, 2020. Net cash used in investing activities in the six months ended June 30, 2021 is primarily related to our purchase of property and equipment in the amounts of RMB1,105.6 million (US$171.2 million), our payment for deposit for acquiring data center in the amount of RMB203.1 million (US$31.5 million), offset by proceeds received from maturity for short-term investments in the amount of RMB333.7 million (US$51.7 million).

Net cash used in investing activities was RMB3,889.2 million (US$602.4 million) in 2020, as compared to net cash used in investing activities of RMB1,612.0 million in 2019. Net cash used in investing activities in 2020 is primarily related to our purchase of property and equipment in the amounts of RMB2,473.3 million (US$383.1 million), our payment for short-term investments in the amount of RMB328.2 million (US$50.8 million), offset by proceeds received from maturity for short-term investments in the amount of RMB397.6 million (US$61.6 million), proceeds from disposal of long-term investments in the amount of RMB1.9 million (US$0.3 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.

FINANCING ACTIVITIES

Net cash generated from financing activities was RMB2,454.1 million (US$380.1 million) in the six months ended June 30, 2021, as compared to net cash generated from financing activities of RMB2,882.9 million in the six months ended June 30, 2020. Net cash generated from financing activities in the six months ended June 30, 2021 is primarily related to the proceeds from issuance of convertible promissory notes of RMB3,879.9 million (US$600.9 million) and the proceeds from long-term bank borrowings of RMB752.3 million (US$116.5 million), partially offset by payment for shares repurchase and cancelation of RMB1,701.8 million (US263.6 million) and payments for purchase of property and equipment through finance leases of RMB352.2 million (US$54.5 million).

Net cash generated from financing activities was RMB4,163.3 million (US$644.8 million) in 2020, as compared to net cash generated from financing activities amounting to RMB461.6 million in 2019. Net cash generated from financing activities in 2020 is primarily related to the proceeds from short-term bank borrowings of RMB34.0 million (US$5.3 million), partially offset by payment for purchase of property and equipment through finance leases of RMB376.2 million (US$58.3 million), the repayment of long-term bank borrowings of RMB33.0 million (US$5.1 million), proceeds from issuance of convertible promissory notes of RMB1,409.4 million (US$218.3 million), partially offset by payment of issuance and conversion cost of convertible promissory notes of RMB21.6 million (US3.3 million), proceeds from Series A perpetual convertible preferred shares of RMB1,058.3 million (US$163.9 million) and proceeds from issuance of ordinary shares of RMB2,680.4 million (US$415.1 million).

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 noncontrolling interest in a subsidiary of RMB196.3 million and proceeds from the issuance of discounted notes of RMB95.6 million.

CAPITAL EXPENDITURE

We had capital expenditures (the sum of purchases of property and equipment, purchases of intangible assets, purchases of land use rights, proceeds from disposal of land use right, prepayments and deposits for acquiring data center, collection of deposit for acquiring data center and payments for acquisitions (net of cash acquired)) of RMB466.1 million, RMB1,500.4 million, RMB4,060.1 million (US$628.8 million) , RMB1,002.1 million and RMB1,410.3 million (US$218.4 million) in 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively, representing 13.7%, 39.6%, 84.1%, 44.8% and 48.9%, of our net revenue. Our capital expenditures were primarily for building self-built 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 2021 will be within the range of RMB5.0 billion to RMB6.0 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 amount of approximately 25,000 cabinets during the year of 2021, through both organic growth and strategic acquisitions. We may incur additional capital expenditure 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 2021 with cash from the proceeds from our operations, this offering, operations and additional bank borrowings, if available.

HOLDING COMPANY STRUCTURE

VNET 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, VNET 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 VNET 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.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations and commercial commitments as of June 30, 2021:

	Payment Due by Period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in thousands of RMB)		
Long-term borrowings[(1)(2)]	1,876,877	124,822	484,888	546,044	721,123
Notes payable[(3)]	1,938,030	1,938,030	–	–	–
Operating lease obligations[(4)]	2,191,765	245,441	407,814	204,717	1,333,793
Purchase commitments[(5)]	1,488,749	1,227,209	249,647	4,272	7,621
Finance lease minimum lease payment[(6)]	2,674,242	332,892	470,899	192,290	1,678,161
Total	10,169,663	3,868,394	1,613,248	947,323	3,740,698

Notes:

(1) As of June 30, 2021, our short-term bank borrowings bore a weighted average interest rate of nil and have original maturity terms of one year. Our unused short-term and long-term borrowing facilities amounted to RMB1,634.1 million (US$253.1 million). We have pledged land use rights with the net book value of RMB138.4 million (US$21.4 million), property with the net book value of RMB258.8 million (US$40.1 million), leasehold improvements with the net book value of RMB171.9 million (US$26.6 million), and computer and network equipment with the net book value of RMB172.0 (US$26.6 million) for our borrowings.

(2) Long-term borrowings (including the current portions) outstanding as of June 30, 2021 bear a weighted-average interest rate of 5.35% 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. As of the date of this offering memorandum, the 2021 Notes have been fully redeemed.

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

(5) As of June 30, 2021, we had commitments of RMB830.7 million (US$128.7 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 RMB658.1 million (US$101.9 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, borrowings, finance lease liabilities as well as interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. As of June 30, 2021, we had (i) short-term and long-term borrowings (current portions) with an aggregate outstanding balance of RMB233.4 million (US$36.2 million), (ii) long-term borrowings (excluding current portions) with an aggregate outstanding balance of RMB1,593.6 million (US$246.8 million), and (iii) an outstanding principal balance of US$0.3 billion with respect to the 2021 Notes payable. As of the date of this offering memorandum, we have fully redeemed the 2021 Notes.

The short-term bank borrowings bore a weighted average interest rate of nil and have original maturity terms of one year. The long-term borrowings bore weighted-average interest rate of 5.35% per annum. The 2021 Notes bore an interest rate of 7.875% per annum. We also had RMB12.9 million (US$2.0 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 RMB37.5 million (US$5.8 million) in interest expense for the six months ended June 30, 2021. 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.

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 6.5% 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 June 30, 2021, we had total U.S. dollar-denominated cash and cash equivalents, restricted cash and short-term investments in the amount of US$521.5 million. A hypothetical 10% increase in the exchange rate of the U.S. dollar against the RMB would have resulted in an increase of RMB336.9 million (US$52.2 million) in the value of our U.S. dollar-denominated financial assets as of June 30, 2021.

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 interest on our Notes, 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 2018, 2019 and 2020 were 2.1%, 2.9% and 2.5%, 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

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" and other disclosures included in this offering memorandum.

Revenue Recognition

We provide 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.

We recognize revenue as it satisfies a performance obligation when our customer obtains control of promised goods or services, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. To determine revenue recognition for arrangements that we determine are within the scope of ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), we perform 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) we satisfy a performance obligation. We only apply the five-step model to contracts when it is probable that it 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 record revenue on a gross basis when we are primarily responsible for fulfilling the service, have discretion in establishing pricing and controls the promised service before transferring that service to customers. Otherwise, we record revenue at the net amounts as commissions.

Our revenue recognition policies effective on the adoption date of ASC 606 are as follows:

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 provide 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 record 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 Cloud services 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. We fulfill 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 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 we are 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 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. When either party to a revenue contract has performed, 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 were mainly related to fee received for Hosting services to be provided over the contract period, which were presented as deferred revenue on the consolidated balance sheets.

Deferred revenue represents the 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, 2020 and June 30, 2021, we have deferred revenue amounting up to RMB63.2 million (US$9.8 million) and RMB63.3 million (US$9.8 million), respectively. Revenue recognized from opening deferred revenue balance was RMB52.2 million (US$8.1 million) for the six months period ended June 30, 2021.

Our certain Hosting service contains lease and non-lease components. We elected to adopt the practical expedient which allows lessors to combine lease and non-lease components and account for them as one component if 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. We have determined that the non-lease component is the predominant component in Hosting service. Therefore, We have accounted for the combined component in accordance with ASC 606.

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 borrowings, available-for-sale investments, liability classified restricted share units ("RSU") and convertible promissory notes. Other than the bonds payable, long-term borrowings and 2025 Convertible Notes the carrying values of these financial instruments approximate their fair values due to their short-term maturities.

The carrying amounts of bonds payable and long-term 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 its consolidated balance sheets and measures the fair value for disclosure purposes only. We elected the fair value option of 2025 Convertible 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). 2025 Convertible 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).

Consolidation of Variable Interest Entities

PRC laws and regulations currently restrict foreign ownership of PRC companies that engage in value-added telecommunications services, including content and application delivery services. To comply with the foreign ownership restriction, we conduct our businesses in the PRC through our variable interest entities using contractual arrangements entered into by us, 21Vianet China, 21Vianet Technology and its respective shareholders. 21Vianet Beijing, subsidiary of 21Vianet Technology, holds a Cross-Regional VAT licenses to carry out the full data center business across two province-level municipalities and four cities in China and data center business (excluding internet resources coordination service) across two province-level municipalities and 18 cities in China. We exercise effective control over 21Vianet Technology through a series of contractual arrangements, including: (i) an irrevocable power of attorney, under which each shareholder of 21Vianet Technology appointed 21Vianet China or a person designated by 21Vianet China as his/her attorney-in-fact to attend shareholders' meeting of 21Vianet Technology and exercise all the shareholder's voting rights, such power of attorney has been subsequently assigned to VNET Group; (ii) a loan agreement and a financial support letter pursuant to which we agree to give unlimited financial support to 21Vianet Technology; and (iii) an exclusive technical consulting and services agreement, where we receive substantially all of the economic benefits of 21Vianet Technology in consideration for the services provided by 21Vianet China and we are considered the primary beneficiary of 21Vianet Technology. Accordingly, 21Vianet Technology is our variable interest entity under U.S. GAAP and we consolidate its result in our consolidated financial statements. Similar contractual arrangements had been entered into (i) amongst iJoy BVI, SZ Zhuoaiyi, BJ iJoy and its shareholder; (ii) amongst WiFire Group, aBitCool DG, WiFire Network and its shareholders; and (iii) Hongkong Fastweb Holding Co, Limited, SH Edge Connect and SH Zhiyan and its shareholder, and similar conclusion has been reached respect to the variable interest entity structure with respect to BJ iJoy, WiFire Network, and SH Zhiyan. We have confirmed with Han Kun Law Offices, our PRC legal counsel, on the compliance and validity of each of the contractual agreements under PRC laws and regulations. However, any change in PRC laws and regulations may affect our ability to effectively control the variable interest entities and preclude us from consolidating the variable interest entities in the future.

Long-term Investments

Our long-term investments primarily consist of equity investments without readily determinable fair value, equity method investments.

Pursuant to ASC Topic 321, *Investments – Equity Securities* (“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.

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.

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 recognizes 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.

Accounts Receivable and Allowance for Doubtful Debt

Prior to adopting ASC 326, *Financial Instruments-Credit Losses* ("ASC326"), accounts receivables are carried at net realizable value. An allowance for doubtful debt is recorded in the period when loss is probable based on an assessment of specific evidence indicating troubled collection, historical experience, accounts aging and other factors in accordance with ASC 310, *Receivables*. An accounts receivable is written off after all collection effort has ceased.

On January 1, 2020, we adopted ASC326 using modified-retrospective transition approach. Following the adoption of this guidance, a cumulative-effect adjustment in accumulated deficit of RMB2.7 million was recognized as of January 1, 2020. For the six months ended June 30, 2021, we recorded credit losses of RMB7.9 million (US$1.2 million).

Pursuant to ASC 326, 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 we determine 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. We pool financial assets based on similar risk characteristics to estimate expected credit losses. We estimate expected credit losses on financial assets individually when those assets do not share similar risk characteristics. We closely monitor our 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.

We utilize 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 our historical loss experience. In determining loss rates, our evaluate information related to historical losses, adjusted for current conditions and further adjusted for the period of time that we can reasonably forecast. We have concluded that we can reasonably support a forecast period for the contractual life of our 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.

Leases

Effective January 1, 2019, we adopted ASC Topic 842, *Lease* ("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 have elected the package of practical expedients, which allows us not to 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, the adequacy of future taxable income exclusive of reversing temporary differences, and verifiable tax planning. The estimated future taxable income involves significant assumptions of forecasted revenue growth that take into consideration of our historical financial results, our plan of expanding 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 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 for 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 expenses 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.

A cancelation 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 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 a 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 remeasured at fair value at each reporting date.

RECENTLY ISSUED 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. We are 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.

Exhibit 99.7

VNET GROUP, INC.

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

VNET GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2020
AND UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2021
(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US$”))

		As of		
	Notes	December 31, 2020	June 30, 2021	
		RMB	RMB	US$
ASSETS				
Current assets:				
Cash and cash equivalents		2,710,349	4,603,653	713,015
Restricted cash		270,450	286,303	44,343
Accounts and notes receivable (net of allowance for doubtful debt of RMB68,921 and RMB74,994 (US$11,615) as of December 31, 2020 and June 30, 2021, respectively)	4	847,233	1,243,053	192,524
Short-term investments		285,872	12,920	2,001
Prepaid expenses and other current assets	5	1,866,184	1,819,808	281,853
Amounts due from related parties	19	75,519	73,595	11,398
Total current assets		6,055,607	8,039,332	1,245,134
Non-current assets:				
Property and equipment, net	6	8,106,425	8,473,036	1,312,306
Intangible assets, net	7	658,195	641,252	99,317
Land use rights, net	8	255,373	305,276	47,281
Operating lease right-of-use assets, net	13	1,325,526	1,279,138	198,113
Goodwill	9	994,993	994,993	154,105
Restricted cash		135,638	131,534	20,372
Deferred tax assets	18	185,481	183,407	28,406
Long-term investments	10	135,517	115,515	17,891
Amounts due from related parties	19	20,562	—	—
Other non-current assets		1,500,438	1,720,502	266,472
Total non-current assets		13,318,148	13,844,653	2,144,263
Total assets		19,373,755	21,883,985	3,389,397

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

VNET GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2020
AND UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2021
(CONTINUED)
(Amounts in thousands of RMB and US$)

		As of		
	Notes	December 31, 2020	June 30, 2021	
		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 RMB34,000 and nil as of December 31, 2020 and June 30, 2021, respectively)	11	34,000	—	—
Accounts and notes payable (including accounts and notes payable of the Consolidated VIEs without recourse to the primary beneficiaries of RMB182,669 and RMB361,490 (US$55,988) as of December 31, 2020 and June 30, 2021, respectively)		289,387	432,257	66,948
Accrued expenses and other payables (including accrued expenses and other payables of the Consolidated VIEs without recourse to the primary beneficiaries of RMB981,961 and RMB885,580 (US$137,159) as of December 31, 2020 and June 30, 2021, respectively)	12	1,631,563	1,443,884	223,629
Advances from customers (including advances from customers of the Consolidated VIEs without recourse to the primary beneficiaries of RMB1,041,594 and RMB980,088 (US$151,796) as of December 31, 2020 and June 30, 2021, respectively)		1,041,594	980,088	151,796
Deferred revenue (including deferred revenue of the Consolidated VIEs without recourse to the primary beneficiaries of RMB58,066 and RMB58,545 (US$9,067) as of December 31, 2020 and June 30, 2021, respectively)		63,245	63,311	9,806
Income taxes payable (including income taxes payable of the Consolidated VIEs without recourse to the primary beneficiaries of RMB12,743 and RMB14,714 (US$2,279) as of December 31, 2020 and June 30, 2021, respectively)		29,028	35,992	5,574
Amounts due to related parties (including amounts due to related parties of the Consolidated VIEs without recourse to the primary beneficiaries of RMB50,193 and RMB1,820 (US$282) as of December 31, 2020 and June 30, 2021, respectively)	19	51,007	2,595	402
Current portion of long-term borrowings (including current portion of long-term bank borrowings of the Consolidated VIEs without recourse to the primary beneficiaries of RMB165,328 and RMB201,355 (US$31,186) as of December 31, 2020 and June 30, 2021, respectively)	11	180,328	233,448	36,156
Current portion of finance lease liabilities (including current portion of finance lease liabilities of the Consolidated VIEs without recourse to the primary beneficiaries of RMB362,760 and RMB344,253 (US$53,318) as of December 31, 2020 and June 30, 2021, respectively)	13	403,843	389,000	60,248
Deferred government grants (including deferred government grants of the Consolidated VIEs without recourse to the primary beneficiaries of RMB2,074 and RMB2,074 (US$321) as of December 31, 2020 and June 30, 2021, respectively)		2,074	2,074	321
Current portion of bonds payable	14	1,943,619	1,932,905	299,369
Current portion of operating lease liabilities (including current portion of operating lease liabilities of the Consolidated VIEs without recourse to the primary beneficiaries of RMB427,114 and RMB347,006 (US$53,744) as of December 31, 2020 and June 30, 2021, respectively)	13	452,272	372,007	57,617
Total current liabilities		6,121,960	5,887,561	911,866

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

VNET GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2020
AND UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2021
(CONTINUED)
(Amounts in thousands of RMB and US$)

		As of		
	Notes	**December 31, 2020**	**June 30, 2021**	
		RMB	**RMB**	**US$**
Non-current liabilities:				
Long-term borrowings (including long-term borrowings of the Consolidated VIEs without recourse to the primary beneficiaries of RMB570,135 and RMB923,232 (US$142,990) as of December 31, 2020 and June 30, 2021, respectively)	11	886,996	1,593,557	246,811
Convertible promissory notes	16	3,014,057	4,732,739	733,008
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 RMB299,399 and RMB705,778 (US$109,311) as of December 31, 2020 and June 30, 2021, respectively)	13	688,128	1,071,404	165,939
Unrecognized tax benefits (including unrecognized tax benefits of the Consolidated VIEs without recourse to the primary beneficiaries of RMB68,317 and RMB71,442 (US$11,065) as of December 31, 2020 and June 30, 2021, respectively)	18	68,696	71,835	11,126
Deferred tax liabilities (including deferred tax liabilities of the Consolidated VIEs without recourse to the primary beneficiaries of RMB155,281 and RMB124,134 (US$19,226) as of December 31, 2020 and June 30, 2021, respectively)		299,093	293,632	45,478
Deferred government grants (including deferred government grants of the Consolidated VIEs without recourse to the primary beneficiaries of RMB4,100 and RMB3,196 (US$495) as of December 31, 2020 and June 30, 2021, respectively)		4,100	3,196	495
Amounts due to related parties (including amounts due to related parties of the Consolidated VIEs without resource to the primary beneficiaries of RMB747,746 and nil as of December 31, 2020 and June 30, 2021, respectively)	19	747,746	—	—
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 RMB497,268 and RMB802,619 (US$124,310) as of December 31, 2020 and June 30, 2021, respectively)	13	645,499	946,898	146,656
Total non-current liabilities		6,354,315	8,713,261	1,349,513
Total liabilities		12,476,275	14,600,822	2,261,379
Commitments and contingencies	23			

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

VNET GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2020
AND UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2021
(CONTINUED)
(Amounts in thousands of RMB and US$, except for number of shares)

		As of		
	Notes	December 31, 2020	June 30, 2021	
		RMB	RMB	US$
Shareholders' equity:				
Class A Ordinary shares (par value of US$0.00001 per share; 1,199,790,000 and 1,199,790,000 shares authorized; 672,024,600 and 839,152,323 issued and outstanding as of December 31, 2020 and June 30, 2021, respectively)		44	54	8
Class B Ordinary Shares (par value of US$0.00001 per share; 300,000,000 and 300,000,000 shares authorized; 145,875,113 and 34,821,723 issued and outstanding as of December 31, 2020 and June 30, 2021, respectively)		12	5	1
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, 2020 and June 30, 2021, respectively)		—	—	—
Series A perpetual convertible preferred shares (par value of US$0.00001 per share; 150,000 and nil shares issued and outstanding as of December 31, 2020 and June 30, 2021, respectively)	15	1,047,468	—	—
Additional paid-in capital		13,083,119	14,995,378	2,322,488
Accumulated other comprehensive loss		(55,535)	(63,254)	(9,797)
Statutory reserves		74,462	74,462	11,533
Accumulated deficit		(7,235,113)	(7,721,978)	(1,195,982)
Treasury stock		(349,523)	(349,523)	(54,134)
Total VNET Group, Inc. shareholders' equity		6,564,934	6,935,144	1,074,117
Noncontrolling interest		332,546	348,019	53,901
Total shareholders' equity		6,897,480	7,283,163	1,128,018
Total liabilities and shareholders' equity		19,373,755	21,883,985	3,389,397

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

VNET 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)

	Notes	For the six months periods ended June 30, 2020 RMB	2021 RMB	2021 US$
Net revenues				
Hosting and related services		2,234,858	2,883,901	446,659
Cost of revenues				
Hosting and related services		(1,728,415)	(2,201,074)	(340,903)
Gross profit		506,443	682,827	105,756
Operating expenses				
Sales and marketing expenses		(100,362)	(133,565)	(20,687)
Research and development expenses		(44,649)	(71,861)	(11,130)
General and administrative expenses		(244,696)	(289,489)	(44,836)
Allowance for doubtful debt		(1,183)	(7,920)	(1,227)
Impairment of loan receivable to potential investee		—	(2,816)	(436)
Total operating expenses		(390,890)	(505,651)	(78,316)
Operating profit		115,553	177,176	27,440
Interest income		21,095	13,812	2,139
Interest expense		(205,000)	(171,574)	(26,573)
Other income		9,056	7,435	1,152
Other expenses		(23,991)	(15,294)	(2,369)
Changes in the fair value of convertible promissory notes	16/22	(1,612,054)	415,466	64,347
Foreign exchange (loss) gain, net		(41,472)	44,180	6,843
(Loss) income before income taxes and loss from equity method investments		(1,736,813)	471,201	72,979
Income tax expenses	18	(42,896)	(66,798)	(10,346)
Loss from equity method investments		(6,590)	(24,910)	(3,858)
Net (loss) income		(1,786,299)	379,493	58,775
Net income attributable to noncontrolling interest		(4,814)	(8,300)	(1,286)
Net (loss) income attributable to VNET Group, Inc.		(1,791,113)	371,193	57,489
(Loss) earning per share:				
Basic	20	RMB (3.42)	RMB 0.42	US$ 0.07
Diluted	20	RMB (3.42)	RMB (0.05)	US$ (0.01)
Shares used in (loss) earning per share computation:				
Basic	20	660,543,890	863,960,057	863,960,057
Diluted	20	660,543,890	905,136,178	905,136,178

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

VNET GROUP, INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) Income
(Amounts in thousands of RMB and US$)

	For the six months periods ended June 30,		
	2020	2021	
	RMB	RMB	US$
Net (loss) income	(1,786,299)	379,493	58,775
Other comprehensive income (loss), net of tax of nil:			
Foreign currency translation adjustments, net of tax of nil	9,047	(7,719)	(1,196)
Other comprehensive income (loss), net of tax of nil	9,047	(7,719)	(1,196)
Comprehensive (loss) income	(1,777,252)	371,774	57,579
Comprehensive income attributable to noncontrolling interest	(4,814)	(8,300)	(1,286)
Comprehensive (loss) income attributable to VNET Group, Inc.	(1,782,066)	363,474	56,293

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

VNET GROUP, INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands of RMB and US$)

	For the six months periods ended June 30,		
	2020	2021	
	RMB	RMB	US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) income	(1,786,299)	379,493	58,775
Adjustments to reconcile net (loss) income to net cash generated from operating activities:			
Foreign exchange loss (gain), net	41,472	(44,180)	(6,843)
Depreciation and amortization	418,588	597,843	92,594
Loss on disposal of property and equipment and intangible assets	2,567	8,681	1,345
Allowance for doubtful debt	1,183	7,920	1,227
Impairment of loan receivable to potential investee	—	2,816	436
Share-based compensation expense	31,662	62,362	9,659
Deferred income tax loss (benefits)	4,081	(3,387)	(525)
Loss from equity method investments	6,591	24,910	3,858
Changes in the fair value of convertible promissory notes (Note 16/22)	1,612,054	(415,466)	(64,347)
Lease expense	202,598	253,243	39,222
Gain from disposal of equity investments without readily determinable fair value	(257)	—	—
Non-cash interest expense	—	7,151	1,108
Changes in operating assets and liabilities, net of effects of acquisitions and disposals:			
Accounts and notes receivable	(281,298)	(402,128)	(62,282)
Prepaid expenses and other current assets	(134,942)	128,920	19,967
Amounts due from related parties	(26,940)	(118)	(18)
Accounts and notes payables	34,274	142,867	22,127
Unrecognized tax benefits	1,286	3,139	486
Accrued expenses and other payables	139,214	121,286	18,787
Deferred revenue	(3,298)	66	10
Advances from customers	118,969	(61,506)	(9,526)
Income taxes payable	(5,349)	6,964	1,079
Amounts due to related parties	(751)	1,244	193
Lease liabilities	(154,964)	(232,861)	(36,066)
Net cash generated from operating activities	220,441	589,259	91,266

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

VNET GROUP, INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Amounts in thousands of RMB and US$)

	For the six months periods ended June 30,		
	2020	2021	
	RMB	RMB	US$
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(914,265)	(1,105,557)	(171,229)
Purchases of land use rights	—	(53,951)	(8,356)
Purchases of intangible assets	(16,236)	(25,194)	(3,902)
Proceeds from disposal of property and equipment	185	4,422	685
Proceeds from disposal of land use right	9,397	—	—
Collection of consideration for disposal of subsidiaries	5,802	—	—
Payments for short-term investments	(36,432)	(64,605)	(10,006)
Payments for long-term investments	—	(5,000)	(774)
Payment of loans to related parties	(48,449)	—	—
Payment of loans to third parties	—	(1,524)	(236)
Receipt of loans to third parties	30,000	—	—
Proceeds received from maturity of short-term investments	246,644	333,718	51,686
Proceeds from disposal of long-term investments	923	98	15
Payments for deposit for acquiring data center	(14,043)	(203,062)	(31,450)
Collection of deposit for acquiring data center	3,000	30,000	4,646
Cash receipt from a subsidiary acquired, net of cash paid	47	—	—
Payment for acquisitions, net of cash acquired	(70,000)	(52,500)	(8,131)
Cash receipt from related party due to restructuring	140,738	—	—
Net cash used in investing activities	(662,689)	(1,143,155)	(177,052)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of stock options	2,336	286	44
Proceeds from issuance of Series A perpetual convertible preferred shares (Note 15)	1,058,325	—	—
Payment for issuance cost of ordinary shares	—	(131)	(20)
Payment for shares repurchase and cancellation (Note 21)	—	(1,701,807)	(263,576)
Proceeds from issuance of convertible promissory notes (Note 16)	1,409,385	3,879,900	600,920
Payment of issuance cost of convertible promissory notes (Note 16)	(18,762)	(86,639)	(13,419)
Proceeds from short-term bank borrowings	34,000	—	—
Repayment of short-term bank borrowings	(30,000)	(34,000)	(5,266)
Proceeds from long-term bank borrowings	408,847	752,259	116,510
Repayment of long-term bank borrowings	(16,000)	(30,300)	(4,693)
Payments for purchase of property and equipment through finance leases	(150,501)	(352,189)	(54,547)
Rental payment and deposits for financing arrangements	(32,357)	(80,196)	(12,421)
Contribution from noncontrolling interest in subsidiaries	3,139	7,173	1,111
Profit distribution to noncontrolling interest	—	(272)	(42)
Proceeds from financing arrangements	214,448	100,000	15,488
Net cash generated from financing activities	2,882,860	2,454,084	380,089
Effect of foreign exchange rate changes on cash and cash equivalents and restricted cash	24,578	4,865	752
Net increase in cash and cash equivalents and restricted cash	2,465,190	1,905,053	295,055
Cash and cash equivalents and restricted cash at beginning of period	2,357,177	3,116,437	482,675
Cash and cash equivalents and restricted cash at end of period	4,822,367	5,021,490	777,730

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

VNET GROUP, INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Amounts in thousands of RMB and US$)

	For the six months periods ended June 30,		
	2020	2021	
	RMB	RMB	US$
Reconciliation of cash and cash equivalents and restricted cash to the consolidated balance sheets			
Cash and cash equivalents	4,325,324	4,603,653	713,015
Restricted cash-current	427,415	286,303	44,343
Restricted cash-non-current	69,628	131,534	20,372
Total cash and cash equivalents and restricted cash	4,822,367	5,021,490	777,730
Supplemental disclosures of cash flow information:			
Income taxes paid	(45,948)	(83,485)	(12,930)
Interest paid	(128,552)	(122,369)	(18,953)
Interest received	15,410	13,909	2,154
Supplemental disclosures of non-cash activities:			
Right-of-use assets obtained in exchange for new operating lease liabilities	93,651	206,855	32,038
Purchase of property and equipment through finance leases	67,584	99,404	15,396
Purchase of property and equipment included in accrued expenses and other payables	148,914	(160,782)	(24,902)
Purchase of intangible assets included in accrued expenses and other payables	4,965	499	77

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

VNET 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	Series A perpetual convertible preferred shareholders	Additional paid-in capital	Accumulated other comprehensive income	Statutory reserves	Accumulated deficit	Total VNET 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	—	—	—	—	—	—	—	(1,791,113)	(1,791,113)	4,814	(1,786,299)
Contribution by noncontrolling interest	—	—	—	—	—	—	—	—	—	3,139	3,139
Cumulative adjustment for changes in accounting policy	—	—	—	—	—	—	—	(2,740)	(2,740)	—	(2,740)
Issuance of perpetual convertible preferred shares	—	—	—	1,044,913	—	—	—	—	1,044,913	—	1,044,913
Deemed distribution to perpetual convertible preferred shareholders	—	—	—	—	470,643	—	—	(470,643)	—	—	—
Issuance of new shares for share option exercise and restricted share units vested	635,346	—	—	—	—	—	—	—	—	—	—
Foreign exchange difference	—	—	—	—	120	9,047	—	—	9,167	—	9,167
Share-based compensation	—	—	—	—	33,748	—	—	—	33,748	—	33,748
Appropriation of statutory reserves	—	—	—	—	—	—	(1,292)	1,292	—	—	—
Share options exercised	425,892	—	—	—	2,336	—	—	—	2,336	—	2,336
Restricted share units vested	2,044,482	—	—	—	—	—	—	—	—	—	—
Settlement of share options with shares held by depository bank	(2,470,374)	—	—	—	—	—	—	—	—	—	—
Balance as of June 30, 2020	680,598,834	(349,523)	46	1,044,913	9,709,414	86,951	59,177	(6,301,594)	4,249,384	286,508	4,535,892

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

VNET 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	Series A perpetual convertible preferred shareholders	Additional paid-in capital	Accumulated other comprehensive income	Statutory reserves	Accumulated deficit	Total VNET Group, Inc. shareholders' equity	Noncontrolling interest	Total shareholders' equity
Balance as of January 1, 2021	817,959,713	(349,523)	56	1,047,468	13,083,119	(55,535)	74,462	(7,235,113)	6,564,934	332,546	6,897,480
Consolidated net income	—	—	—	—	—	—	—	371,193	371,193	8,300	379,493
Contribution by noncontrolling interest	—	—	—	—	—	—	—	—	—	7,173	7,173
Appropriation of dividend	—	—	—	—	—	—	—	(272)	(272)	—	(272)
Conversion of perpetual convertible preferred shares and cumulative dividend	54,507,816	—	3	(1,047,468)	1,076,208	(16)	—	(28,727)	—	—	—
Conversion of convertible promissory notes	42,401,010	—	3	—	1,639,803	—	—	—	1,639,806	—	1,639,806
Shares repurchase and cancellation	(48,634,493)	—	(3)	—	(866,400)	(9,428)	—	(829,059)	(1,704,890)	—	(1,704,890)
Foreign exchange difference	—	—	—	—	—	1,725	—	—	1,725	—	1,725
Share-based compensation	—	—	—	—	62,362	—	—	—	62,362	—	62,362
Share issued to depositary bank	7,800,000	—	—	—	—	—	—	—	—	—	—
Share options exercised	34,002	—	—	—	286	—	—	—	286	—	286
Restricted share units vested	2,797,848	—	—	—	—	—	—	—	—	—	—
Settlement of share options with shares held by depository bank	(2,831,850)	—	—	—	—	—	—	—	—	—	—
Balance as of June 30, 2021	874,034,046	(349,523)	59	—	14,995,378	(63,254)	74,462	(7,721,978)	6,935,144	348,019	7,283,163
Balance as of June 30, 2021 US$		(54,134)	9	—	2,322,488	(9,797)	11,533	(1,195,982)	1,074,117	53,901	1,128,018

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

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. On October 8, 2021, 21Vianet Group, Inc. changed its name to VNET Group, Inc. to promote brand awareness. 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 RMB491,689 (US$76,153) 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.

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

1. ORGANIZATION (CONTINUED)

The following tables represent the financial information of the Consolidated VIEs as of December 31, 2020 and June 30, 2021 and for the six months periods ended June 30, 2020 and 2021 before eliminating the intercompany balances and transactions between the Consolidated VIEs and other entities within the Company:

	As of		
	December 31, 2020	June 30, 2021	
	RMB	RMB	US$
ASSETS			
Current assets:			
Cash and cash equivalents	737,556	758,831	117,528
Restricted cash	260,450	286,303	44,343
Accounts receivable (net of allowance for doubtful debt of RMB67,632 and RMB73,354 (US$11,361) as of December 31, 2020 and June 30, 2021, respectively)	664,610	1,109,638	171,861
Prepaid expenses and other current assets	1,622,662	1,586,718	245,751
Amounts due from related parties	12,968	11,061	1,713
Total current assets	3,298,246	3,752,551	581,196
Non-current assets:			
Property and equipment, net	5,170,878	5,425,306	840,273
Intangible assets, net	342,288	345,328	53,484
Land use rights, net	46,719	46,099	7,140
Operating lease right-of-use assets, net	1,134,073	1,098,107	170,075
Goodwill	308,110	308,110	47,720
Restricted cash	27,719	24,678	3,822
Deferred tax assets	168,181	143,259	22,188
Amounts due from related parties	20,562	—	—
Other non-current assets	435,144	452,316	70,055
Long-term investments	172,593	149,931	23,221
Total non-current assets	7,826,267	7,993,134	1,237,978
Total assets	11,124,513	11,745,685	1,819,174
Current liabilities:			
Short-term bank borrowings	34,000	—	—
Accounts and notes payable	182,669	361,490	55,988
Accrued expenses and other payables	981,961	885,580	137,159
Advance from customers	1,041,594	980,088	151,796
Deferred revenue	58,066	58,545	9,067
Income tax payable	12,743	14,714	2,279
Amounts due to inter-companies (1)	4,248,422	4,644,101	719,280
Amounts due to related parties	50,193	1,820	282
Current portion of finance lease liabilities	362,760	344,253	53,318
Current portion of long-term borrowings	165,328	201,355	31,186
Deferred government grants	2,074	2,074	321
Current portion of operating lease liabilities	427,114	347,006	53,744
Total current liabilities	7,566,924	7,841,026	1,214,420

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

1. ORGANIZATION (CONTINUED)

	As of		
	December 31, 2020	June 30, 2021	
	RMB	RMB	US$
Non-current liabilities:			
Amounts due to inter-companies (1)	1,020,972	1,020,972	158,128
Amounts due to related parties	747,746	—	—
Long-term borrowings	570,135	923,232	142,990
Non-current portion of finance lease liabilities	299,399	705,778	109,311
Unrecognized tax benefits	68,317	71,442	11,065
Deferred tax liabilities	155,281	124,134	19,226
Deferred government grants	4,100	3,196	495
Non-current portion of operating lease liabilities	497,268	802,619	124,310
Total non-current liabilities	3,363,218	3,651,373	565,525
Total liabilities	10,930,142	11,492,399	1,779,945

	For the six months periods ended June 30,		
	2020	2021	
	RMB	RMB	US$
Net revenues	1,770,597	2,457,509	380,620
Net profit	22,591	59,183	9,166

	For the six months periods ended June 30,		
	2020	2021	
	RMB	RMB	US$
Net cash generated from operating activities	258,807	453,673	70,265
Net cash used in investing activities	(712,997)	(733,036)	(113,533)
Net cash generated from financing activities	437,506	323,450	50,096
Net (decrease) increase in cash and cash equivalents and restricted cash	(16,684)	44,087	6,828

(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, 2020 and 2019. 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 six months period ended June 30, 2021 are not necessarily indicative of results to be expected for any other interim period or for the year ended December 31, 2021. The condensed consolidated balance sheet as of December 31, 2020 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, 2020.

(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, determining the valuation allowance for deferred tax assets, determining the fair value of convertible promissory notes and assessing the initial valuation of the assets acquired and liabilities assumed in acquisitions. Changes in facts and circumstances may result in revised estimates. Given the global economic climate and unforeseen effects from COVID-19 pandemic, the process of estimation has become more challenging. 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$1.00 to RMB6.4566 on June 30, 2021, the last business day in June 2021, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be converted, realized or settled into US$ at such rate or at any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) 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.

The Company 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 Company expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606") , the Company 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 Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that it 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)

(d) Revenue recognition (continued)

The Company's revenue recognition policies effective on the adoption date of ASC 606 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 are 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. When either party to a revenue contract has performed, the Company recognizes a contract asset or a contract liability in the consolidated balance sheets, depending on the relationship between the Company's performance and the customer's payment. Contract liabilities were mainly related to fee received for Hosting services to be provided over the contract period, which were presented as deferred revenue on the consolidated balance sheets.

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, 2020 and June 30, 2021, the Company has deferred revenue amounting up to RMB63,245 and RMB63,311 (US$9,806), respectively. Revenue recognized from opening deferred revenue balance was RMB52,159 (US$8,078) for the six months period ended June 30, 2021.

The Company's certain 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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Revenue recognition (continued)

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.

(e) (***Loss) earning per share***

In accordance with ASC Topic 260, *Earnings per Share* ("ASC 260"), basic (loss) earning per share is computed by dividing net (loss) earning attributable to ordinary shareholders by the weighted average number of unrestricted ordinary shares outstanding during the six months using two-class method. Under the two-class method, net (loss) earning is allocated between ordinary shares and participating securities based on their participating rights. The company's series A preferred shares (Note 15) 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 (loss) 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. 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 if converted method. Ordinary share equivalents are excluded from the computation of diluted loss per share if their effects would be anti-dilutive.

(f) 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.

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

3. ACQUISITION OF SUBSIDIARIES

Acquisitions in 2020

SH 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. 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 business combination. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of acquisition:

	RMB
Property and equipment, net	348,475
Operating lease right-of-use assets, net	81,034
Customer contract *(Note 7)*	33,500
Purchased software	23
Deferred tax assets	14,848
Other non-current assets	1,685
Other current assets	44,774
Total assets acquired	524,339
Other current liabilities	(406,932)
Operating lease liabilities	(45,034)
Deferred tax liabilities	(41,169)
Total liabilities assumed	(493,135)
Net assets acquired	31,204
Purchase consideration	36,667
Goodwill	5,463

The revenue and net profit since the acquisition date included in the consolidated statement of operations for the year ended December 31, 2020 were RMB41,928 and RMB5,579, respectively. The goodwill, which is not tax deductible, is primarily attributable to synergies expected to be achieved from the acquisition.

(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, 2020	June 30, 2021	
	RMB	RMB	US$
Accounts receivable	913,902	1,316,309	203,870
Notes receivable	2,252	1,738	269
Allowance for doubtful debt	(68,921)	(74,994)	(11,615)
	847,233	1,243,053	192,524

As of December 31, 2020 and June 30, 2021, 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, 2020	June 30, 2021	
	RMB	RMB	US$
Balance at beginning of the year/period	67,828	68,921	10,674
Cumulative adjustment for changes in accounting policy	2,740	—	—
Additional provision charged to expense	2,393	6,308	977
Write-off of accounts receivable	(4,040)	(235)	(36)
Balance at the end of the year/period	68,921	74,994	11,615

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

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	As of		
	December 31, 2020	June 30, 2021	
	RMB	RMB	US$
Prepaid expenses	884,156	801,132	124,080
Tax recoverables	879,237	876,165	135,701
Staff advances	968	1,575	244
Interest receivables	1,484	1,387	215
Deposits	31,774	70,695	10,949
Loans to third parties	19,107	17,769	2,752
Others	49,458	51,085	7,912
	1,866,184	1,819,808	281,853

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, 2020	June 30, 2021	
	RMB	RMB	US$
At cost:			
Property	1,511,429	1,511,429	234,091
Leasehold improvements	2,609,828	2,756,823	426,978
Computer and network equipment	4,899,577	5,166,529	800,193
Optical fibers	142,723	142,723	22,105
Office equipment	26,845	27,562	4,269
Motor vehicles	2,668	3,736	579
	9,193,070	9,608,802	1,488,215
Less: accumulated depreciation	(3,285,138)	(3,698,575)	(572,837)
Impairment	(35,793)	(17,616)	(2,728)
	5,872,139	5,892,611	912,650
Construction-in-progress	2,234,286	2,580,425	399,656
	8,106,425	8,473,036	1,312,306

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

6. PROPERTY AND EQUIPMENT, NET (CONTINUED)

Depreciation expense was RMB381,683 and RMB552,931 (US$85,638) for the six months periods ended June 30, 2020 and 2021, respectively, and was included in the following captions:

	For the six months periods ended June 30,		
	2020	2021	
	RMB	RMB	US$
Cost of revenues	355,001	523,817	81,129
Sales and marketing expenses	1,119	435	67
General and administrative expenses	14,415	12,828	1,987
Research and development expenses	11,148	15,851	2,455
	381,683	552,931	85,638

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, 2020	June 30, 2021	
	RMB	RMB	US$
Property	921,970	921,970	142,795
Computer and network equipment	1,019,588	940,670	145,691
Optical fibers	137,924	137,924	21,362
	2,079,482	2,000,564	309,848
Less: accumulated depreciation	(661,796)	(752,571)	(116,558)
Impairment	(17,613)	(17,613)	(2,728)
	1,400,073	1,230,380	190,562
Construction-in-progress	92,545	92,545	14,333
	1,492,618	1,322,925	204,895

Depreciation of property, computer and network equipment and optical fibers under finance leases was RMB135,426 and RMB120,883 (US$18,722) for the six months periods ended June 30, 2020 and 2021, 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, 2020	June 30, 2021	
	RMB	RMB	US$
Property	264,784	258,843	40,090
Leasehold improvements	90,947	171,943	26,631
Computer and network equipment	40,871	171,998	26,639
Office equipment	—	829	128
Construction-in-progress	238,771	—	—

(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	Customer relationships	Licenses	Supplier relationships	Trade names	Customer contract	Internal use software	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Intangible assets, net January 1, 2020	42,727	65,123	97,244	88,040	3,498	13,996	84,778	—	15,189	410,595
Additions	12,893	—	274,904	—	—	—	—	66,708	8,684	363,189
Foreign currency translation difference	(32)	(4,213)	—	—	—	—	—	—	—	(4,245)
Amortization expense	(13,689)	(8,403)	(5,189)	(24,854)	(385)	(3,074)	(5,813)	(3,602)	(7,681)	(72,690)
Impairment	—	(38,654)	—	—	—	—	—	—	—	(38,654)
Intangible assets, net December 31, 2020	41,899	13,853	366,959	63,186	3,113	10,922	78,965	63,106	16,192	658,195
Additions	19,014	—	—	—	—	—	—	12	5,042	24,068
Foreign currency translation difference	(9)	(138)	—	—	—	—	—	—	—	(147)
Amortization expense	(7,928)	(1,112)	(6,300)	(12,427)	(192)	(1,537)	(2,907)	(3,589)	(4,872)	(40,864)
Intangible assets, net June 30, 2021	52,976	12,603	360,659	50,759	2,921	9,385	76,058	59,529	16,362	641,252
Intangible assets, net June 30, 2021 (US$)	8,205	1,952	55,858	7,862	452	1,454	11,780	9,220	2,534	99,317

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

7. INTANGIBLE ASSETS, NET (CONTINUED)

Contract backlog relate 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 from the assets acquisitions.

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 36 years.

Amortization expenses were approximately RMB33,052 and RMB40,864 (US$6,329) for the six months periods ended June 30, 2020 and 2021, 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, 2020	June 30, 2021	
	RMB	RMB	US$
Cost	278,138	332,089	51,434
Accumulated amortization	(22,765)	(26,813)	(4,153)
Land use rights, net	255,373	305,276	47,281

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, 2020	June 30, 2021	
	RMB	RMB	US$
Land use rights	141,000	138,414	21,438

(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, 2020	June 30, 2021	
	RMB	RMB	US$
Balance at the beginning of the year/period	989,530	994,993	154,105
Additions	5,463	—	—
Balance as the end of the year/period	994,993	994,993	154,105

As of December 31, 2020 and June 30, 2021, 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, 2020	June 30, 2021	
	RMB	RMB	US$
Equity investments without readily determinable fair values	17,137	17,137	2,654
Equity method investments	116,667	96,757	14,986
Available-for-sale debt investments	1,713	1,621	251
	135,517	115,515	17,891

Equity investments without readily determinable fair values

The investment income comprised of dividend income of RMB618 and RMB661 (US$102), and disposal gain of RMB257 and nil for the six months periods ended June 30, 2020 and 2021, respectively.

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

10. LONG-TERM INVESTMENTS (CONTINUED)

Equity method investments

	As of December 31, 2020			Increase (decrease) during the six months periods ended June 30, 2021		As of June 30, 2021			
	Cost of investments	Share equity gain (loss)	Investments in equity investee	Cost of investments	Share equity loss	Cost of investments	Share equity loss	Investments in equity investee	Investments in equity investee
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	US$
Yizhuang Fund	101,000	1,683	102,683	—	(22,066)	101,000	(20,383)	80,617	12,486
Jingliang Inter Cloud	6,000	(2,831)	3,169	—	(2,147)	6,000	(4,978)	1,022	158
Jingliang Century Cloud	4,000	—	4,000	—	—	4,000	—	4,000	620
ZJK Energy	5,907	(2,748)	3,159	—	(125)	5,907	(2,873)	3,034	470
WiFire Entities	20,000	(20,000)	—	—	—	20,000	(20,000)	—	—
Qidi Chengxin	3,930	(274)	3,656	—	(99)	3,930	(373)	3,557	551
BJ Xinhulian	—	—	—	5,000	(473)	5,000	(473)	4,527	701
	140,837	(24,170)	116,667	5,000	(24,910)	145,837	(49,080)	96,757	14,986

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, 2020 and June 30, 2021. 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”).

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

11. BORROWINGS

Borrowings were as follows as of the respective balance sheet dates:

	As of		
	December 31, 2020	June 30, 2021	
	RMB	RMB	US$
Short-term bank borrowings	34,000	—	—
Long-term bank borrowings, current portion	68,500	103,950	16,100
Other long-term borrowings, current portion	111,828	129,498	20,056
	214,328	233,448	36,156
Long-term bank borrowings, non-current portion	605,119	1,291,628	200,048
Other long-term borrowings, non-current portion	281,877	301,929	46,763
Total borrowings	1,101,324	1,827,005	282,967

The short-term bank borrowings outstanding as of December 31, 2020 bore a weighted average interest rate of 4.46% per annum, and were denominated in RMB. These borrowings were obtained from financial institutions and have terms of one year. The long-term bank borrowings (including current portion) outstanding as of December 31, 2020 and June 30, 2021 bore a weighted average interest rate of 5.61% and 5.35% per annum, respectively, and were denominated in RMB. These loans were obtained from financial institutions located in the PRC.

As of December 31, 2020 and June 30, 2021, unused loan facilities for bank borrowings and other borrowings amounted to RMB1,574,556 and RMB1,634,074(US$253,086), respectively.

Borrowings as of December 31, 2020 and June 30, 2021 were secured by the following:

December 31, 2020

Short-term bank borrowings (RMB)	Secured by
34,000	Unsecured borrowings.
34,000	

Long-term borrowings (including current portion) (RMB)	Secured by
404,781	Secured by subsidiary’s property and equipment and land-use right with net book value of RMB505,004 and RMB40,034, respectively.
271,861	Secured by a subsidiary’s property and equipment and land-use right with net book value of RMB130,369 and RMB100,966, respectively (Note 6/Note 8), and a subsidiary’s stock.
190,682	Unsecured borrowing.
100,000	Secured by a subsidiary’s stock and the restricted cash of RMB104,400.
100,000	Secured by a subsidiary’s stock.
1,067,324	

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

11. BORROWINGS (CONTINUED)

June 30, 2021

Long-term borrowings (including current portion) (RMB)	Secured by
563,700	Secured by a subsidiary's stock
639,392	Secured by subsidiary's property and equipment and land-use right with net book value of RMB476,320 (US$73,773) and RMB39,829 (US$6,169), respectively (Note 6/Note 8).
269,233	Secured by a subsidiary's property and equipment and land-use right with net book value of RMB127,293 (US$19,715) and RMB98,585 (US$15,269), respectively (Note 6/Note 8), and a subsidiary's stock.
257,180	Unsecured borrowing
97,500	Secured by a subsidiary's stock and the restricted cash of RMB103,377 (US$16,000).
1,827,005	

12. ACCRUED EXPENSES AND OTHER PAYABLES

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

	As of		
	December 31, 2020	June 30, 2021	
	RMB	RMB	US$
Payables for purchase of property, equipment and software	1,148,742	988,459	153,093
Payroll and welfare payable	204,732	207,786	32,182
Amounts due to the original shareholder for acquired entities*	66,466	13,966	2,163
Interest payable	37,799	35,110	5,438
Accrued service fee	47,572	47,832	7,408
Payables for acquisitions	47,805	47,805	7,404
Other payables on behalf of customers	—	8,704	1,348
Payables for office supplies and utilities	38,485	33,626	5,208
Value-added tax and other taxes payable	10,473	19,296	2,989
Others	29,489	41,300	6,396
	1,631,563	1,443,884	223,629

*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 (Note 3) and Langfang Huahai Internet Technology Co., Ltd. ("LF Huahai").

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

13. LEASES

Leases are classified as operating leases or finance leases in accordance with ASC 842. 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 six months periods ended June 30, 2020 and 2021, lease cost for finance leases capitalized was immaterial.

	For the six months periods ended June 30,		
	2020	2021	
	RMB	RMB	US$
Lease cost			
Finance lease cost:			
Depreciation	135,426	120,883	18,722
Interest expenses	70,413	63,723	9,869
Operating lease cost	230,091	259,770	40,233
Total lease cost	435,930	444,376	68,824

Short-term lease cost and variable lease cost for operating leases and finance leases were immaterial for the six months periods ended June 30, 2020 and 2021.

14. BONDS PAYABLE

The aggregate required repayments of the principal amounts of the Company's long-term borrowings, including the bonds payable and bank and other 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, 2021	2,062,852	319,495
For the year ending December 31,		
2022	272,209	42,160
2023	212,679	32,940
2024	270,960	41,966
2025	275,084	42,605
2026	237,570	36,795
2027 and thereafter	483,553	74,893

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 US$1,000 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. RMB28,727 (US$4,449) dividend was declared by the Company on the conversion date.

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.

15. PERPETUAL CONVERTIBLE PREFERRED SHARES (CONTINUED)

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 RMB470,643 was recorded as a reduction to the respective preferred shares with an offsetting credit to additional paid-in capital and recognized immediately as the accretion of the beneficial conversion option discount to income available for ordinary shareholders.

On March 1, 2021, 150,000 Series A Preferred Shares all has been converted into 54,507,816 Class A Ordinary Shares at the conversion price US$17.00 per ADS.

16. CONVERTIBLE PROMISSORY NOTES

2025 Convertible Notes

During the six months period ended June 30, 2020, the Company entered into agreements with a group of investors led by Goldman Sachs Asia Strategic Pte. Ltd. (the "Purchasers") to issue the Company's convertible promissory note (the "2025 Convertible Notes") for total gross proceeds of US$200,000. The 2025 Convertible 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 2025 Convertible 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 2025 Convertible Notes on the maturity date in an amount equal to the sum of (i) 115% of the then outstanding principal amount of the 2025 Convertible Notes and (ii) the interest accrued but unpaid on the maturity date. The Company may not redeem the 2025 Convertible 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 2025 Convertible Notes has not been converted by the third anniversary of the date of issuance of the 2025 Convertible 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 2025 Convertible 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 2025 Convertible Notes at fair value as a whole. Issuance costs including underwriting commissions and offering expenses were approximately RMB18,932, which were recognized in earnings as incurred.

During the six months period ended June 30, 2021, Purchasers of the 2025 Convertible Notes exercised the right to convert 42,401,010 newly issued Class A ordinary shares at the conversion price of US$12 per ADS. Upon conversion, the fair value of converted portion was RMB1,636,453 (US$253,454).

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 2025 Convertible Notes.

As of December 31, 2020 and June 30, 2021, the fair value of the remaining 2025 Convertible Notes was RMB3,014,057 and RMB936,094 (US$144,982), respectively. The changes in fair value (loss) gain of convertible promissory notes of RMB(1,612,054) and RMB415,466 (US$64,347) were recognized in the changes in the fair value of convertible promissory notes in the consolidated statement of operations for the six months periods ended June 30, 2020 and 2021, respectively. The fair value changes related to instrument-specific credit risk is nil and nil for the six months periods ended June 30, 2020 and 2021, respectively.

16. CONVERTIBLE PROMISSORY NOTES (CONTINUED)

2026 Convertible Notes

In January 2021, the Company issued US$600,000 principal amount 0.00% convertible senior notes including US$75,000 sold upon the exercise of the over-allotment option (the "2026 Convertible Notes"). The 2026 Convertible Notes will mature on February 1, 2026 unless redeemed, repurchased or converted prior to such date.

Holders may convert their 2026 Convertible Notes at their option prior to the close of business on the business day immediately preceding August 1, 2025 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2021 (and only during such calendar quarter), if the last reported sale price of ADSs', each representing four Class A ordinary shares of the Company, par value US$0.00001 per share, for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period in which the trading price per US$1,000 principal amount of the 2026 Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the ADSs and the conversion rate on each such trading day; (3) if the Company calls the 2026 Convertible Notes for a tax or optional redemption; or (4) upon the occurrence of specified corporate events. On or after August 1, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2026 Convertible Notes at any time. Upon conversion, the Company will pay or deliver , as the case may be, cash, ADSs, or a combination of cash and ADSs, at its election. If the Company satisfies its conversion obligation solely in cash or through payment and delivery, as the case may be, of a combination of cash and ADSs, the amount of cash and ADSs, if any, due upon conversion will be based on a daily conversion value calculated on a proportionate basis for each trading day in a 40 trading day observation period.

The initial conversion rate of the 2026 Convertible Notes is 18.3574 of the Company's ADS per US$1,000 principal amount of the 2026 Convertible Notes (which is equivalent to an initial conversion price of approximately US$54.47 per ADS). The conversion rate will be subject to adjustment in some events. In addition, following certain corporate events that occur prior to the maturity date, if a make-whole fundamental change occurs prior to the maturity date of the 2026 Convertible Notes, or under certain circumstances upon a tax redemption or the Company's optional redemption, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its 2026 Convertible Notes in connection with such corporate event, such make-whole fundamental change or such notice of tax redemption or notice of optional redemption, as the case may be. Upon conversion, the Company will pay or deliver, as the case may be, cash, ADSs (plus cash in lieu of a fractional ADS) or a combination of cash and ADSs, at its election. The conversion option may be settled in cash, ADSs, or a combination of cash and ADSs at the Company's option.

The Company may not redeem the 2026 Convertible Notes prior to February 6, 2024 unless certain tax-related events occur. On or after February 6, 2024 and on or prior to the 40th scheduled trading day immediately before the maturity date, the Company may redeem for cash all or part of the 2026 Convertible Notes, at its option, if the last reported sale price of the Company's ADSs has been at least 130% of the conversion price then in effect on (i) each of at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately prior to the date the Company provides notice of redemption; and (ii) the trading day immediately preceding the date the Company sends such notice. Holders of the notes have the right to require the Company to repurchase for cash all of their 2026 Convertible Notes, or any portion of the principal thereof, on February 1, 2024 or in the event of certain fundamental changes. The redemption price will equal 100% of the principal amount of the 2026 Convertible Notes to be redeemed, plus any accrued and unpaid special interest, if any, to, but not including, the redemption date. No sinking fund is provided for the 2026 Convertible Notes.

The Company early adopted ASU 2020-06, *Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"), starting on January 1, 2021 using modified retrospective transition method applied to those transactions outstanding as of January 1, 2021. ASU 2020-06 simplified an issuer's accounting for convertible instrument by eliminating the cash conversion and beneficial conversion feature models in ASC 470-20, *Debt with Conversion and Other Options*, that requires separate accounting for such conversion features. Results for reporting periods beginning after January 1, 2021 are presented under ASU 2020-06, while prior period amounts have not been adjusted and continue to be reported in accordance with historic accounting. The impact of adopting the new guidance was not material to consolidated financial statements and there was no adjustment to beginning retained earnings on January 1, 2021.

The 2026 Convertible Notes was accounted for as one unit of liability account using amortized cost method under ASU 2020-06, with no embedded derivative features being bifurcated.

The gross proceeds from issuance of the 2026 Convertible Notes were US$600,000. Debt issuance costs including underwriting commissions and offering expenses were approximately US$13,398, which were presented as deduction from liability and amortized into interest expense over the remaining period of 5 years.

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

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.

Total share-based compensation expenses relating to share options and RSUs granted to employees recognized for the six months periods ended June 30, 2020 and 2021 were as follows:

	For the six months periods ended June 30,		
	2020	2021	
	RMB	RMB	US$
Cost of revenues	1,029	7,570	1,172
Sales and marketing expenses	1,791	20,912	3,239
General and administrative expenses	28,757	33,518	5,191
Research and development expenses	85	362	57
	31,662	62,362	9,659

18. TAXATION

The income tax expenses for the six months periods ended June 30, 2020 and 2021 were RMB42,896 and RMB66,798 (US$10,346), respectively.

The Company's effective tax rates for the six months periods ended June 30, 2020 and 2021 were negative 2.5% and positive 15.0%, respectively. The difference was primarily explained by changes to the nontaxable income from overseas and changes of certain loss position entities. The difference between effective tax rate and the PRC statutory tax rate of 25% was due to international rate differences and change in valuation allowance on deferred tax assets by certain subsidiaries of the Company.

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, the adequacy of future taxable income exclusive of reversing temporary differences, and verifiable tax planning. 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 expanding operating capacity as well as current industry trends.

As of December 31, 2020 and June 30, 2021, the Company had gross unrecognized tax benefits of RMB68,696 and RMB71,835 (US$11,126), 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, 2020 and June 30, 2021, the Company’s accrued interest and penalties related to uncertain tax positions were not material.

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 2016 through 2020 remain open to examination by the respective tax authorities.

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

19. RELATED PARTY TRANSACTIONS

a) Related parties *

Name of related parties	Relationship with the Company
Xiaomi Ventures Limited ("Xiaomi"), 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 before December 30, 2020
King Venture Holdings Limited ("King Venture") and Beijing Kingsoft Cloud Network Technology Co., Ltd. ("BJ Kingsoft") (1)	A company controlled by principal shareholder of the Company before December 30, 2020
Beijing Tuspark Harmonious Investment Development Co., Ltd. ("Tuspark Harmonious")(5)	A company controlled by controlling shareholder of the Company before April 13, 2021
Ziguang Financial Leasing Co., Ltd. ("Ziguang Finance Leasing")(5)	A company controlled by controlling shareholder of the Company before April 13, 2021
Qidi Bus (Beijing) Technology Co., Ltd. ("Qidi Tech")(5)	A company controlled by controlling shareholder of the Company before April 13, 2021
Beijing Qidi Yefeng Investment Co., Ltd. ("Beijing Qidi Yefeng")(5)	A company controlled by controlling shareholder of the Company before April 13, 2021
Beijing Huaqing Property Management Co., Ltd. ("Beijing Huaqing")(5)	A company controlled by controlling shareholder of the Company before April 13, 2021
Shanghai Shibei Hi-Tech Co., Ltd. ("SH Shibei")	Noncontrolling shareholder of a subsidiary the Company
Shanghai Puping Information Technology Co., Ltd. ("Shanghai Puping")(4)	A company controlled by minority shareholder of the Company
Jingliang Interconnected Cloud Technology Co., Ltd. ("Jingliang Inter Cloud")	Equity investee of the Company
Beijing Chengyishidai Network Engineering Technology Co., Ltd. ("CYSD")(3)	Equity investee of the Company
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 six months periods ended June 30, 2020 and 2021.

(1) These companies are ultimately controlled by the same party. King Venture made a significant investment in the Company in 2015. These companies ceased to be related parties as the Company repurchased the shares from King Venture on December 30, 2020.

(2) These companies are ultimately controlled by the same party. Xiaomi made a significant investment in the Company in 2015. These companies ceased to be related parties as the Company repurchased the shares from King Venture on December 30, 2020.

(3) CYSD was disposed by the Company in September 2017, included in WiFire Entities, and determined by the Company as related parties as of December 2020 and June 2021.

(4) Shanghai Puping is 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)

(5) These companies are ultimately controlled by the same party. Tuspark Innovation Venture Ltd. ("Tuspark Innovation") was the controlling shareholder as of December 31, 2020. These companies ceased to be related parties as the Company repurchased shares from Tuspark Innovation on April 13, 2021.

b) Other than disclosed elsewhere, the Company had the following significant related party transactions for the six months periods ended June 30, 2020 and 2021:

	For the six months periods ended June 30,		
	2020	2021	
	RMB	RMB	US$
Services provided to:			
- Jingliang Inter Cloud	443	480	74
- Xiaomi Group	248,414	—	—
- Qidi Tech	3,478	—	—
- BJ Kingsoft	30	—	—
- Others	431	10	2
Services provided by:			
- CYSD	19,459	19,459	3,014
- APL(1)	11,469	—	—
- Jingliang Inter Cloud	3,958	—	—
- BJ Kingsoft	2,316	—	—
- Beijing Huaqing	1,596	1,254	194
- Others	201	1,023	158

(1) The service provided by APL consisted of advisory services for issuing perpetual convertible preferred shares in 2020 and nil in 2021.

(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 six months periods ended June 30, 2020 and 2021 (continued):

	For the six months periods ended June 30,		
	2020	2021	
	RMB	RMB	US$
Loan to:			
- Shanghai Puping	48,449	—	—
Lease payment paid to:			
- Ziguang Finance Leasing	13,851	10,431	1,616
- Beijing Qidi Yefeng	1,938	2,154	334

During the six months period ended June 30, 2020, the Company entered into an agreement with Asialeads Capital (Cayman) Limited to purchase the Company's convertible promissory notes for total gross proceeds of US$50,000.

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

19. RELATED PARTY TRANSACTIONS (CONTINUED)

c) The Company had the following related party balances as of December 31, 2020 and June 30, 2021:

	As of		
	December 31, 2020	June 30, 2021	
	RMB	RMB	US$
Amounts due from related parties:			
Current:			
- Shanghai Puping	62,531	62,531	9,685
- SH Shibei	9,800	9,800	1,518
- Ziguang Finance Leasing	2,042	—	—
- Others	1,146	1,264	195
	75,519	73,595	11,398
Non-current:			
- Tuspark Harmonious	11,863	—	—
- Ziguang Finance Leasing	6,289	—	—
- Beijing Qidi Yefeng	1,124	—	—
- Others	1,286	—	—
	20,562	—	—
Amounts due to related parties:			
Current:			
- Ziguang Finance Leasing	31,681	—	—
- Tuspark Harmonious	13,557	—	—
- Beijing Qidi Yefeng	4,410	—	—
- APL	783	775	120
- Others	576	1,820	282
	51,007	2,595	402
Non-current:			
- Tuspark Harmonious	715,992	—	—
- Ziguang Finance Leasing	22,247	—	—
- Beijing Qidi Yefeng	9,507	—	—
	747,746	—	—

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

20. (LOSS) EARNING PER SHARE

Basic and diluted (loss) earning per share for the six months periods ended June 30, 2020 and 2021 presented were calculated as follows:

	For the six months periods ended June 30,		
	2020	2021	
	RMB	RMB	US$
Numerator:			
Net (loss) earning	(1,786,299)	379,493	58,775
Net income attributable to noncontrolling interest	(4,814)	(8,300)	(1,286)
Net (loss) earning attributable to the Company	(1,791,113)	371,193	57,489
Deemed distribution to perpetual convertible preferred shareholders	(470,643)	—	—
Dividend distribution to perpetual convertible preferred shareholders	—	(5,921)	(917)
Net (loss) earning attributable to ordinary shareholders - Basic	(2,261,756)	365,272	56,572
Changes in the fair value of convertible promissory notes	—	(415,466)	(64,347)
Adjusted interest for convertible promissory notes	—	5,341	827
Net loss attributable to ordinary shareholders -Diluted	(2,261,756)	(44,853)	(6,948)
Denominator:			
Weighted average number of shares outstanding— basic	660,543,890	863,960,057	863,960,057
Weighted average number of shares outstanding— diluted	660,543,890	905,136,178	905,136,178
(Loss) earning per share—Basic:			
Net (loss) earning	(3.42)	0.42	0.07
	(3.42)	0.42	0.07
Loss per share—Diluted:			
Net loss	(3.42)	(0.05)	(0.01)
	(3.42)	(0.05)	(0.01)

For the six months ended June 30, 2021, share options, RSUs granted to employees, the Company’s series A preferred shares (Note 15) and 2026 Convertible Notes (Note 16) were anti-dilutive and excluded from the calculation of diluted net (loss) earnings per share.

21. SHARE CAPITAL

During the six months period ended June 30, 2021, Purchaser of the 2025 Convertible Notes exercised the right to convert approximately 42.3% of the total principal amount issued to 42,401,010 newly issued Class A ordinary shares at the conversion price of US$12 per ADS.

On March 1, 2021, all 150,000 Series A perpetual convertible preferred shares has been converted into 54,507,816 Class A Ordinary Shares.

In April 2021, the Company repurchased from Tuspark Innovation Venture Ltd., (“Tuspark”) 48,634,493 Class B ordinary shares for an aggregate purchase price of US$260.0 million. The repurchase price was at US$5.346 per ordinary share, or US$32.076 per ADS. 48,634,493 Class B ordinary shares were cancelled immediately.

22. FAIR VALUE MEASUREMENTS

The Company applies ASC Topic 820, *Fair Value Measurements and Disclosures* ("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, bonds payable and 2026 Convertible Notes are classified within Level 1 because they are valued by using quoted market prices.

The contingent considerations for the acquired businesses, 2025 Convertible 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 2025 Convertible 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.

The Company measures equity investments elected to use the measurement alternative at fair value on a non-recurring 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.

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

22. FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2020
	RMB	RMB	RMB	RMB
Cash equivalents:				
- Time deposits	645,879	—	—	645,879
Short-term investments:				
- Time deposits	285,872	—	—	285,872
Long-term investments				
- Available-for-sale debt securities	—	—	1,713	1,713
Assets	931,751	—	1,713	933,464
Short-term borrowings:				
- Current portion of bonds payable	1,998,088	—	—	1,998,088
Convertible promissory notes:				
- 2025 Convertible Notes	—	—	3,014,057	3,014,057
Other liabilities:				
- Liability classified RSU	—	—	—	—
Liabilities	1,998,088	—	3,014,057	5,012,145

	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 June 30, 2021	
	RMB	RMB	RMB	RMB	US$
Cash equivalents:					
- Time deposits	589,694	—	—	589,694	91,332
Short-term investments:					
- Time deposits	12,920	—	—	12,920	2,001
Assets	602,614	—	—	602,614	93,333
Short-term borrowings:					
- Current portion of bonds payable	1,944,619	—	—	1,944,619	301,183
Convertible promissory notes:					
- 2025 Convertible Notes	—	—	936,094	936,094	144,982
- 2026 Convertible Notes	3,348,528	—	—	3,348,528	518,621
Liabilities	5,293,147	—	936,094	6,229,241	964,786

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

22. FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2020	2,109
Reclassification to equity	(2,109)
Reversal	—
Transfers in and/or out of Level 3	—
Fair value at December 31, 2020	—
Reclassification to equity	—
Reversal	—
Transfers in and/or out of Level 3	—
Fair value at June 30, 2021	—
Fair value at June 30, 2021 (US$)	—

	Convertible promissory notes – 2025 Convertible Notes
	RMB
Convertible promissory notes fair value (Note 16)	3,014,057
Foreign exchange gain	(26,044)
Changes in the fair value	(415,466)
Conversion of 2025 Convertible Notes	(1,636,453)
Fair value at June 30, 2021	936,094
Fair value at June 30, 2021 (US$)	144,982

Assets measured at fair value on a non-recurring basis

The Company measures certain non-financial assets on a non-recurring basis. The Company’s non-financial long-lived assets, such as intangible assets, goodwill and fixed assets, would be measured at fair value only if they were determined to be impaired on an other-than-temporary basis. The fair values of non-financial long-lived assets were measured under income approach, based on the Company’s best estimation which primarily includes significant unobservable inputs (level 3) such as future cash flows and discount rate.

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

23. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of June 30, 2021, 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,		
2021	818,789	126,814
For the year ending December 31,		
2022	6,697	1,037
2023	1,982	307
2024	—	—
2025	—	—
2026 and thereafter	3,230	500
	830,698	128,658

Bandwidth and cabinet capacity purchase commitments

As of June 30, 2021, 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,		
2021	408,420	63,256
For the year ending December 31,		
2022	233,524	36,168
2023	7,444	1,153
2024	2,198	340
2025	2,074	321
2026 and thereafter	4,391	680
	658,051	101,918

23. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Income Taxes

As of June 30, 2021, the Company had recognized an accrual of RMB71,835 (US$11,126) for unrecognized tax benefits and its interest (Note 18). 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.

24. SUBSEQUENT EVENTS

On July 2, 2021, the Company through its subsidiary, Shenzhen Cloud Native Technology Co., Ltd ("SZ Cloud Native"), entered into a share purchase agreement to acquire 100% of the equity interests in Beijing TenxCloud Technology Co., Ltd. ("BJ TenxCloud"). The purpose of the acquisition is to strengthen the Company's leading position in carrier- and cloud-neutral IDC service.

On August 1, 2021, the Company through its subsidiary, Jiwa Senlin (Beijing)Engineering Co.,Ltd. ("Jiwa Engineering BJ"), entered into a share purchase agreement to acquire 100% of the equity interests in Zhongke Bauhinia Technology Co., Ltd. ("Zhongke Bauhinia "). The purpose of the acquisition is to establish data center with the acquired property.

Exhibit 99.8

FROST & SULLIVAN
沙利文

上海市静安区南京西路1717号
会德丰国际广场2504室
2504 Wheelock Square
1717 Nanjing West Road
Shanghai 200040, China
Tel: 86 (21) 5407 5836
Fax: 86 (21) 3209 8500
www.frost.com

October 29, 2021

VNET Group, Inc. (the "**Company**")
Guanjie Building, Southeast 1st Floor
10# Jiuxianqiao East Road
Chaoyang District
Beijing, 100016
The People's Republic of China

Re: Consent of Frost & Sullivan

Ladies and Gentlemen,

We hereby consent to the use of and references to our name and the inclusion of information, data and statements from our research reports and amendments thereto, including, but not limited to, the industry report titled "China Data Center Service Industry Independent Market Research" dated September 2021 (collectively, the "**Reports**"), and any subsequent amendments to the Reports, as well as the citation of our research reports and amendments thereto, (i) in any registration statements and prospectus supplements filed with the United States Securities and Exchange Commission (the "**SEC**"), (ii) in any written correspondence with the SEC, (iii) in any other future filings with the SEC by the Company, including, without limitation, filings on Form 20-F, submissions on Form 6-K and other SEC filings or submissions ((i) through (iii), collectively, the "**SEC Filings**"), (iv) in institutional and retail roadshows and other activities in connection with any offering of the securities of the Company, (v) on the websites or in the publicity materials of the Company and its subsidiaries and affiliates, and (vi) in other publicity and marketing materials in connection with any offering of the securities of the Company.

We further hereby consent to the filing of this consent letter as an exhibit to the Form 6-K filed and dated hereof and any amendments thereto and as an exhibit to any other SEC Filings.

FROST & SULLIVAN
沙利文

1706, One Exchange Square,
8 Connaught Place, Hong Kong
Tel: 852 2191 7566
Fax: 852 2191 7995
www.frost.com

Yours faithfully,
For and on behalf of
Frost & Sullivan International Limited

/s/ Yves Wang

Name: Yves Wang
Title: Managing Director