

21Vianet Group, Inc.  
Form 20-F  
April 18, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 20-F**

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2011.**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report**

**For the transition period from                      to**

**Commission file number: 001-35126**

# 21Vianet Group, Inc.

(Exact Name of Registrant as Specified in Its Charter)

N/A

(Translation of Registrant's Name into English)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

M5, 1 Jiuxianqiao East Road,

Chaoyang District

Beijing, 100016

The People's Republic of China

(Address of Principal Executive Offices)

Mr. Shang-Wen Hsiao, President and Chief Financial Officer

21Vianet Group, Inc.

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Chaoyang District

Beijing, 100016

The People's Republic of China

Phone: (86) 10 8456-2121

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(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
American Depositary Shares, each representing six Class A ordinary shares, par value US\$0.00001 per share	NASDAQ Global Market
Class A ordinary shares, par value US\$0.00001 per share*	

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\* Not for trading, but only in connection with the listing on the NASDAQ Global Market of the American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

(Title of Class)

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report: 180,993,644 Class A ordinary shares and 154,632,392 Class B ordinary shares, par value US\$0.00001 per share, as of December 31, 2011.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP ☒

International Financial Reporting Standards as issued

Other ☐

by the International Accounting Standards Board ☐

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐

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If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

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**INTRODUCTION**

Unless otherwise indicated and except where the context otherwise requires, references in this annual report on Form 20-F to:

ADSs refers to our American depositary shares, each representing six Class A ordinary shares;

21Vianet, we, us, our company, and our refer to 21Vianet Group, Inc., its subsidiaries and its consolidated affiliated entities;

China or the PRC refers to the People's Republic of China, excluding, for the purpose of this annual report only, Hong Kong, Macau and Taiwan;

ordinary shares or shares refer to our ordinary shares, which include both Class A ordinary shares, par value US\$0.00001 per share and Class B ordinary shares, par value US\$0.00001 per share, collectively; and

RMB and Renminbi refer to the legal currency of China.

**FORWARD-LOOKING STATEMENTS**

This annual report on Form 20-F contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are 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. Known and unknown risks, uncertainties and other factors, including those listed under "Risk Factors", may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify some of these forward-looking statements by words or phrases such as "may", "will", "expect", "anticipate", "aim", "estimate", "intend", "believe", "is/are likely to", "potential", "continue" or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include:

our goals and strategies and our expansion plans;

our future business development, financial condition and results of operations;

the expected growth of the data center services and internet infrastructure services market;

our expectations regarding demand for and market acceptance of our services;

our expectations regarding keeping and strengthening our relationships with customers;

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our plans to invest in research and development to enhance and complement our existing solution and service offerings;  
and

general economic and business conditions in the regions where we provide our solutions and services.

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These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect. Our actual results could be materially different from our expectations. Other sections of this annual report include additional factors that could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. You should read thoroughly this annual report and the documents that we refer to with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements.

## **PART I**

### **ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

### **ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

### **ITEM 3. KEY INFORMATION**

#### **A. Selected Financial Data**

##### **Selected Consolidated Financial Data**

The following selected consolidated financial information for the periods and as of the dates indicated should be read in conjunction with our consolidated financial statements and related notes and Item 5. Operating and Financial Review and Prospects in this annual report.

Our selected consolidated financial data presented below for the years ended December 31, 2009, 2010 and 2011 and our balance sheet data as of December 31, 2010 and 2011 have been derived from our audited consolidated financial statements included elsewhere in this annual report. Our audited consolidated financial statements are prepared in accordance with U.S. GAAP. Our selected consolidated financial data presented below for the year ended December 31, 2008 and our balance sheet data as of December 31, 2008 and 2009 have been derived from our audited financial statements not included in this annual report.



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We have not included financial information for the year ended December 31, 2007, as such information is not available on a basis that is consistent with the consolidated financial information for the years presented below without unreasonable effort or expense.

	2008	For the Year Ended December 31,			
	2008	2009	2010	2011	
	RMB	RMB	RMB	RMB	US\$
(in thousands, except share and per share data)					
Consolidated Statement of Operations Data:					
Net revenues:					
Hosting and related services	213,181	284,780	374,946	614,612	97,652
Managed network services	27,590	28,855	150,257	406,317	64,557
Total net revenues	240,771	313,635	525,203	1,020,929	162,209
Cost of revenues <sup>(1)</sup>	(174,598)	(229,304)	(396,858)	(744,371)	(118,269)
Gross profit	66,173	84,331	128,345	276,558	43,940
Operating expenses:					
Sales and marketing expenses <sup>(1)</sup>	(21,125)	(24,132)	(51,392)	(80,885)	(12,851)
General and administrative expenses <sup>(1)</sup>	(31,823)	(25,457)	(282,298)	(82,926)	(13,176)
Research and development expenses <sup>(1)</sup>	(5,858)	(7,607)	(19,924)	(34,657)	(5,506)
Changes in the fair value of contingent purchase consideration payable			(7,537)	(63,185)	(10,039)
Operating profit (loss)	7,367	27,135	(232,806)	14,905	2,368
Net profit (loss) from continuing operations	10,608	59,981	(234,715)	45,939	7,299
Loss from discontinued operations	(28,566)	(63,910)	(12,952)		
Net (loss) profit	(17,958)	(3,929)	(247,667)	45,939	7,299
Net income attributable to non-controlling interest	(295)	(1,990)	(7,722)	(27,495)	(4,369)
Net (loss) profit attributable to Company's ordinary shareholders	(18,253)	(5,919)	(255,389)	18,444	2,930
Earnings (loss) per share:					
Net profit (loss) from continuing operations	0.14	0.81	(3.39)	0.07	0.01
Loss from discontinued operations	(0.40)	(0.89)	(0.18)		
Basic	(0.26)	(0.08)	(3.57)	0.07	0.01
Net profit (loss) from continuing operations	0.06	0.32	(3.39)	0.06	0.01
Loss from discontinued operations	(0.16)	(0.35)	(0.18)		
Diluted	(0.10)	(0.03)	(3.57)	0.06	0.01
Earnings (loss) per ADS:					
Net profit (loss) from continuing operations	0.84	4.86	(20.34)	0.42	0.06
Loss from discontinued operations	(2.40)	(5.34)	(1.08)		
Basic	(1.56)	(0.48)	(21.42)	0.42	0.06
Net profit (loss) from continuing operations	0.36	1.92	(20.34)	0.36	0.06
Loss from discontinued operations	(0.96)	(2.10)	(1.08)		

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Diluted	(0.60)	(0.18)	(21.42)	0.36	0.06
Shares used in earning (loss) per share computation:					
Basic	71,526,320	71,526,320	71,526,320	259,595,677	259,595,677
Diluted	182,492,500	182,492,500	71,526,320	316,807,661	316,807,661
<b>Non-GAAP Financial Data:</b> <sup>(2)</sup>					
Adjusted gross profit	68,505	86,478	141,990	307,103	48,793
Adjusted net profit	7,666	24,902	59,454	169,993	27,009
EBITDA	22,546	48,110	(201,761)	103,882	16,505
Adjusted EBITDA	22,546	48,110	83,657	209,026	33,211

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

	For the Year Ended December 31,				
	2008	2009	2010	2011	
	RMB	RMB	RMB	RMB	US\$
	(in thousands)				
<b>Allocation of share-based compensation expenses:</b>					
Cost of revenues			4,645	2,157	343
Sales and marketing expenses			11,884	5,763	916
General and administrative expenses			254,936	31,420	4,992
Research and development expenses			6,416	2,619	416
Total share-based compensation expenses			277,881	41,959	6,667

(2) See Discussion of Non-GAAP Financial Measures.

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The following table presents a summary of our consolidated balance sheet data as of December 31, 2008, 2009, 2010 and 2011.

	2008	As of December 31,			
	2008	2009	2010	2011	US\$
	RMB	RMB	RMB	RMB	
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	75,338	71,998	83,256	410,389	65,204
Short-term investments				894,540	142,128
Accounts receivable, net	39,814	40,262	76,373	147,624	23,455
Total current assets	133,522	213,838	193,957	1,551,221	246,463
Total assets	263,067	347,123	725,587	2,402,952	381,789
Total current liabilities	272,824	315,734	210,559	462,537	73,488
Total liabilities	307,912	326,929	444,004	733,228	116,497
Total mezzanine equity	991,110	991,110	991,110		
Total shareholders' (deficit) equity	(1,035,955)	(970,916)	(709,527)	1,669,724	265,292
Discussion of Non-GAAP Financial Measures					

In evaluating our business, we consider and use the following non-GAAP measures as supplemental measures to review and assess our operating performance: adjusted gross profit, adjusted net profit, EBITDA and adjusted EBITDA. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. We define adjusted gross profit as gross profit excluding share-based compensation expenses and amortization expenses of intangible assets related to acquisitions. We define adjusted net profit as net profit (loss) from continuing operations excluding share-based compensation expenses, amortization expenses of intangible assets derived from acquisitions, changes in the fair value of contingent purchase consideration payable and unrecognized tax benefits, tax incentive receipt and outside basis difference. We define EBITDA as net profit (loss) from continuing operations before income tax expense (benefit), foreign exchange gain, other expenses, other income, interest expense, interest income and depreciation and amortization. We define adjusted EBITDA as EBITDA excluding share-based compensation expenses and changes in the fair value of contingent purchase consideration payable.

The non-GAAP financial measure disclosed by us should not be considered a substitute for financial measures prepared in accordance with U.S. GAAP. The financial results reported in accordance with U.S. GAAP and reconciliation of GAAP to non-GAAP results should be carefully evaluated. The non-GAAP financial measure used by us may be prepared differently from and, therefore, may not be comparable to similarly titled measures used by other companies.

We believe that the use of these non-GAAP measures facilitates investors' assessment of our operating performance from period to period and from company to company by backing out potential differences caused by variations in items such as capital structures (affecting relative interest expenses), the book amortization of intangibles (affecting relative amortization expenses), the age and book value of property and equipment (affecting relative depreciation expenses) and other non-cash expenses (affecting share-based compensation expenses). We also present these non-GAAP measures because we believe these non-GAAP measures are frequently used by securities analysts, investors and other interested parties as measures of the financial performance of companies in our industry.

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These non-GAAP financial measures are not defined under U.S. GAAP and are not measures presented in accordance with U.S. GAAP. These non-GAAP financial measures have limitations as analytical tools, and when assessing our operating performance, investors should not consider them in isolation, or as a substitute for net income (loss) or other consolidated income statement data prepared in accordance with U.S. GAAP. Some of these limitations include, but are not limited to:

they do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

they do not reflect changes in, or cash requirements for, our working capital needs;

they do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

they do not reflect income taxes or the cash requirements for any tax payments;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and adjusted net income, EBITDA and adjusted EBITDA do not reflect any cash forward looking requirements for such replacements;

while share-based compensation is a component of cost of revenues and operating expenses, the impact to our financial statements compared to other companies can vary significantly due to such factors as assumed life of the options and assumed volatility of our ordinary shares; and

other companies may calculate adjusted gross profit, adjusted net profit, EBITDA and adjusted EBITDA differently than we do, limiting the usefulness of these non-GAAP measures as comparative measures.

We compensate for these limitations by relying primarily on our U.S. GAAP results and using adjusted gross profit, adjusted net profit, EBITDA and adjusted EBITDA only as supplemental measures. Our adjusted gross profit, adjusted net profit, EBITDA and adjusted EBITDA are calculated as follows for the periods presented:

	For the Year Ended December 31,				
	2008	2009	2010	2011	US\$
	RMB	RMB	RMB	RMB	
	(in thousands)				
Gross profit	66,173	84,331	128,345	276,558	43,940
Plus: share-based compensation expenses			4,645	2,157	343
Plus: amortization expenses of intangible assets derived from acquisitions	2,332	2,147	9,000	28,388	4,510
<b>Adjusted gross profit</b>	<b>68,505</b>	<b>86,478</b>	<b>141,990</b>	<b>307,103</b>	<b>48,793</b>
Net profit (loss) from continuing operations	10,608	59,981	(234,715)	45,939	7,299
Plus: share-based compensation expenses			277,881	41,959	6,667
Plus: amortization expenses of intangible assets derived from acquisitions	2,332	2,147	9,000	28,388	4,510
Plus: changes in the fair value of contingent purchase consideration payable			7,537	63,185	10,039
Less: deferred tax impact of the fair value of contingent purchase consideration payable				(9,478)	(1,506)
Plus: revenue of unrecognized tax benefits and outside tax basis difference	(5,274)	(37,226)	(249)		

<b>Adjusted net profit</b>	<b>7,666</b>	<b>24,902</b>	<b>59,454</b>	<b>169,993</b>	<b>27,009</b>
Net profit (loss) from continuing operations	10,608	59,981	(234,715)	45,939	7,299
Plus: income tax expense (benefit)	3,821	(32,860)	1,588	13,677	2,173
Less: foreign exchange gain	(5,545)	(88)	(1,646)	(32,747)	(5,203)
Plus: other expenses	1,123	1,207	906	520	83
Less: other income	(2,294)	(694)	(1,152)	(1,943)	(309)
Plus: interest expense	1,297	416	2,793	4,398	699
Less: interest income	(1,643)	(827)	(580)	(14,939)	(2,374)
Plus: depreciation	12,263	15,990	19,673	58,873	9,354
Plus: amortization	2,916	4,985	11,372	30,104	4,783
<b>EBITDA</b>	<b>22,546</b>	<b>48,110</b>	<b>(201,761)</b>	<b>103,882</b>	<b>16,505</b>
Plus: share-based compensation expenses			277,881	41,959	6,667
Plus: changes in the fair value of contingent purchase consideration payable			7,537	63,185	10,039
<b>Adjusted EBITDA</b>	<b>22,546</b>	<b>48,110</b>	<b>83,657</b>	<b>209,026</b>	<b>33,211</b>

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Substantially all of our operations are conducted in China and all of our revenues are denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. For all dates and periods through December 31, 2008, the conversion of RMB into U.S. dollars in this annual report is based on the noon buying rate in New York City for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. For January 1, 2009 and all later dates and periods, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.2939 to US\$1.00, the noon buying rate in effect as of December 30, 2011. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On April 13, 2012, the noon buying rate was RMB 6.3022 to US\$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

Period	Period-End	Noon Buying Rate		High
		Average <sup>(1)</sup> (RMB per U.S. Dollar)	Low	
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
October	6.3570	6.3710	6.3825	6.3534
November	6.3765	6.3564	6.3839	6.3400
December	6.2939	6.3482	6.3733	6.2939
2012				
January	6.3330	6.3119	6.3330	6.2940
February	6.2935	6.2997	6.3120	6.2935
March	6.2975	6.3125	6.3315	6.2975
April (through April 13, 2012)	6.3022	6.3048	6.3123	6.2975

Source: Federal Reserve Statistical Release

- (1) Annual averages are calculated using the average of month-end rates of the relevant year. Monthly averages are calculated using the average of the daily rates during the relevant period.

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**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

**Risks Related to Our Business and Industry**

*We may not be able to successfully implement our expansion plan.*

We plan to further increase our services capacities. We plan to increase the aggregate number of cabinets under our management from 7,816 cabinets as of December 31, 2011 to more than 13,000 cabinets by the end of 2012 through adding new self-built data centers and partnered data centers. In addition, we plan to expand our private optical fiber network to cover all of our major data centers throughout China and plan to increase our network services capacity from 518 gigabits per second presently to over 1,000 gigabits per second by the end of 2013. To achieve this expansion plan, we will be required to commit a substantial amount of operating and financial resources. Our planned capital expenditures, together with our ongoing operating expenses, will cause substantial cash outflows. If we are not able to generate sufficient operating cash flows or obtain other types of financings, our ability to fund our expansion plan may be limited. Additional debt or equity financing may not be available when needed or, if available, may not be available on satisfactory terms. Our inability to obtain additional debt and/or equity financing or to generate sufficient cash from operations may require us to prioritize projects or curtail capital expenditures and could adversely affect our results of operations.

In addition, site selection is a critical factor in our expansion plans, and there may not be suitable properties available with the necessary combination of high power capacity and fiber connectivity. Moreover, we may not have sufficient customer demand in the markets where our data centers are located. We may overestimate the demand for our services and as a result may increase our data center capacity or expand our Internet network more aggressively than needed, resulting in a negative impact to our gross profit margins. Furthermore, the costs of construction and maintenance of new data centers constitute a significant portion of our capital resources and operating expenses. If our planned expansion does not achieve the desired results, our operating margins could be materially reduced, which would materially impair our profitability and adversely affect our business and results of operations.

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

Our data centers, power supplies and network are vulnerable to disruptions and to failure. Problems with the cooling equipment, generators, backup batteries, routers, switches, or other equipment, whether or not within our control, could result in service interruptions and 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 one of our data center facilities could affect many of our customers. The total destruction or severe impairment of any of our data center facilities 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 service, even minor interruptions in our service 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;



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require us to replace existing equipment or add redundant facilities;

cause existing customers to cancel or elect to not renew their contracts;

affect our reputation as a reliable provider of data center services; 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 operating results.

***We compete with, and our business substantially depends on, China Telecom and China Unicom for hosting facilities and other telecommunication resources.***

Our business depends on our relationships with China Telecom and China Unicom, two major telecommunications carriers in China, for hosting facilities and bandwidth, and to some extent, for optical fibers. We directly enter into agreements with the local subsidiaries of China Telecom or China Unicom, where we lease some or all of the 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 or China Unicom has independent corporate authority to execute contracts, our contract terms with these subsidiaries vary and are determined on a case-by-case basis. We generally refer to this type of data centers as our partnered data centers. As of December 31, 2011, we leased 3,761 cabinets from China Telecom and China Unicom that are housed in our 55 partnered data centers, accounting for 48.1% of the total number of our cabinets under management. We also rely on China Telecom and China Unicom 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, or ISPs. Our agreements with affiliates of China Telecom or China Unicom usually have a one-year term with automatic renewal option. In addition, China Telecom and China Unicom also provide data center services and directly compete with us for customers. 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, bandwidth and optical fibers 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. As a result, our business and results of operations would 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 generally refer to this type of data centers as self-built data centers. Our operating leases generally have three to ten year lease terms with renewal options. As of December 31, 2011, our self-built data centers have 4,055 cabinets, or 51.9% 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. If any such event happens, we may have to relocate our data center equipment and the servers and equipments of our customers to a new building and incur significant expenses 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.

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### ***Investment in broadband wireless access services may have a material adverse effect on our business prospects and results of operations.***

In February 2012, we won a bid for radio spectrum in the 2.3 GHz band to provide broadband wireless access services, or BWA, in Hong Kong for HK\$150 million (approximately US\$19.3 million). This investment provides us an opportunity to enter into the mobile infrastructure landscape and explore the market potentials in providing wireless solutions. We plan to form a partnership or the joint venture with Hong Kong local carriers and use the BWA license as an investment in the partnership or joint venture to take advantage of the local knowledge and market intelligence of service providers in Hong Kong. Currently, we do not plan to incur significant capital expenditure to build out the infrastructures in Hong Kong by ourselves. However, we have limited experience in providing mobile infrastructure services in Hong Kong. We may not be able to successfully locate a Hong Kong local carrier to work with us, and our investment in the BWA license may divert our management's attention from our core business in mainland China, which may have a material adverse effect on our business prospects and results of operations.

### ***Difficulties in identifying, consummating and integrating acquisitions and potential write-off in connection with 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. For instance, in September 2010, we acquired 51% equity interests in two companies that provide managed network services in China, Beijing Chengyishidai Network Technology Co., Ltd., or CYSD, and Zhiboxintong (Beijing) Network Technology Co., Ltd., or ZBXT, which we collectively refer to as Managed Network Entities. In December 2011, we exercised our call option to acquire the remaining 49% equity interests in the Managed Network Entities. Also in October 2011, we acquired 100% equity interests in Guangzhou Gehua Network Technology and Development Company Limited, or Gehua. Past and future acquisitions may expose us to potential risks, including risks associated with:

the integration of new operations and the retention of customers and personnel;

significant volatility in our operating profit (loss) due to changes in the fair value of our contingent purchase consideration payable;

unforeseen or hidden liabilities, including those associated with poor business practices;

the diversion of resources from our existing business and technology;

failure to achieve synergies with our existing business as anticipated;

failure of the newly acquired businesses, technologies, services and products to perform as anticipated;

inability to generate sufficient revenue to offset additional costs;

the costs of acquisitions; or

the potential loss of, or harm to, relationships with both our employees and customers resulting from our integration of new businesses.

Any of the potential risks listed above could have a material and adverse effect on our ability to manage our business and our results of operation.

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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 be assured 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 effects 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 could adversely affect our financial position and result in additional shareholder dilution.

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***We may not be able to continue to increase sales to our existing customers and add new customers, which would adversely affect our operating results.***

Our growth depends on our ability to continue to expand our service offerings to existing customers and attract new customers. 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 the current or future economic recession;

our inability to market our services in a cost-effective manner to new customers;

the inability of our customers to differentiate our services from those of our competitors or our inability to effectively communicate such distinctions;

our inability to successfully communicate the benefits of data center services 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 services;

our inability to expand our sales to existing customers; and

reliability, quality or compatibility problems with our services.

A substantial amount of our past revenues were derived from service upgrades by 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 continue attracting new customers or grow our revenues from existing customers for a prolonged period of time could have a material adverse effect on our operating results.

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

We face competition from various industry players, including carriers such as China Telecom and China Unicom, carrier-neutral service providers in China such as ChinaNetCenter and Dnion Technology, and the in-house data centers of major corporations, 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, and price. Some of our current and future competitors have substantially greater financial, technical and marketing resources, greater brand recognition, and more established relationships in the industry than we do. As a result, some of these competitors may be able to:

adapt to new or emerging technologies and changes in customer requirements more quickly;

bundle services and provide 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.

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### ***We depend on third-party suppliers for key elements of our network infrastructure.***

To provide high performance connectivity services to our customers through our network access points, we purchase connections from several network service providers, primarily China Telecom and China Unicom. We can offer no assurances that these service providers will continue to provide service 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.

We also depend on third parties for optical fibers for our data transmission network. We offer no assurance that we will be able to maintain a good relationship with our fiber suppliers or renew our leases on commercially reasonable terms, if at all. The occurrence of these events would materially and adversely affect our ability to provide services and affect our business and results of operations.

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 a significant vendor could delay any 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, then we may be unable to meet all or a portion of our customer service commitments, which could materially and adversely affect our results.

### ***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 performance and operating results.***

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 less control over our partnered data centers, which are 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 breaches in security. 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, regulatory penalties, loss of existing or potential customers, harm to our reputation and significant increases in our security costs, which could have a material adverse effect on our financial performance and operating results.

### ***We depend on third parties for telecommunication network services, and increased telecommunication costs may adversely affect our operating results.***

Our success depends in part upon the capacity, reliability, and performance of our network infrastructure, including the capacity leased from our Internet bandwidth suppliers, which are primarily China Telecom and China Unicom. We depend on these companies to provide us with uninterrupted and error-free services through their telecommunications networks. However, some of these providers are also our competitors and we exercise little control over our bandwidth suppliers. In addition, 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 capacity increases, we may be required to make additional investments in our capacity to maintain adequate data transmission speeds. The availability of such capacity may be limited or the cost may be on terms 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.

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***Our business is sensitive to global economic conditions. A severe or prolonged downturn in the global or Chinese economy could materially and adversely affect our business and our results of operation.***

The global financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and it is facing new challenges, including the escalation of the European sovereign debt crisis since 2011. It is unclear whether the European sovereign debt crisis will be contained and what effects it may have. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including China. There have also been concerns over unrest in the Middle East and Africa, which have resulted in higher oil prices and significant market volatility, and over the possibility of a war involving Iran. There have also been concerns about the economic effect of the earthquake, tsunami and nuclear crisis in Japan. Economic conditions in China are sensitive to global economic conditions. Any prolonged slowdown in the global or Chinese economy may have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

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

Our agreements with our customers contain certain guarantees regarding our performance. For hosting services, we guarantee 99.99% uptime for power and 99.9% uptime for network connectivity, failure of which will cause us to provide free service for the following month. Although we have not had any material customer claims for power failures or network disconnections, our success depends on our ability to meet or exceed our customers' expectations. We have not had any major customer service issues in the past. However, if in the future we are unable to provide customers with quality customer support in a variety of areas, we could face customer dissatisfaction, decreased overall demand for our services, and loss of revenue. In addition, our inability to meet customer service expectations may damage our reputation and could consequently limit our ability to retain existing customers and attract new customers, which would adversely affect our ability to generate revenue and negatively impact our operating results.

***We rely on customers in the Internet sector for most of our revenues.***

We derived over a majority of our revenues in 2011 from customers in China's Internet sector, including portals, search engines, online media, e-commerce and online game companies. 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. 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 events happen, we may lose customers or have difficulties in selling our services, which would materially and adversely affect our business 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 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 in relation to the construction of our self-built data centers. If we raise additional funds through further issuances of equity or equity-linked securities, our existing shareholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences, and privileges senior to those of holders of our ordinary shares. In addition, any debt financing that we may obtain, if at all, in the future could have restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions.

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### ***Increased power costs and limited availability of electrical resources may adversely affect our operating results.***

Costs of power account for a significant portion of our 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. 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 sufficient to meet our customers' power needs, our data centers could have a limited or inadequate access to electricity. 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 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 be unable to manage our expenses effectively in the future due to the expenses associated with these expansions, which may negatively impact our gross margins or 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 operating results.

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

To be successful, we must adapt to our rapidly changing market by continually improving the performance, features, and reliability of our services and modifying our business strategies accordingly. We could also incur substantial costs if we need to modify our services or infrastructure in order to adapt to these changes. We may not be able to timely adapt 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 services. 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 to market, 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 operating results 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 revenue and have a material adverse effect of our operating results.

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

We have enjoyed a strong brand name in Chinese, 网宿科技, among our customers. As our business grows, we plan to continue to focus our efforts to establish a wider recognition of our brand to attract potential customers. We cannot assure you that we will effectively allocate our resources for these activities or succeed in maintaining and broadening our brand recognition among the 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. 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.



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***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, results of operations and financial condition may be materially and adversely affected.

***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, chairman of the board of directors and chief executive officer, and Jun Zhang, our co-founder and chief operating officer. We rely on their industry expertise, their experience in our business operations and sales and marketing, and their working relationships with our employees, our other major shareholders, our clients and relevant 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 clients, 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 the 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 our company.

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

The uncertain economic environment could have an adverse effect on our liquidity. While we believe we have a strong customer base, if the current market conditions were to worsen, some of our customers may have difficulty paying us and we may experience increased churn in our customer base and reductions in their commitments to us. We may also be required to further increase our allowance for doubtful accounts and our results would be negatively impacted. Our sales cycle could also be lengthened if customers slow spending, or delay decision-making, on our products and services, which could adversely affect our revenues growth and our ability to recognize revenue. Finally, we could also experience pricing pressure as a result of economic conditions if our competitors lower prices and attempt to lure away our customers with lower cost solutions. Finally, our ability to access the capital markets may be severely restricted at a time when we would like, or need, to do so which could have an impact on our flexibility to pursue additional expansion opportunities and maintain our desired level of revenue growth in the future.

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***Our operating results 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 ADSs.***

Our operating results have fluctuated and may continue to fluctuate due to a variety of factors, including many of the risks described in this section, which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our operating results for any prior periods as an indication of our future operating performance. Fluctuations in our revenue can lead to even greater fluctuations in our operating results. Our budgeted expense levels depend in part on our expectations of long-term future 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 revenue does not meet projected levels, our operating performance will be negatively affected. Fluctuations in our operating results could result in significant volatility in, and otherwise.

***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 ADSs may be adversely affected.***

As a public company, we are subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act, or Section 404, requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F beginning with our annual report for the fiscal year ending December 31, 2012. In addition, beginning at the same time, our independent registered public accounting firm must report on the effectiveness of our internal control over financial reporting. If we fail to fully remediate any weaknesses and deficiencies that we may identify as a result of our Section 404 readiness and compliance assessment, if any, our management and our independent registered public accounting firm may conclude that our internal control over financial reporting is not effective as of December 31, 2012. This could adversely impact the market price of our ADSs due to a loss of investor confidence in the reliability of our financial reporting processes. We will need to incur significant costs and use management and other resources in order to comply with Section 404.

***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 market price of our ADSs 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, the 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, cause the market price of our ADSs to decrease or even result in the delisting of our ADSs from the NASDAQ.

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***We are subject to China's anti-corruption laws 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, results of operations and financial condition.***

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. 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 services 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 not in compliance 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.

***If we fail to protect our intellectual property rights, 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 services, 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.

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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 other 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, 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.

***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 April 9, 2012, options to purchase a total of 20,366,968 ordinary shares of our company are outstanding under our 2010 share incentive plan. See Item 6.B Compensation of Directors and Executive Officers Share Incentive Plan. For the year ended December 31, 2011, we recorded RMB42.0 million (US\$6.7 million) in 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 and other share-based awards to employees in the future. If our share-based compensation expenses continue to be significant, our results of operations would be materially and adversely affected.

Furthermore, although we have recorded RMB206.1 million (US\$32.7 million) of share-based compensation expenses in connection with 24,826,090 fully-vested ordinary shares issued to Sunrise, a company solely owned by our chairman and chief executive officer, we may record share-based compensation expense for a portion or all of these 24,826,090 shares again at significantly different values if our chairman and chief executive officer at a future date, decide to transfer a portion of these shares to existing and former employees of our company. Any share-based shareholder contribution, if and when made by our chairman and chief executive officer for the benefit of our company, would be required to be recognized as share-based compensation expenses within our results of operations, which would be derived from the estimated fair value of the ordinary share award on the transfer date. Our future results of operations may be materially and adversely affected if a significant amount of share-based compensation is recorded in connection with such future transfers of these ordinary shares.

***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 center. Currently, we maintain insurance policies with respect to our equipment, but we do not maintain any business interruption insurance or third-party liability insurance. 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 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, results of operations and financial condition.

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

Our business could be materially and adversely affected by natural disasters or public health emergencies, such as the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, or another epidemic. On May 12, 2008 and April 14, 2010, severe earthquakes hit part of Sichuan province in southeastern China and part of Qinghai province in western China, respectively, resulting in significant casualties and property damage. While we did not suffer any loss or experience any significant increase in cost resulting from these earthquakes, if a similar disaster were to occur in the future that affected Beijing or another city 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 similar disaster affecting a larger, more developed area could also cause an increase in our costs resulting from the efforts to resurvey the affected area. Even if we are not directly affected, such a disaster could affect the operations or financial condition of our customers and suppliers, which could harm our results of operations.

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In April 2009, a new strain of influenza A virus subtype H1N1, commonly referred to as swine flu, was first discovered in North America and quickly spread to other parts of the world, including China. In early June 2009, the World Health Organization declared the outbreak to be a pandemic, while noting that most of the illnesses were of moderate severity. The PRC Ministry of Health has reported several hundred deaths caused by influenza A (H1N1). Any outbreak of avian influenza, SARS, influenza A (H1N1) or other adverse public health epidemic in China may have a material and adverse effect on our business operations. These occurrences could require the temporary closure of our offices or prevent our staff from traveling to our customers' offices to provide on-site services. Such closures could severely disrupt our business operations and adversely affect our results of operations.

***The audit report included in this annual report are prepared by auditors who are not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection***

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the US Securities and Exchange Commission, as auditors of companies that are traded publicly in the United States and a firm registered with the US Public Company Accounting Oversight Board (United States) (the PCAOB), is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in the Peoples Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

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

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

## **Risks Related to Our Corporate Structure**

***If the PRC government finds that the arrangements that establish the structure for operating our business do not comply with PRC government restrictions on foreign investment in the telecommunications business or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.***

The PRC government regulates telecommunications-related businesses through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership of PRC companies that engage in telecommunications-related businesses. Specifically, foreign investors are not allowed to own more than a 50% equity interest in any PRC company engaging in value-added telecommunications businesses.

Because we are a Cayman Islands company, we are classified as a foreign enterprise under PRC laws and regulations, and our wholly-owned PRC subsidiary, 21Vianet Data Center Company Limited, or 21Vianet China, is a foreign-invested enterprise. To comply with PRC laws and regulations, we conduct our business in China through contractual arrangements with Beijing aBitCool Network Technology Co., Ltd., or 21Vianet Technology, and its shareholders. These contractual arrangements provide 21Vianet China with effective control over 21Vianet Technology. For a description of these contractual arrangements, see Item 7.B Related Party Transaction Contractual Arrangements with Our Consolidated VIE.

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The Ministry of Industry and Information Technology, or MIIT, issued a circular in July 2006 requiring foreign investors to set up a foreign-invested enterprise and obtain a value-added telecommunications business operating license, or VAT license, in order to conduct any value-added telecommunications business in China. Pursuant to this circular, a domestic VAT 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 VAT license holder or its shareholder. The circular further requires each VAT 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. Due to a lack of interpretations from MIIT, it is unclear what impact this circular will have on us or other similarly situated companies.

Based on its understanding of the relevant laws and regulations, King & Wood Mallesons, our PRC legal counsel, is of the opinion that each of the contracts among 21Vianet China, 21Vianet Technology and the shareholders of 21Vianet Technology governed by PRC law is valid and legally binding upon each party of such agreements under PRC laws and regulations, and 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 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 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.

Various media sources have recently reported that the China Securities Regulatory Commission, or the CSRC, prepared a report proposing pre-approval by a competent central government authority of offshore listings by China-based companies with variable interest entity structures, such as ours, that operate in industry sectors subject to foreign investment restrictions. However, it is unclear whether the CSRC officially issued or submitted such a report to a higher level government authority or what any such report provides, or whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or what they would provide. If our corporate and contractual structure is deemed by MIIT, or other regulators having competent authority, to be illegal, either in whole or in part, we may 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 business and operating licenses;

levying fines on us;

confiscating any of our income that they deem to be obtained through illegal operations;

shutting down a portion or all of our networks and servers;

discontinuing or restricting our operations in China;

imposing conditions or requirements with which we may not be able to comply;

requiring us to restructure our corporate and contractual structure;

restricting or prohibiting our use of the proceeds from our initial public offering to finance our PRC affiliated entities' business and operations; and

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taking other regulatory or enforcement actions that could be harmful to our business. 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, or VIE, including such equity interest, may be put under court custody. As the 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.

### ***Our contractual arrangements with 21Vianet Technology 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 21Vianet Technology, our consolidated variable interest entity, 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) increasing the tax liabilities of 21Vianet Technology without reducing 21Vianet China's tax liability, which could further result in late payment fees and other penalties to 21Vianet Technology for underpaid taxes; or (ii) limiting the ability of 21Vianet Technology to obtain or maintain preferential tax treatments and other financial incentives.

### ***We rely on contractual arrangements with our consolidated variable interest entity and its shareholders for our China operations, which may not be as effective as direct ownership in providing operational control.***

We rely on contractual arrangements with our consolidated variable interest entity, 21Vianet Technology, and its shareholders, to operate our business in China. For a description of these contractual arrangements, see Item 7.B Related Party Transaction Contractual Arrangements with Our Consolidated VIE. These contractual arrangements may not be as effective as direct ownership in providing us with control over our consolidated variable interest entity. As a legal matter, if our consolidated variable interest entity or its shareholders fail to perform their respective obligations under these contractual arrangements, 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 law 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 21Vianet Technology, and our ability to conduct our business and our financial conditions and results of operation may be materially and adversely affected. See Risks Related to Doing Business in China Uncertainties with respect to the PRC legal system could limit legal protections available to you and us.

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

The shareholders of our consolidated variable interest entity, 21Vianet Technology, are also the founders, directors, executive officers, employees and ultimate shareholders of our company. Conflicts of interests between their roles may arise. We cannot assure you that if and when conflicts of interest arise, these individuals will act in the best interests of our company and our shareholders or that conflicts of interests will be resolved in our favor. In addition, these individuals may breach or cause our consolidated variable interest entity to breach the existing contractual arrangements. Currently, we do not have arrangements to address potential conflicts of interest between these individuals and our company. We rely on these individuals to abide by the laws of the Cayman Islands and China. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of our consolidated variable interest entity, we would have to rely on legal proceedings, which could result in disruption of our business and substantial uncertainty as to the outcome of any such legal proceedings.



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***We may lose the ability to use and enjoy assets held by our consolidated variable interest entity that are important to the operation of our business if it goes bankrupt or becomes subject to a dissolution or liquidation proceeding.***

As part of our contractual arrangements with our consolidated variable interest entity, 21Vianet Technology, and its shareholders, 21Vianet Technology holds certain assets that are important to our business operations. If 21Vianet Technology goes 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 operations, which could materially and adversely affect our business, financial condition and results of operations. If 21Vianet Technology undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated 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 result of operations.

## **Risks Related to Doing Business in China**

***Adverse changes in political and economic policies 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.***

Substantially all of our operations are conducted in China and substantially all 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 the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. From late 2003 to mid-2008, the PRC government implemented a number of measures, such as increasing the People's Bank of China's statutory deposit reserve ratio and imposing commercial bank lending guidelines that had the effect of slowing the growth of credit, which in turn may have slowed the growth of the PRC economy. In response to the global and Chinese economic downturn in 2008, the PRC government promulgated several measures aimed at expanding credit and stimulating economic growth including decreasing the People's Bank of China's statutory deposit reserve ratio and lowering benchmark interest rates several times. Since January 2010, however, the People's Bank of China has increased the statutory deposit reserve ratio in response to rapid growth of credit in 2009. In 2011, the PRC government introduced measures in certain sectors to avoid overheating of the economy, including tighter bank lending policies and increases in bank interest rates. More recently, the PRC government has announced its intention to relax certain of these policies in response to slowed growth in the PRC economy in the latter half of 2011. 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 materially and adversely affect our business, financial condition and results of operations.

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

We conduct our business primarily through our subsidiary, our VIE and its subsidiaries in China. Our operations in China are governed by PRC laws and regulations. 21Vianet China is a foreign-invested enterprise and is subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to foreign-invested enterprises. 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.

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In 1979, the PRC government began to promulgate 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 some time 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.

***We rely principally on dividends paid by our operating subsidiary to fund cash and financing requirements, and limitations on the ability of our operating subsidiary 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 and conduct substantially all of our business through 21Vianet China, our operating subsidiary, and our consolidated affiliated entities, which are limited liability companies established in China. We rely principally on dividends paid by our subsidiary 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 subsidiary, 21Vianet China, is also required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. In addition, 21Vianet China is required to allocate a portion of its after-tax profit to its staff welfare and bonus fund at the discretion of its board of directors. Moreover, if 21Vianet China incurs any debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitation on the ability of 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 outside the terms of our existing license, our business would be materially and adversely affected.***

Pursuant to the Telecommunications Regulations promulgated by the PRC State Council in September 2000, telecommunications businesses are divided into two categories, namely, (i) basic telecommunications businesses, which refers to businesses that provide public network infrastructure, public data transmission and basic voice communications services, and (ii) value-added telecommunications businesses, which refer to businesses that provide telecommunications and information services through the public network infrastructure. If the value-added telecommunications service covers two or more provinces, autonomous regions or municipalities, such service shall be approved by the MIIT and the service provider shall obtain a Cross-Regional Valued Added Telecommunications License. Pursuant to the Cross-Regional Valued Added Technology License issued to Beijing 21Vianet Broad Band Data Center Co., Ltd., or 21Vianet Beijing, by the MIIT on January 17, 2012, 21Vianet Beijing is permitted to carry out its data center business under the first category of value-added telecommunications business across nine cities in China. Pursuant to the Valued Added Technology License issued to CYSD by the Beijing Communications Administration on April 25, 2011, CYSD is permitted to carry out its Internet access service business under the second category of value-added telecommunications business in Beijing. Pursuant to the Valued Added Technology License issued to Gehua by the Guangzhou Communications Administration, Gehua is permitted to carry out its Internet access service business and Internet information service business under the second category of value-added telecommunications business in Guangdong province from December 29, 2011 to December 29, 2016.

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In connection with our data center services, we provide managed network services that connect our data centers with the telecommunication backbones of China's major carriers, major non-carriers and ISPs as well as connect servers housed in our data centers. Our managed network services are offered in the form of bandwidth with optimized interconnectivity. Furthermore, we have been continuously developing our hosting service and managed network service to better serve our customers, and as a result, we introduce new technologies and services from time to time to support and improve our current business. Besides, as of the date of this annual report, there is no legal definition as to what constitutes a managed network services, nor are there laws or regulations in China specifically governing the managed network services. We cannot assure you that PRC governmental authorities will continue to deem our hosting service and will deem our managed network service and any of our newly developed technologies, network and services used in our business as a type of value-added telecommunications business or a business covered under the Cross-Regional Valued Added Telecommunications License of 21Vianet Beijing and the Valued Added Technology License issued to CYSD and Gehua. 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 21Vianet Beijing, CYSD and Gehua will be able to successfully renew its respective VAT license upon its expiration, or obtaining other appropriate licenses necessary for us to carry out our business or that these VAT licenses will continue to cover all aspects of our operations upon its renewal. In addition, new laws, regulations or government interpretations may also be promulgated from time to time to regulate the hosting service and managed network 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 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 shares and ADSs.***

Pursuant to the PRC Enterprise Income Tax Law, 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 purposes. 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. Given that the Enterprise Income Tax Law is relatively new and ambiguous in terms of some definitions, requirements and detailed procedures, it is unclear how tax authorities will determine tax residency based on the facts of each case.

We believe we are not a PRC resident enterprise, however if the PRC tax authorities determine that we are a resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow: (i) we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations; (ii) a 10% withholding tax may be imposed on dividends we pay to our non-PRC holders of shares and ADSs; and (iii) a 10% PRC tax may apply to gains derived by our non-PRC holders of shares and ADSs from transferring our shares or ADSs, if such income is considered PRC-source income.

Similarly, such unfavorable tax consequences could apply to our Hong Kong subsidiary, 21ViaNet Group Limited, or 21Vianet HK, if it is deemed to be a resident enterprise by the PRC tax authorities. Notwithstanding the foregoing provisions, the Enterprise Income Tax Law also provides that the dividends paid between qualified resident enterprises are exempt from enterprise income tax. If 21Vianet HK is deemed a resident enterprise for PRC enterprise income tax purposes, the dividends it receives from its PRC subsidiary, 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 enterprise income tax purposes. Even if such dividends qualify as tax-exempt income, we cannot guarantee that such dividends will not be subject to any withholding tax.

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

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or SAT Circular 698, issued by the State Administration of Taxation, or the SAT, on December 10, 2009 with retroactive effect from January 1, 2008, where a non-PRC resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company, or an indirect transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5% or (ii) does not tax foreign income of its residents, the non-PRC resident enterprise, being the transferor, shall report this indirect transfer to the competent tax authority of the PRC resident enterprise.

Using a substance over form principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from an indirect transfer may be subject to PRC tax at a rate of up to 10%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

There is uncertainty as to the application of SAT Circular 698. For example, while the term indirect transfer is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. In addition, there are not any formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. SAT Circular 698 may be determined by the tax authorities to be applicable to our private equity financing transactions where non-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-resident investors may be at risk of being taxed under SAT Circular 698 and may be required to expend valuable resources to comply with SAT Circular 698 or to establish that we should not be taxed under SAT Circular 698, which may have a material adverse effect on our financial condition and results of operations or such non-resident investors' investments in us.

### ***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 PRC Enterprise Income Tax Law, or the New EIT Law, and its implementation rules, became effective on January 1, 2008. The New EIT Law significantly curtails tax incentives granted to foreign-invested enterprises under the PRC Enterprise Income Tax Law concerning foreign-invested enterprises and foreign enterprises, or the Old EIT Law, which was effective prior to January 1, 2008. The New EIT Law, however, (i) reduces the statutory rate of the enterprise income tax from 33% to 25%, (ii) permits companies established before March 16, 2007 to continue to enjoy their existing tax incentives, adjusted by certain transitional phase-out rules promulgated by the State Council on December 26, 2007, and (iii) introduces new tax incentives, subject to various qualification criteria.

In April 2009, 21Vianet Beijing received an approval for the grandfathering of its 6-year tax holiday which effectively commenced from January 1, 2006 and allows it to utilize a three-year 100% tax exemption followed by a three-year 50% reduced EIT rate. In December 2008, 21Vianet Beijing also received an approval as a High and New Technology Enterprises, or HNTE, and is eligible for a 15% preferential tax rate effective from 2008 to 2010. In September 2011, 21Vianet Beijing renewed such approval as a HNTE and is eligible for a 15% preferential tax rate effective from 2011 and 2014. In 2011, 21Vianet (Xi'an) Information Outsourcing Industry Park Services Co., Ltd., or 21Vianet Xi'an, obtained a written approval from Shaanxi Tax Bureau for a preferential tax rate of 15%. The preferential tax rate is awarded to companies that have operations in certain industries and meet the criteria set forth in the Preferential Tax Policies for Development of the Western Regions. Such qualification for preferential tax rate needs to be assessed on an annual basis. In accordance with the PRC Income Tax Laws, an enterprise awarded HNTE status may enjoy a reduced EIT rate of 15%, however, in the event that any of the various provisions of the transitional preferential enterprise income tax policies, the New EIT Law and the implementing regulations overlap, an enterprise may choose the most advantageous policy to apply its sole and absolute discretion. We currently chose to apply the tax holiday but it is unclear how long we will be able to rely on such tax holiday, if at all, because the relevant regulation on such tax holiday is ambiguous. In addition, 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 is not able to enjoy the tax holiday and fails to maintain its HNTE qualification or renew its qualification when the relevant term expires, its applicable enterprise income tax rate may increase to 25%, which could have a material adverse effect on our financial condition and results of operations.

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***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 include provisions that purport to require approval of the Ministry of Commerce for acquisitions by offshore entities established or controlled by domestic companies, enterprises or natural persons of onshore entities that are related to such domestic companies, enterprises or natural persons, and prohibit offshore entities from using their foreign-invested subsidiaries in China, or through other means, to circumvent such requirement. As part of our growth strategy, we obtained control over 21Vianet Technology on July 15, 2003 by entering into contractual arrangements with 21Vianet Technology and their shareholders. We did not seek the approval of the Ministry of Commerce for these transactions based on the legal advice we obtained from our PRC legal counsel in connection with those transactions. However, the M&A Rules also prohibit companies from using any other means to circumvent the approval requirement set forth therein and there is no clear interpretation as to what constitutes other means of circumvention of the requirement under the M&A Rules. The Ministry of Commerce and other applicable government authorities would therefore have broad discretion in determining whether an acquisition is in violation of the M&A Rules. If PRC regulatory authorities take a view that is contrary to ours, we could be subject to severe penalties. In addition, part of our growth strategy includes acquiring complementary businesses or assets. Complying with the requirements of the M&A Rule to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit the completion of 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.

***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 initial public offering to make loans or additional capital contributions to our PRC subsidiary or 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 initial public offering or in other financing activities, as an offshore holding company, we may make loans to our PRC subsidiary, 21Vianet China, or our VIE and its subsidiaries in the PRC, or we may make additional capital contributions to 21Vianet China. Any loans to 21Vianet China or our VIE and its subsidiaries in the PRC are subject to PRC regulations. For example, loans by us to 21Vianet China, which is a foreign-invested enterprise, to finance its activities cannot exceed statutory limits and must be registered with the State Administration of Foreign Exchange, or SAFE.

We may also decide to finance our operations in China by means of capital contributions. These capital contributions must be approved by the Ministry of Commerce or its local counterpart. We cannot assure you that we will be able to obtain these government approvals on a timely basis, if at all, with respect to future capital contributions by us to our subsidiary. If we fail to receive such approvals, our ability to use the proceeds from our initial public offering 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.

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### ***Governmental control of currency conversion may limit our ability to utilize our revenues.***

Substantially all of our revenues and expenses are denominated in Renminbi. Under PRC laws, the Renminbi is currently convertible under the current account, which includes dividends, trade and service-related foreign exchange transactions, but not under the capital account, which includes foreign direct investment and loans, without the prior approval of the SAFE. Currently, our PRC subsidiary, 21Vianet China, 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 21Vianet China under the capital account continue to be subject to significant foreign exchange controls and require the approval of or need to register with PRC governmental authorities, including the SAFE. In particular, if 21Vianet China borrows foreign currency loans from us or other foreign lenders, these loans must first be registered with the SAFE. If 21Vianet China, a wholly foreign-owned enterprise, borrows foreign currency, the accumulative amount of its foreign currency loans shall not exceed the difference between the total investment and the registered capital of 21Vianet China. If we finance 21Vianet China by means of additional capital contributions, these capital contributions must be approved by certain government authorities, including the National Development and Reform Commission, the Ministry of Commerce or their respective local counterparts. Any existing and future restrictions on currency exchange may affect the ability of our PRC subsidiary or affiliated entities to obtain foreign currencies, limit our ability to meet our foreign currency obligations or otherwise materially and adversely affect our business.

### ***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 PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation was halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. As a consequence, the Renminbi fluctuated significantly during that period against other freely traded currencies, in tandem with the U.S. dollar. Since June 2010, the PRC government has allowed the Renminbi to appreciate slowly against the U.S. dollar again. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

There remains significant international pressure on the Chinese government to adopt a substantial liberalization of its currency policy, which could result in further appreciation in the value of the Renminbi against the U.S. dollar. 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 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 dividends on our ordinary shares or ADSs, strategic acquisitions or investments or other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

### ***PRC regulations relating to the establishment of offshore special purpose companies 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 subsidiary, limit our PRC subsidiary's ability to distribute profits to us, or otherwise materially and adversely affect us.***

In October 2005, the SAFE issued a public notice, the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies by Residents Inside China, or Circular 75. According to Circular 75 and the relevant SAFE regulations, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas funds raised by such offshore company or another material change involving a change in the capital of the offshore company.

Moreover, Circular 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant registration with the local SAFE branch. Failure to comply with the registration procedures set forth in Circular 75 may result in restrictions on the foreign exchange activities of the relevant foreign-invested enterprises, including the payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate and the capital inflow from the offshore parent, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

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A notice issued by SAFE on May 20, 2011, or Notice 19, further provides detailed provisions and requirements regarding the foreign exchange registration under Circular 75. Under Notice 19, any PRC citizen, resident, or entity which is a direct or indirect shareholder of an offshore entity is required to update any previously filed registration with the local branch of SAFE to reflect any material change in such offshore entity. Moreover, any offshore entity which fails to comply with Circular 75 may remedy by making the registration with the local branch of SAFE after fulfillment of the administrative penalties imposed by the relevant SAFE branch.

We have requested PRC residents holding direct or indirect interest in our company to our knowledge to make the necessary applications, filings and amendments as required under Circular 75 and the relevant SAFE regulations. We attempt to comply, and attempt to ensure that 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 the Circular 75 and the relevant SAFE regulations have conducted the registration procedures prescribed by Circular 75 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 75 or the relevant SAFE regulations. The failure or inability of these PRC residents to make any required registrations or comply with other requirements under Circular 75 and the relevant SAFE regulations may subject such PRC residents or our PRC subsidiary to fines and legal sanctions and may also limit our ability to contribute additional capital into or provide loans (including using the proceeds from our initial public offering) to our PRC subsidiary, 21Vianet China, and our VIE and its subsidiaries, limit 21Vianet China's ability to pay dividends or otherwise distribute profits to us, or otherwise materially and adversely affect us.

### **Risks Related to our ADSs**

#### ***The market price of our ADSs has fluctuated and may continue to be volatile.***

The trading prices of our ADSs are likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, such as the performance and fluctuation in the market prices or the underperformance or declining financial results of other companies based in China that have listed their securities in the United States in recent years. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies' securities after their offerings may affect the attitudes-of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of the Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance such as the large decline in share prices in the United States, China and other jurisdictions in late 2008, early 2009 and the second and third quarters of 2011, which may have a material and adverse effect on the market price of our ADSs.

In addition, the market price for our ADSs has fluctuated since we first listed our ADSs on the NASDAQ Global Market on April 21, 2011, until December 31, 2011, the closing prices of our ADSs have ranged from US\$8.5 to US\$18.8 per ADS, and the latest reporting trading price on April 17, 2012 was US\$11.96 per ADS. The market price for our ADSs may be highly volatile and subject to wide fluctuations in response to factors including the following:

actual or anticipated fluctuations in our quarterly operating results and changes or revisions of our expected results;

announcements of new services by us or our competitors;

changes in financial estimates or recommendations by securities analysts;

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conditions in the data center industry in China;

changes in the performance or market valuations of other companies that provide hosting and managed network services;

fluctuations of exchange rates between the Renminbi and the U.S. dollar or other foreign currencies;

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

detrimental negative publicity about us, our competitors or our industry;

additions or departures of executive officers;

sales or perceived potential sales of additional ordinary shares or ADSs;

litigation or administrative investigations; and

general economic or political conditions in China.

***Our dual-class voting structure will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.***

We have a dual-class voting structure such that our ordinary shares consist of Class A ordinary shares and Class B ordinary shares. In respect of matters requiring the votes of shareholders, holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares or preferred shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares shall be automatically and immediately converted into the equal number of Class A ordinary shares. Due to the disparate voting powers attached to these two classes, holders of our Class B ordinary shares have significant voting power over matters requiring shareholder approval. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

***Substantial future sales of our ADSs in the public market, or the perception that these sales could occur, could cause the price of our ADSs to decline.***

Additional sales of our Class A ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of the date of this annual report, we had 335,626,036 ordinary shares outstanding, including 204,379,967 Class A ordinary shares represented by ADSs. All ADSs are freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. The remaining Class A ordinary shares outstanding are available for sale, subject to volume and other restrictions as applicable under Rule 144 under the Securities Act.

In addition, certain holders of our ordinary shares will have the right to cause us to register the sale of those shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the public market could cause the price of our ADSs to decline.





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*You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise your right to vote.*

Except as described in this annual report and in the deposit agreement, holders of our ADSs are not be able to exercise voting rights attaching to the Class A ordinary shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attaching to the Class A ordinary shares represented by the ADSs. You may not receive voting materials in time to instruct the depositary to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote. The deposit agreement provides that if the depositary does not timely receive valid voting instructions from the ADS holders, then the depositary shall, with certain limited exceptions, give a discretionary proxy to a person designated by us to vote such shares.

*We may be classified as a passive foreign investment company for United States federal income tax purposes, which could result in adverse U.S. federal income tax consequences to U.S. holders of our ADSs or Class A ordinary shares.*

Depending upon the value of our assets, which may be determined based, in part, on the market value of our Class A ordinary shares and ADSs, and the nature of our assets and income over time, we could be classified as a passive foreign investment company, or a PFIC. Under U.S. federal income tax law, we will be classified as a PFIC for any taxable year if either (i) at least 75% of our gross income for the taxable year is passive income or (ii) at least 50% of the value of our assets (based on the average quarterly value of our assets during the taxable year) is attributable to assets that produce or are held for the production of passive income. Based on our current income and assets, we do not expect to be classified as a PFIC for the current taxable year or in the foreseeable future. While we do not anticipate being a PFIC, changes in the nature of our income or assets or the value of our assets may cause us to become a PFIC for the current or any subsequent taxable year. Under circumstances where revenues from activities that produce passive income significantly increase relative to our revenues from activities that produce non-passive income or where we determine not to deploy significant amounts of cash for active purposes, our risk of becoming classified as a PFIC may substantially increase.

Although the law in this regard is not entirely clear, we treat 21Vianet Technology as being owned by us for United States federal income tax purposes, because we control its management decisions and we are entitled to substantially all of its economic benefits, as a result, we consolidate its results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of 21Vianet Technology for United States federal income tax purposes, we would likely be treated as a PFIC for our taxable year ending on December 31, 2012 and for any subsequent taxable years.

If we were to be or become a PFIC, a U.S. Holder (as defined in Item 10.E. Additional Information Taxation Material United States Federal Income Tax Considerations General ) may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the ADSs or Class A ordinary shares and on the receipt of distributions on the ADSs or Class A ordinary shares to the extent such gain or distribution is treated as an excess distribution under the United States federal income tax rules. Further, if we were a PFIC for any year during which a U.S. Holder held our ADSs or Class A ordinary shares, we generally would continue to be treated as a PFIC as to such U.S. Holder for all succeeding years during which such U.S. Holder held our ADSs or Class A ordinary shares. Alternatively, U.S. holders of PFIC shares can sometimes avoid the rules described above by electing to treat a PFIC as a qualified electing fund. However, this option will not be available to U.S. Holders because, even if we were to be or become a PFIC, we do not intend to comply with the requirements necessary to permit U.S. Holders to make such election. If a U.S. Holder owns our ADSs or Class A ordinary shares during any taxable year that we are a PFIC, such holder would be required to file an annual report with the U.S. Internal Revenue Service. Each U.S. Holder is urged to consult its tax advisor concerning the United States federal income tax consequences of purchasing, holding and disposing of ADSs or Class A ordinary shares if we are or become treated as a PFIC, including the possibility of making a mark-to-market election or deemed sale election and the unavailability of the election to treat us as a qualified electing fund. For more information, see Item 10.E. Additional Information Taxation Material United States Federal Income Tax Considerations Passive Foreign Investment Company Considerations.

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***You may not be able to participate in rights offerings, may experience dilution of your holdings and you may not receive cash dividends if it is impractical to make them available to you.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

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

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

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

***You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law, conduct substantially all of our operations in China and a majority of our officers and directors reside outside the United States.***

We are incorporated in the Cayman Islands and substantially all of our assets are located outside of the United States. We conduct substantially all of our operations in China through our wholly-owned subsidiary in China. The majority of our officers and directors reside outside the United States and a substantial portion of the assets of those persons are located outside of the United States. As a result, it may be difficult for you to bring an action against us or against these individuals in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state, and it is uncertain whether such Cayman Islands or PRC courts would be competent to hear original actions brought in the Cayman Islands or the PRC against us or such persons predicated upon the securities laws of the United States or any state.

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (as amended) and common law of the Cayman Islands. The rights of shareholders to take legal action against our directors and us, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

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As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than they would as shareholders of a public company of the United States.

***Our memorandum and articles of association contain anti-takeover provisions that could adversely affect the rights of holders of our ordinary shares and ADSs.***

Our memorandum and articles of association contain certain provisions that could limit the ability of others to acquire control of our company, including a provision that grants authority to our board of directors to establish from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. The provisions could have the effect of depriving our shareholders of the opportunity to sell their shares at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

***We have incurred increased costs as a result of being a public company.***

As a public company, we have incurred significant accounting, legal and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, as well as new rules subsequently implemented by the SEC and the NASDAQ Global Market, have detailed requirements concerning corporate governance practices of public companies including Section 404 of the Sarbanes-Oxley Act relating to internal controls over financial reporting. These new rules and regulations have increased our director and officer liability insurance, accounting, legal and financial reporting compliance costs and have made certain corporate activities more time-consuming and costly. Therefore, we have incurred additional costs associated with our public company reporting requirements, and we cannot predict or estimate the amount of additional costs we may further incur or the timing of such costs.

***If securities or industry analysts do not actively follow our business, or if they publish unfavorable research about our business, our ADS price and trading volume could decline.***

The trading market for our ADS depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades our ADSs or publishes unfavorable research about our business, our ADS price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our ADSs could decrease, which could cause our ADS price and trading volume to decline.

## **ITEM 4. INFORMATION ON THE COMPANY**

### **A. History and Development of the Company**

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.

As part of our business expansion strategy to expand our managed network services, we acquired 51% equity interest in the Managed Network Entities, in September 2010, and exercised our call option to acquire the remaining 49% equity interest in December 2011.

To focus on our core data center services, we disposed of Shanghai Guotong Network Co., Ltd., and Guangzhou Juliang Internet Information Technology Co., Ltd. to the nominee shareholders of aBitCool on April 30, 2009 and March 1, 2010, respectively.

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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 21Vianet China, 21Vianet Technology and the shareholders of 21Vianet Technology. As a result of these contractual arrangements, we control 21Vianet Technology and have consolidated the financial information of 21Vianet Technology and its subsidiaries in our consolidated financial statements in accordance with U.S. GAAP. We own 100% of the equity interests of 21Vianet China through our subsidiary, 21Vianet HK, which was incorporated in Hong Kong in May 2007.

On April 21, 2011, our ADSs began trading on the NASDAQ Global Market under the ticker symbol VNET. We issued and sold a total of 14,950,000 ADSs, representing 89,700,000 Class A ordinary shares, at an initial offering price of US\$15.00 per ADS.

In October 2011, we acquired 100% equity interests in Gehua as part of our business expansion strategy to expand our managed network services for an initial payment of RMB14.8 million subject to performance-based cash and share consideration. Gehua currently provides managed network services.

In October 2011, 21Vianet Beijing and 21Vianet Technology acquired 99.95% and 0.05% equity interests of Shanghai Cloud 21Vianet Network Co., Ltd., or Shanghai Cloud, respectively, for a cash consideration of RMB18.2 million. Prior to the acquisition, Shanghai Cloud was a consolidated VIE of aBitCool. Shanghai Cloud has not commenced operation as of the date of this annual report.

In October 2011, we acquired 100% equity interest of Shenzhen Cloud Information Technology Co., Ltd., or Shenzhen Cloud, for a cash consideration of RMB7.9 million. Prior to the acquisition, Shenzhen Cloud was a consolidated VIE of aBitCool. Shenzhen Cloud has not commenced operation as of the date of this annual report.

In February 2012, we won a bid for radio spectrum in the 2.3 GHz band to provide broadband wireless access services in Hong Kong for a bidding price of HK\$150 million in cash.

Our principal executive offices are located at M5, 1 Jiuxianqiao East Road, Chaoyang District, Beijing, 100016, the People's Republic of China. Our telephone number at this address is +8610 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. Our agent for service of process in the U.S. is Law Debenture Corporate Services Inc., located at 400 Madison Avenue, 4th Floor, New York, New York 10017.

See Item 4.C, Organizational Structure for a diagram illustrating our corporate structure as of the date of this annual report.

## **B. Business Overview**

### **Overview**

We are the largest carrier-neutral Internet data center services provider in China as measured by revenues in 2010, according to data released by IDC, a third-party research firm. We host our customers' servers and networking equipment and provide interconnectivity to improve the performance, availability and security of their Internet infrastructure. We also provide managed network services to enable customers to deliver data across the Internet in a faster and more reliable manner through our extensive data transmission network and our proprietary BroadEx smart routing technology. We believe that the scale of our data center and networking assets positions us well to capture opportunities and become a leader in the rapidly emerging market for cloud computing infrastructure services in China.

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Our infrastructure consists of our high-quality data centers and an extensive data transmission network. As of December 31, 2011, we operate 63 data centers located in 33 cities throughout China, including all of China's major Internet hubs, with over 7,816 cabinets under management that house over 55,131 servers. Our data transmission network includes more than 340 POPs, which are access points from one place to the rest of the Internet. Most of our data centers and all of our POPs are connected by our private optical fibers network across China.

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 customers' data traffic. In addition, our proprietary BroadEx 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 high-level 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 network interconnectivity in China.

We have a diversified customer base. As of December 31, 2011, we had more than 1,500 customers, including many leading Chinese and global companies operating in China across a broad range of industries. Our customers include Internet companies, government entities, blue-chip enterprises and small- to mid-sized enterprises. Our average monthly churn rate as measured by monthly recurring revenues was approximately 0.8% in 2011. Our monthly recurring revenue from our top 20 customers in 2011 has increased from RMB18.2 million in December 2010 to RMB 39.4 million (US\$6.3 million) in December 2011.

Our net revenues increased from RMB313.6 million in 2009 to RMB525.2 million in 2010 and RMB1.0 billion (US\$162.2 million) in 2011, including the effects of acquiring the Managed Network Entities in September 2010, representing a CAGR of 80.4% from 2009 to 2011. The total number of cabinets under our management increased from 4,157 as of December 31, 2009 to 5,750 as of December 31, 2010 and to 7,816 as of December 31, 2011. Our average monthly recurring revenues increased from RMB24.4 million in 2009 to RMB82.0 million (US\$13.0 million) in 2011. We recorded a net profit from continuing operations of RMB60.0 million in 2009. Our net loss from continuing operations in 2010 was RMB234.7 million, which reflected share-based compensation expenses of RMB277.9 million. We recorded a net profit from continuing operations of RMB45.9 million (US\$7.3 million) in 2011, which reflected share-based compensation expenses of RMB42.0 million (US\$6.7 million).

## **Our Service Offerings**

We primarily generate revenues from providing hosting and related services and managed network services. We provide hosting and related services to house servers and networking equipment in our data centers and connect them through our data transmission network, and offer other hosting related value-added services. Our managed network services allow our customers to transmit data across the Internet in a faster and more reliable manner through our BroadEx smart routing optimization technology through our hosting area network and data transmission network.

### ***Hosting and Related Services***

Our hosting and related services including the following:

*managed hosting services* that dedicate data center space to house our customers' servers and networking equipment and provide tailored server administration services;

*interconnectivity services* that allow customers to connect their servers with 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

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*value-added services*, including firewall services, server load balancing, data backup and recovery, data center management, server management, and backup server services.

Our data centers host the servers of our customers and meet their needs to deploy computing, network, storage and IT infrastructure. Our hosting and related services are scalable, allowing our customers to purchase space 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 guarantee 99.99% uptime for power in our service level agreements.

We believe another main reason customers choose our services is 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.

### *Managed Hosting Services*

Our managed hosting services allow customers to lease partial or entire cabinet 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. Managed hosting service relieves customers from the daily pressures of IT infrastructure maintenance so that they can focus on their core businesses.

Customers have the option to either place their servers and equipment in standard cabinets dedicated for their private use, or in cabinets shared with other customers. They can customize their cabinet space for their servers, network connections and equipment. Customers can elect to buy the hardware that they place within their cabinets from their chosen suppliers. In addition, customers can also lease power-based space, sometimes in a cage, where they can place their own cabinets in our data centers.

### *Interconnectivity Services*

Our interconnectivity services connect our data centers with China's Internet backbones and other networks in the following ways:

*Border Gateway Protocol (BGP) Network Services.* We provide network services that use BGP routing policies. BGP exchanges routing information for the Internet and is the protocol used between ISPs, backing the core routing decisions on the Internet. Customers connect to ISPs, and ISPs use BGP to exchange customer and ISP routes, bypassing major Internet hubs. This allows the Internet to become a decentralized system, thereby reduces traffic congestion and data transmission time. BGP network is generally considered a premium network service due to its improved Internet connectivity and data reachability.

*Single-Line and Dual-Line Network Services.* China Telecom and China Unicom are the two major telecommunication carriers in China. Some customers may choose to connect their servers only to one carrier while others choose to connect their servers to both China Telecom and China Unicom. Dual-line network provides more stable Internet access and ensures better business continuity because when one line is down or interrupted, the other line can still provide Internet connectivity.

*Multiple-Line Network Services.* As a carrier-neutral service provider, our data centers are connected to all carrier and non-carrier networks in China, namely, China Telecom, China Unicom, China Mobile, China Education Network, China Satcom, China Railcom (Tietong) and China Science and Technology Network.

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### *Value-Added Services*

To complement our hosting services and enhance our customers' experiences, we also provide value-added services, including firewall services, server load balancing, data backup and recovery, data center management, server management, and backup server services.

*Firewall Services.* Customers can lease our hardware firewalls, which can be configured according to their specific requirements. Hardware firewalls protect servers from outside attacks and other unlawful invasions. We notify our customers promptly once we find out that their servers are under attack or subject to invasion.

*Server Load Balancing Services.* When websites experience significant traffic increases, servers may not be able to respond timely to visiting requests. Our server load balancing services are designed to address this issue by providing load balancing facilities to share the increased traffic and therefore moderate the burden on main servers of our customers.

*Data Backup and Recovery Services.* We provide data backup services to our customers to recover any lost or damaged data.

*Server Management Services.* Our server management services allow customers to engage the services of our data center staff to handle problems that occur to their servers. At the customers' request, our staff can fix operating system issues, perform emergency equipment replacement and other tasks related to the servers housed in our data centers. These services help customers minimize network outages and improve response and repair times.

In addition to our interconnectivity services, 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. DDOS attack is an attempt to make a computer's resource unavailable to its intended users. We generally charge fees for our various types of interconnectivity services at the end of each month based on the customers' bandwidth usage.

### ***Managed Network Services***

Our managed network services are primarily offered in the form of bandwidth, which is optimized through our proprietary BroadEx smart routing platform and supplemented by our hosting area network and our data transmission network. In September 2010, we acquired 51% equity interest in the Managed Network Entities to expand our managed network services business. We also exercised our option to purchase the remaining 49% equity interest in December 2011. In October 2011, we acquired 100% equity interests in Gehua also to expand our managed network services business.

Our managed network services primarily consist of the following:

*Hosting Area Network Services.* Our data centers are distributed throughout China. We connect most of our data centers with private optical fibers, forming our hosting area network. Our hosting area network connects the servers housed in our data centers so that data transmission among our customers can be achieved without going through telecommunication backbones or Internet hubs, enabling secure, faster and more reliable data transmission.

*BroadEx Route Optimization.* In China, carriers generally operate their independent systems, and their networks are not connected with each other. Because we are connected to all major carriers, customers that use services from one carrier can reach users of other carriers through our network or through other Internet hubs. Our proprietary BroadEx system is a smart routing platform, which functions like an intelligent switchboard automatically selecting the best and fastest routes and directing traffic through our own or others' networks. For example, from our data centers, we can direct data to the networks of China Telecom or China Unicom, or, when the networks of China Telecom and China Unicom are congested or otherwise experiencing problems, to our own transmission networks. Through our proprietary BroadEx smart routing technology, we are able to optimize the connectivity



of our network and deliver data in a fast and efficient manner.

**Table of Contents*****Cloud Infrastructure Services***

The scale of our data centers and networking assets position us as a leader in the rapidly emerging market for cloud infrastructure services, also known as infrastructure as a service, or IaaS. Generally, IaaS is designed to allow businesses to run their applications over the Internet rather than having an IT infrastructure on their own premises. Instead of purchasing data center spaces, network equipment, servers and other computing equipment, customers can purchase a portion of the pooled computing resources, load applications onto virtual servers, and pay on an on-demand basis. IaaS providers own the computing equipment and are responsible for housing, running and maintaining it. Our self-built data centers are the anchor data centers on the cloud infrastructure system that we are building.

**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 December 31, 2011, we operate 63 data centers located in 33 cities throughout China, which have more than 7,816 cabinets and can host 55,131 servers at the same time. In addition, we also offer container-based data center service. Our extensive network, consisting of private optical fibers and more than 340 POPs, is a high-speed Internet railway that connects our data centers with each other links them to China's telecommunication backbones.

***Our Data Centers***

We operate two types of data centers: self-built and partnered. We defined self-built data centers as those with our owned cabinets and data center equipment housed in buildings leased from third parties. We define partnered data centers as the data center space and cabinets we leased from China Telecom or China Unicom through agreements. As of December 31, 2011, we operate eight self-built data centers housing 4,055 cabinets and 55 partnered data centers housing 3,761 cabinets.

The table below sets forth the number of data centers and cabinets under our management and the number of servers housed in our data centers as of December 31, 2009, 2010 and 2011.

	As of December 31,		
	2009	2010	2011
<b>Data Centers</b>	24	47	63
<b>Cabinets</b>			
Self-built	1,783	2,645	4,055
Partnered	2,374	3,105	3,761
<b>Total</b>	4,157	5,750	7,816
<b>Servers</b>	25,598	39,917	55,131

In addition to the 63 data centers we currently operate, we are also building five additional data centers in China's major Internet cities: Beijing, Shanghai, Hangzhou, Xi'an and greater Guangzhou metropolitan area. We plan to lease additional cabinets from China Telecom and China Unicom to meet the immediate demands of our customers.

Our data centers are located in 33 cities in China and we plan to increase our geographic coverage to 35 cities by the end of 2013. 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.

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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, and diesel generators;

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

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

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

*Air Conditioning* To 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;

*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 9002 quality system certification by the American Registrar Accreditation Board and a certification by the United Kingdom Accreditation Service.

*Container Data Centers.* In addition to conventional data centers, we also offer container-based data center services. One of the advantages of a container-based design is that the data center can easily be moved to other locations or facilities as the containers only require hookups for electricity, chilled water and network connectivity. Our containers are pre-populated with servers and support equipment, eliminating the need to unpack and install servers when the data centers move to a different location. Our container-based data center also features energy-efficient designs and has the potential to house 18 cabinets, or 756 servers. We plan to build and deploy more container-based data centers in the next few years.

### ***Our Network***

Our network transmits data and directs Internet traffic mostly through private optical fibers, 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. Our data centers are connected by our private optical fibers that include redundant connections with an estimated capacity of 518 gigabits per second to nearly all locations. As of December 31, 2011, our network connects more than 340 POPs throughout China with private optical fibers.

The table below sets forth the number of our POPs and our network service capacity as of the periods ended December 31, 2009, 2010 and 2011. The information below reflects our acquisition of the Managed Network Entities.

As of and for the year ended December 31,  
2009                      2010                      2011

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Number of POPs	30	267	340
Estimated Network Service Capacity*	121	295	518

\* *By gigabits*

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Our network also features numerous interfaces with all seven telecommunication carriers in China, which are China Telecom, China Unicom, China Mobile, China Education Network, China Satcom, China Railcom (Tietong) and China Science and Technology 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 BroadEx smart routing technologies, we are able to deliver high-performance hosting and managed network 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 had more than 1,500 customers as of December 31, 2011, including some of China's and the world's leading companies. Our diversified customer base includes major Internet companies, blue-chip enterprises, and small- to mid-sized enterprises. Given the breadth of our customer base, the largest single customer accounted for less than 4.3% of our total net revenues in any of the past three years. Revenue from our top five customers accounted for less than 16% of our total net revenues in 2011. We have a loyal customer base, as evidenced by our low churn rate. Our monthly average churn rate as measured by monthly recurring revenues was 0.8%, 0.9% and 0.8% in 2009, 2010 and 2011. Our monthly recurring revenue from our top 20 customers in 2011 has increased from RMB18.2 million in December 2010 to RMB39.4 million (US\$6.3 million) in December 2011.

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.

The following table sets forth some of the industries we serve and the leading customers in each industry identified below in terms of the monthly recurring revenue derived from each customer in 2011.

<b>Search</b>						
<b>Engine/Portal</b>	<b>Rich Media</b>	<b>eCommerce</b>	<b>Social Networking</b>	<b>Online Gaming</b>	<b>Enterprises</b>	<b>Mobile Internet</b>
Tencent	Youku	Newegg	Renren	Cyou	KDDI	UCWeb
ChinaHR	Ku6	Vancl	Jiayuan	70yx	Dubon	SKY-MOBI
Yicha	Vodone	Yeepay	58	Tiancity	CITICS	Hurray!
Zhaopin	CCTV	Taobao	Ganji	Duowan	T-System	easou

### ***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 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.

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### **Research and Development**

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.

Consistent with our strong innovation culture, we devote significant resources to the research and development of our container-based data centers, our BroadEx smart routing technology and other innovations. We plan to continue strengthening our research and development in cloud computing infrastructure service technologies. Our research and development efforts have yielded twelve patents, seven patent applications and three software copyright registrations, all in China and related to different aspects of data center services. We intend to continue to devote a significant amount of time and resources to carry out our research and development efforts.

### **Technology and Intellectual Property**

We use our proprietary BroadEx smart routing technology to optimize network connectivity and overcome the inherent inadequacies in China's telecommunication and Internet infrastructure. Our BroadEx smart routing technology continually monitors and analyzes the performance of all available routes and identifies the most appropriate pathway in real-time. In planning for and finding the optimized routing plan, our BroadEx technology takes into consideration speed (latency), performance, route stability and packet losses and dynamically responds with intelligent route adjustments in order to ensure that data is traveling along the fastest and most reliable route.

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

### **Sales and Marketing**

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

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

### **Competition**

We face competition from a wide range of data center service providers, including:

*Carriers.* We face competition from state-owned telecommunication carriers, including China Telecom and China Unicom. According to IDC, in 2010, carriers occupied 61.4% of the data center services market. 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 help sell 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, interconnectivity bottlenecks remain a major problem in China, contributing to slow transmission speeds across services and applications.



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*Carrier-neutral service providers.* We face competition from other carrier-neutral service providers, such as ChinaNetCenter and Union Technology. 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.

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

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

## **Regulations**

This section sets forth a summary of the most significant regulations or requirements that affect our business activities in China or our shareholders' rights to receive dividends and other distributions from us.

As the Internet and telecommunication industry is still at a relatively early stage of development in China, new laws and regulations may be adopted from time to time that will require us to obtain additional licenses and permits in addition to those that we currently have, and to address new issues that arise from time to time. As a result, substantial uncertainties exist regarding the interpretation and implementation of current and future Chinese laws and regulations applicable to the data center services industry. See **Risk Factors** **Risks Related to Doing Business in China**.

## **Regulations on Value-Added Telecommunications Business and Data Center Services**

Among all of the applicable laws and regulations, the Telecommunications Regulations of the People's Republic of China, or the Telecom Regulations, implemented on September 25, 2000, is the primary governing law, and sets out the general framework for the provision of telecommunication services by domestic PRC companies. Under the Telecom Regulations, telecommunications service providers are required to procure operating licenses prior to their commencement of operations. The Telecom Regulations distinguish basic telecommunications services from value-added telecommunications services. Value-added telecommunications services are defined as telecommunications and information services provided through public networks. A Catalogue of Telecommunications Business, or the Catalogue, was issued as an attachment to the Telecom Regulations to categorize telecommunications services as either basic or value-added. In February 2003, the Catalogue was updated, categorizing online data and transaction processing, on-demand voice and image communications, domestic Internet virtual private networks, data centers, message storage and forwarding (including voice mailbox, e-mail and online fax services), call centers, Internet access, and online information and data search as value-added telecommunications services.



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Pursuant to the Telecom Regulations value-added telecommunications services covering two or more provinces, autonomous regions, and/or municipalities directly administered by the central government shall be approved by the MIIT, and the providers of such cross-regional value-added telecommunications services are required to obtain the Cross-Regional Value-Added Telecommunications Business Operating Licenses, or the Cross-Regional VAT licenses. Value-added telecommunications services covering certain area within one province, autonomous region, and/or municipality directly administered by the central government shall be approved by the local telecommunications administration authority of such region and the providers of such value-added telecommunications services are required to obtain the VAT licenses. Pursuant to the Administrative Measures for Telecommunications Business Operating Licenses (effective on April 10, 2009, promulgated by the MIIT), Cross-Regional VAT licenses shall be approved and issued by the MIIT with five-year terms.

Currently, 21Vianet Beijing holds a Cross-Regional VAT license issued by the MIIT on January 17, 2012 with an effective term until January 17, 2017 under the first category of the value-added telecommunications business. As specified in this Cross-Regional VAT license, 21Vianet Beijing is permitted to carry out the data center services across nine cities in China. CYSD holds a Valued Added Technology License issued by Beijing Communications Administration on April 25, 2011, and is permitted to carry out its Internet access service business under the second category of value-added telecommunications business in Beijing.

### **Regulations on Foreign Investment in Telecommunications Enterprises**

The PRC government imposes limitations on the foreign ownership of PRC companies that engage in telecommunications-related business. Under the Administrative Rules for Foreign Investments in Telecommunications Enterprises issued by the PRC State Council on December 11, 2001 and effective on January 1, 2002, a foreign investor is currently prohibited from owning more than 50% of the equity interest in a PRC company that engages in value-added telecommunications business.

The Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-Added Telecommunications Business issued by the MIIT on July 13, 2006, among others, requires a foreign investor to set up a foreign-invested enterprise and obtain an operating permit in order to carry out any value-added telecommunications business in China. Under this circular, a domestic value-added telecommunications service operator that holds a VAT license is prohibited from leasing, transferring or selling such license to foreign investors, and from providing any assistance in the form of resources, sites or facilities to foreign investors that conduct value-added telecommunications business illegally in China. Furthermore, the relevant trademarks and domain names that are used in the value-added telecommunications business of domestic operators must be owned by such domestic operators or their shareholders. The circular further requires each VAT license holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its VAT license. In addition, all value-added telecommunications service operators are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. Due to a lack of interpretations from the regulator, it remains unclear what impact this circular would have on us.

We conduct our businesses in China primarily through contractual arrangements. 21Vianet Technology has contractual arrangements with 21Vianet China, and its respective shareholders. In the opinion of King and Wood Mallesons, our PRC legal counsel, each of the contracts under the contractual arrangements is valid and legally binding on each party of such arrangements under PRC laws and regulations, and will not result in any violation of PRC laws or regulations currently in effect. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities may not in the future take a view that is contrary to the above opinion of our PRC legal counsel. If the PRC government finds that the arrangements that establish the structure for operating our business do not comply with PRC law and regulations restricting foreign investment in the telecommunications business, we could be subject to severe penalties.

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In addition, the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-Added Telecommunications Business provides that domestic telecommunications companies that intend to be listed overseas must obtain the approval from the MIIT for such overseas listing. Up to the date of this annual report, the MIIT has not issued any definitive rule concerning whether offerings like ours would be deemed an indirect overseas listing of our PRC affiliates that engage in telecommunications business. If the MIIT subsequently requires that we obtain its approval, it may have a material adverse effect on the trading price of our ADSs.

### **Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents**

According to Circular 75 and the relevant SAFE regulations, prior registration with the local SAFE branch is required for PRC residents to establish or to control a company located outside of the PRC, or an offshore company, for the purposes of financing such offshore company with assets or equity interests in an enterprise located in the PRC, or an onshore enterprise. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas funds raised by such offshore company or another material change involving a change in the capital of the offshore company. A notice issued by SAFE on May 20, 2011, or Notice 19, further provides detailed provisions and requirements regarding the foreign exchange registration under Circular 75. Under Notice 19, any PRC citizen, resident, or entity which is a direct or indirect shareholder of an offshore entity is required to update any previously filed registration with the local branch of SAFE to reflect any material change in such offshore entity. Moreover, any offshore entity which fails to comply with Circular 75 may remedy by making the registration with the local branch of SAFE after fulfillment of the administrative penalties imposed by the relevant SAFE branch.

Moreover, Circular 75 and the relevant SAFE regulations apply retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant registration with the local SAFE branch. Failure to comply with the registration procedures set forth in Circular 75 and relevant SAFE regulations may result in restrictions on the foreign exchange activities of the relevant foreign-invested enterprises, including the payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate and the capital injection by the offshore parent, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. See **Risk Factors** **Risks Related to Doing Business in China** PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners to personal liability and limit our ability to acquire PRC companies or to inject capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute profits to us, or otherwise materially and adversely affect us.

### **Regulations on Employee Stock Option Granted by Listed Companies**

On December 25, 2006, the People's Bank of China, issued the Administration Measures on Individual Foreign Exchange Control, and its Implementation Rules was issued by SAFE on January 5, 2007, both of which became effective on February 1, 2007. Under these regulations, all foreign exchange matters involved in employee share ownership plans, share option plans and other equity incentive plans participated by PRC individuals shall be transacted upon the approval from the SAFE or its authorized branch.

On February 15, 2012, the SAFE promulgated the Notice relating to Foreign Exchange Administration for PRC Residents Participating in Stock Incentive Plan of Overseas-Listed Company, or SAFE Notice 7, replacing the Application Procedure of Foreign Exchange Administration for PRC Residents Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company promulgated in March 2007. SAFE Notice 7 is applicable to domestic directors, supervisors, senior management and other employees of an overseas-listed domestic company, PRC subsidiaries or branches of an overseas-listed company and any PRC entities which are directly or indirectly controlled by an overseas-listed company ( **Domestic Company** ), including PRC citizens and foreign citizens who have resided in the PRC for one year or more ( **PRC Residents** ). Under SAFE Notice 7, PRC Residents who are granted stock options or any other stock-related rights and benefits under a stock incentive plan by an overseas publicly listed company are required, through the Domestic Company or a PRC agent ( **Domestic Agent** ), to complete certain procedures and transactional foreign exchange matters under the stock incentive plan upon the examination by, and the approval of, SAFE or its authorized local counterparts; the Domestic Agent is required to register relevant information of the stock incentive plan with the authorized local counterparts of SAFE within three business days of each quarter and is also required to complete foreign exchange cancellation procedures within twenty business days after termination of the stock incentive plan.

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On July 16, 2010, our board of directors adopted our 2010 share incentive plan which was subsequently amended on January 14, 2011. Under the amended 2010 share incentive plan, we may issue employee stock options to our qualified employees and directors on a regular basis. After our initial public offering, we have advised our employees and directors participating in the 2010 share incentive plan to handle foreign exchange matters in accordance with Notice 7. However, we cannot assure you that our PRC individual beneficiary owners and the stock options holders can successfully register with the SAFE in full compliance with Notice 7. PRC individuals and PRC companies in violation of Notice 7 will be punished by the SAFE, according to the Regulation of the People's Republic of China on Foreign Exchange Administration, Detailed Rules for the Implementation of the Measures for the Administration of Individual Foreign Exchange and other regulations.

### **Regulations on Foreign Currency Exchange**

Pursuant to applicable PRC regulations on foreign currency exchange, Renminbi is freely convertible only to the extent of current account items, such as trade-related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investment, require the prior approval from the SAFE or its local branch for conversion of Renminbi into a foreign currency, such as U.S. dollars. Payments for transactions that take place within the PRC must be made in Renminbi. Domestic companies or individuals can repatriate foreign currency payments received from abroad, or deposit these payments abroad subject to the requirement that such payments shall be repatriated within a certain period of time. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks. Foreign currencies received for current account items can be either retained or sold to financial institutions that have foreign exchange settlement or sales business without prior approval from the SAFE, subject to certain regulations. Foreign exchange income under capital account can be retained or sold to financial institutions that have foreign exchange settlement and sales business, with prior approval from the SAFE, unless otherwise provided.

In addition, another notice issued by the SAFE, or Circular 142, regulates the conversion by foreign-invested enterprises of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Circular 142 requires that Renminbi converted from the foreign currency-denominated capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the relevant government authority and may not be used to make equity investments in PRC, unless specifically provided otherwise. The SAFE further strengthened its oversight over the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign-invested enterprise. The use of such Renminbi may not be changed without approval from the SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Any violation of Circular 142 may result in severe penalties, including substantial fines.

### **Regulations on Dividend Distribution**

Under applicable PRC laws and regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign-invested enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund statutory reserve funds unless these reserves have reached 50% of the registered capital of the respective enterprises. These reserves are not distributable as cash dividends.

### **C. Organizational Structure**

We commenced operations in 1999, and through a series of corporate restructurings, established a holding company, AsiaCloud, in October 2009 under the laws of the Cayman Islands. AsiaCloud was formerly a wholly-owned subsidiary of aBitCool, a company incorporated under the laws of the Cayman Islands. In October 2010, AsiaCloud effected a repurchase and cancellation of all its outstanding shares held by aBitCool and the issuance of ordinary shares and preferred shares to the shareholders of aBitCool so that they maintained their respective ownership interests in AsiaCloud directly. In connection with the restructuring, AsiaCloud changed its name to 21Vianet Group, Inc.

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Due to restrictions under PRC law on foreign ownership of entities engaged in data center and telecommunications value-added services, we conduct our operations in China through contractual arrangements among 21Vianet China, and 21Vianet Technology, and the shareholders of 21Vianet Technology. As a result of these contractual arrangements, we control 21Vianet Technology and have consolidated the financial statements of 21Vianet Technology and its subsidiaries in our consolidated financial statements.

The following diagram illustrates our current corporate structure:

- (1) Messrs. Sheng Chen and Jun Zhang, our co-founders, hold approximately 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) The remaining 49% of the equity interest in Shanghai Wantong is owned by a company affiliated with the Shanghai government.
- (3) ZBXT has four subsidiaries in China: Xingyunhengtong Beijing Network Technology Co., Ltd., Fuzhou Yongjiahong Communication Technology Co., Ltd., Beijing Bikonghengtong Network Technology Co., Ltd. and Beijing Bozhiruihai Network Technology Co., Ltd.
- (4) CYSD has one subsidiary in China: Jiu Jiang Zhongyatonglian Network Technology Co., Ltd.
- (5) Shanghai Cloud is 99.95% owned by 21Vianet Beijing and 0.05% owned by 21Vianet Technology.

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### **Contractual Arrangements with Our Consolidated VIE**

PRC laws and regulations currently restrict foreign ownership of telecommunications value-added business. Because we are a Cayman Islands company, we are classified as a foreign enterprise under PRC laws and regulations and our wholly-owned PRC subsidiary, 21Vianet China, is considered as a wholly foreign-invested enterprise. To comply with PRC laws and regulations, we conduct our operations in China through a series of contractual arrangements among 21Vianet China, 21Vianet Technology and the shareholders of 21Vianet Technology. 21Vianet Technology is approximately 70% owned by Sheng Chen, our chairman and chief executive officer and 30% owned by Jun Zhang, our chief operating officer. Sheng Chen and Jun Zhang are PRC citizens and therefore, 21Vianet Technology is considered as a domestic company under the PRC laws.

We have relied and expect to continue to rely, on our consolidated variable interest entity to operate our telecommunications value-added business in China as long as PRC laws and regulations do not allow us to directly operate such business in China. Our contractual arrangements with 21Vianet Technology and its shareholders enable us to:

exercise effective control over 21Vianet Technology;

receive substantially all of the economic benefits of 21Vianet Technology in consideration for the services provided by 21Vianet China; and

have an exclusive option to purchase all of the equity interest in 21Vianet Technology when permissible under PRC laws. Accordingly, under U.S. GAAP, we consolidate 21Vianet Technology as our variable interest entity in our consolidated financial statements.

Our contractual arrangements with 21Vianet Technology and its shareholders are described in further detail as follows:

#### ***Agreements that Provide Us Effective Control***

***Loan Agreement.*** Each shareholder of 21Vianet Technology entered into a loan agreement on January 28, 2011. Pursuant to the agreements, 21Vianet China has provided interest-free loan facilities of RMB7.0 million and RMB3.0 million, respectively, to the two shareholders of 21Vianet Technology, Sheng Chen and Jun Zhang, which was used to provide capital to 21Vianet Technology to develop our data center and telecommunications value-added business and related businesses. There is no fixed term for the loan. To repay the loans, the shareholders of 21Vianet Technology are required to transfer their shares in 21Vianet Technology to 21Vianet China or any entity or person designated by 21Vianet China, as permitted under PRC laws. The shareholders of 21Vianet Technology also undertake not to transfer all or part of their equity interests in 21Vianet Technology to any third party, or to create any encumbrance, without the written permission from 21Vianet China. In addition, we will provide unlimited financial support to 21Vianet Technology for its operations and agreed to forego the right to seek repayment in the event 21Vianet Technology is unable to repay such funding.

***Share Pledge Agreement.*** On February 23, 2011, 21Vianet China entered into a share pledge agreement with 21Vianet Technology and each of its shareholders. Pursuant to the share pledge agreement, each of the shareholders pledged his shares in 21Vianet Technology to 21Vianet China in order to secure the borrowers' payment obligations under the loan agreement. Each shareholder also agreed not to transfer or create any other security or restriction on the shares of 21Vianet Technology without the prior consent of 21Vianet China. 21Vianet China, at its own discretion, is entitled to acquire each shareholder's equity interests in 21Vianet Technology as permitted by PRC laws. We have registered the pledges of the equity interests in 21Vianet Technology with the local administration for industry and commerce.

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*Irrevocable Power of Attorney.* Each shareholder of 21Vianet Technology has executed an irrevocable power of attorney. Pursuant to the irrevocable power of attorney, each shareholder appointed 21Vianet China or a person designated by 21Vianet China as his/her attorney-in-fact to attend shareholders' meeting of 21Vianet Technology, exercise all the shareholder's voting rights, including but not limited to, sale transfer, pledge or dispose of his/her equity interests in 21Vianet Technology. The power of attorney remains valid and irrevocable from the date of execution, so long as each shareholder remains the shareholder of 21Vianet Technology. The above irrevocable power of attorney was subsequently assigned to 21Vianet Group.

### ***Agreements that Transfer Economic Benefits from our VIE to Us***

*Exclusive Technical Consulting and Services Agreement.* On July 15, 2003, 21Vianet China and 21Vianet Technology entered into an exclusive service agreement, which was superseded by a new exclusive technical consulting and service agreement entered into among 21Vianet China, 21Vianet Technology and 21Vianet Beijing on December 19, 2006. 21Vianet China agreed to provide 21Vianet Technology and 21Vianet Beijing with exclusive technical consulting and services, including Internet technology services and management consulting services. 21Vianet Technology and 21Vianet Beijing agreed to pay an hourly rate of RMB1,000 and the rate is subject to adjustment at the sole discretion of 21Vianet China. 21Vianet Technology and 21Vianet Beijing agreed that they will not accept similar or comparable service arrangements that may replace the services provided by 21Vianet China without prior written consent of 21Vianet China. 21Vianet China is entitled to have sole and exclusive ownership of all rights, title and interests to any and all intellectual property rights arising from the provision of services. The term of this agreement is 10 years. This agreement may be extended with 21Vianet China's written consent prior to the expiration date.

*Optional Share Purchase Agreement.* The optional share purchase agreement is entered into among 21Vianet China, 21Vianet Technology, 21Vianet Beijing and the shareholders of 21Vianet Technology. Pursuant to the agreement, the shareholders irrevocably grant 21Vianet China or its designated persons the sole option to acquire from the shareholders or 21Vianet Technology all or any part of the equity interests in 21Vianet Technology and 21Vianet Beijing when permissible under PRC laws. 21Vianet Technology and 21Vianet Beijing made certain covenants to maintain the value of the equity interests, including but not limited to, engage in the ordinary course of business and refrain from making loans and entering into agreements exceeding the value of RMB200,000 with the exception of transactions made in the ordinary course of business. The term of the agreement is 10 years, which is renewable at the sole discretion of 21Vianet China.

In the opinion of King & Wood Mallesons, our PRC legal counsel, each of the contracts under the contractual arrangements among 21Vianet China, 21Vianet Technology and the shareholders of 21Vianet Technology governed by PRC law is valid and legal binding to each party of such agreements under PRC laws and regulations, and will not result in any violation of PRC laws or regulations currently in effect.

We have been advised by our PRC legal counsel, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities, in particular the MIIT, which regulates providers of telecommunications value-added services and other participants in the PRC telecommunications industry, and the Ministry of Commerce, will not in the future take a view that is contrary to the above opinion of our PRC legal counsel. We have been further advised by our PRC legal counsel that if the PRC government finds that the agreements that establish the structure for operating our value-added services in China do not comply with PRC government restrictions on foreign investment in the telecommunications industry, we could be subject to severe penalties including being prohibited from continuing our operations. See **Risk Factors** **Risks Related to Our Corporate Structure**. If the PRC government finds that the arrangements that establish the structure for operating our business do not comply with PRC government restrictions on foreign investment in the telecommunications business or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. In addition, these contractual arrangements may not be as effective in providing us with control over 21Vianet Technology as would direct ownership of 21Vianet Technology. See **Risk Factors** **Risks Related to Our Corporate Structure**. We rely on contractual arrangements with our consolidated variable interest entity and its shareholders for our China operations, which may not be as effective as direct ownership in providing operational control.

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### **D. Property, Plants and Equipment**

Our headquarters are located at M5, 1 Jiuxianqiao East Road, Chaoyang District, Beijing, the People's Republic of China. We lease facilities for our office space in Beijing, Shanghai, Guangzhou and Xi'an. Our office leases generally have terms ranging from three to ten years and may be renewed upon expiration of the lease terms. As of December 31, 2011, our offices occupied an aggregate of 7,437 square meters of leased space.

In Beijing, we also lease facilities for our self-built data centers located at B28, 10 Jiuxianqiao Road, Chaoyang District, through two leases agreements with BOE Technology Group Co., Ltd. and No.15 Tongji Zhong Road, Beijing Economic and Technological Development Area, through a lease agreement with Beijing Tengfei Boda Real Estate Development Co., Ltd., respectively. The leases provide an aggregate of 13,874 square meters of leased space and hosted a total of 2,101 cabinets as of December 31, 2011. One lease with BOE Technology Group Co., Ltd. has a term of five years expiring on April 30, 2015, and the other lease with BOE Technology Group Co., Ltd. has a term of eight years expiring on August 31, 2019. The lease with Beijing Tengfei Boda Real Estate Development Co., Ltd. has a term of ten years expiring on August 31, 2021. The two leases with BOE Technology Group Co., Ltd. may be renewed upon mutually agreed-upon terms before they expire and we enjoy pre-emptive right to renew the lease under the lease contract with Beijing Tengfei Boda Real Estate Development Co., Ltd.

In Shenzhen, we also lease facilities for our self-built data centers located at No.107-108, Building B, Garden City Cyber Tower, Nanshan District, through two lease agreements with Shenzhen Merchants Property Development Co., Ltd., which provides an aggregate of 2,526 square meters of leased space and hosted a total of 455 cabinets as of December 31, 2011. The leases both have a term of forty-seven months expiring on September 30, 2015.

### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

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 included elsewhere in this annual report on Form 20-F. 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 Item 3. Key Information D. Risk Factors or in other parts of this annual report on Form 20-F.

#### **A. Operating Results**

##### **Overview**

We are the largest carrier-neutral Internet data center services provider in China as measured by revenues in 2011, according to data released by IDC, a third-party research firm. We host and provide interconnectivity for our customers' servers and networking equipment to improve the performance, availability and security of their Internet infrastructure. We also provide managed network services to enable customers to deliver data across the Internet in a faster and more reliable manner through our extensive data transmission network and our proprietary BroadEx smart routing technology. We believe that the scale of our data center and networking assets uniquely positions us to capture opportunities and become a leader in the rapidly emerging market for cloud computing infrastructure services in China.

We have benefited from our premium data centers and extensive interconnected nationwide data transmission network, diversified and loyal customer base and our strong focus on customer satisfaction and technological innovation. Going forward, we expect that we will continue to benefit from the growth of China's data center services market. However, we also face risks and uncertainties, including those relating to our ability to successfully implement our expansion plan, our integration of newly acquired businesses, our competition with, and dependency on, China Telecom and China Unicom, our ability to attract new customers and retain existing customers and our ability to control costs as a result of being a public company. In particular, we plan to increase the aggregate number of cabinets under our management from 7,816 cabinets as of December 31, 2011 to 13,000 cabinets by the end of 2012 through adding new self-built data centers and partnered data centers. If we are not able to successfully implement our expansion plan or our planned expansion does not achieve the desired results, our business and results of operations could be materially and adversely affected.





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As part of our business expansion strategy to expand our managed network services, we acquired 51% equity interest in the Managed Network Entities on September 30, 2010, and exercised our call option to acquire the remaining 49% equity interest in the Managed Network Entities in December 2011. We also acquired 100% equity interest in Gehua in October 2011. Therefore, the results of operations of the Managed Network Entities and Gehua were consolidated into our results of operations.

To stay focused on our long-term growth strategy in providing data center services, we disposed certain businesses that were not part of our core data center services business as of March 31, 2010. Accordingly, the financial results associated with these disposed businesses have been presented as discontinued operations for all periods presented in this annual report. Unless otherwise indicated, all the financial and operating data discussed in this annual report relate to our continuing operations only.

Our net revenues increased from RMB313.6 million in 2009, to RMB525.2 million in 2010 and to RMB1.0 billion (US\$162.2 million) in 2011, representing a CAGR of 80.4% from 2009 to 2011. The total number of cabinets under our management increased from 4,157 as of December 31, 2009, to 5,750 as of December 31, 2010 and to 7,816 as of December 31, 2011. Our average monthly recurring net revenues increased from RMB24.4 million in 2009 to RMB41.9 million in 2010 and to RMB82.0 million (US\$13.0 million) in 2011. We recorded a net profit from continuing operations of RMB60.0 million in 2009. Our net loss from continuing operations in 2010 was RMB234.7 million, which included share-based compensation expenses of RMB277.9 million. We recorded a net profit from continuing operations of RMB45.9 million (US\$7.3 million) in 2011, which reflected share-based compensation expenses of RMB42.0 million (US\$6.7 million).

### **Factors Affecting Our Results of Operations**

Our business and operating results are generally affected by the development of China's data center services market. We have benefited from the rapid growth of China's data center services market during the recent years. According to IDC, the data center services market in China was US\$873.1 million in 2010, a 30.9% increase over 2009, and is expected to reach US\$2.6 billion by 2015, representing a five-year CAGR of 24.1%. However, any adverse changes in the data center services market in China may harm our business and results of operations.

While our business is influenced by factors affecting the data center services market in China generally, we believe that our results of operations are more directly affected by company-specific factors, including number of cabinets under management and cabinet utilization rate, monthly recurring revenues and churn rate, pricing, expansion of our managed network services and 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 4,157, 5,750 and 7,816 cabinets under management as of December 31, 2009, 2010 and 2011, respectively. Our average monthly cabinet utilization rates were 80.9%, 78.8% and 80.6% in 2009, 2010 and 2011, respectively. Our future operating results 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 capacity to meet such demand. It usually takes six to eight months to build a data center together with cabinets and equipment installed. To meet our customers immediate demand, we may partner with China Telecom or China Unicom and lease cabinets from them. Due to the time needed to build data centers and the long-term nature of these investments, if we over-estimate the market demand for cabinets, it will lower our cabinet utilization rate and negatively affect our results of operations.

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### ***Monthly Recurring Revenues and Churn Rate***

Our average monthly recurring revenues and churn rate directly affect our results of operations. Our business is based on a recurring revenue model comprised of hosting services and managed network services. We consider these services recurring as our customers are generally billed and revenue recognized on a fixed and recurring basis each month for the duration of their contract, which is generally one year in length. Our non-recurring revenues are primarily comprised of fees charged for installation services, additional bandwidth used by customers beyond 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 those revenues recognized on a fixed and recurring basis each month. Recurring revenues have comprised more than 95% of our total revenues for each of the months during the past three years. Our average monthly recurring revenues increased from RMB24.4 million in 2009 to RMB41.9 million in 2010 and to RMB82.0 million (US\$13.0 million) in 2011.

We use churn rate to measure the reduction of monthly revenues as a percentage of total monthly recurring revenues of the previous month that are attributable to the non-renewal or termination of customer contracts. Our average monthly average churn rates as measured by monthly recurring revenues were 0.8%, 0.9% and 0.8% in 2009, 2010 and 2011, respectively.

### ***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 in our data centers, but not the bulk of their needs. As we try to acquire more business from new and existing customers, we may need to lower our prices or provide other incentives.

### ***Expansion of Managed Network Services***

We started offering managed network services in 2008 and revenues derived from managed network services constituted 9.2%, 28.6% and 39.8% of our total net revenues in 2009, 2010 and 2011, respectively. With the acquisition of 51% equity interest in the Managed Network Entities in September 2010, our revenues from managed network services have substantially increased from 2009 to 2010, and we expect that revenues from managed network services to continue to increase substantially following our acquisition of Gehua in October 2011. We also acquired the remaining 49% equity interest in the Managed Network Entities in December 2011. We believe our managed network services will benefit from the growing market demands for faster data transmission and better interconnection, and we will see significant revenue growth attributable to our managed network service in the coming years.

However, as we further expand our managed network services, we will incur additional costs to purchase equipment and lease more optical fibers to establish more POPs and provide sufficient bandwidth. Also, acquired assets or businesses may not generate the financial results we expect. Acquisitions could also result in the use of substantial amount of cash, potentially dilutive issuances of equity and equity-linked securities, significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business.

### ***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 refer to expenses associated with acquiring bandwidth and related resources from carriers for our data centers. Telecommunications costs also cover rentals, utilities and other costs in connection with the cabinets we lease from our partnered data centers. Other costs include utilities and rental expenses for our self-built data centers, payroll, depreciation and amortization of our property and equipment, and other related costs. These costs increase as the number of our cabinets under management increases, likewise as we increase our headcount.

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The mix of the self-built data centers and partnered data centers also affects our cost structure. Gross margin for cabinets located in our partnered data centers is generally lower than cabinets located in our self-built data centers. This is because telecommunication carriers who lease cabinet spaces to us for our partnered data centers would 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 to meet the immediate market demand while building data centers in Beijing, Shanghai, Shenzhen, Hangzhou, Xi'an and the greater Guangzhou metropolitan area. If we cannot effectively manage the market demand and increase the number of cabinets located in self-built data centers relatively to partnered data centers, we may not be able to improve our gross margins.

**Key Components of Results of Operations*****Net Revenues***

The following table sets forth our revenues derived from our hosting and related services and managed network services, both in an absolute amount and as a percentage of total net revenues from our continuing operations, for the periods presented.

	2009		For the Year Ended December 31, 2010			2011	
	RMB	%	RMB (in thousands, except percentages)	%	RMB	US\$	%
<b>Net revenues:</b>							
Hosting and related services	284,780	90.8	374,946	71.4	614,612	97,652	60.2
Managed network services	28,855	9.2	150,257	28.6	406,317	64,557	39.8
Total net revenues	313,635	100.0	525,203	100.0	1,020,929	162,209	100.0

***Hosting and Related Services***

Historically, hosting and related services have been our primary sources of revenues. Hosting and related services include managed hosting services, interconnectivity services and value-added services. Revenues from our hosting and related services were RMB284.8 million, RMB374.9 million and RMB614.6 million (US\$97.7 million) in 2009, 2010 and 2011, respectively, representing 90.8%, 71.4% and 60.2% of our total net revenues in the respective periods. We generally enter into contracts with our customers with terms ranging from one to three years and most of our customer contracts have an automatic renewal provision. Customers generally pay our service fees on a monthly basis according to the amount of hosting spaces, the bandwidth and other value-added services they used or leased in the previous month.

***Managed Network Services***

Revenues from our managed network services have significantly increased both in absolute amounts and, more recently, as a percentage of our total net revenues. Revenues from our managed network services were RMB28.9 million, RMB150.3 million and RMB406.3 million (US\$64.6 million) in 2009, 2010 and 2011, respectively, representing 9.2%, 28.6% and 39.8% of our total net revenues in the respective periods. Our managed network services help our customers optimize the Internet routing experience through our proprietary BroadEx smart routing technology and our extensive data transmission network. Contracts with customers of our managed network services generally have one-year terms with an automatic renewal provision. We charge our customers a monthly fee for the bandwidth optimized through our managed network services. With the acquisition of 51% equity interest in the Managed Network Entities in September 2010, our revenues from managed network services have substantially increased from 2009 to 2010, and we expect that revenues from managed network services to continue to increase substantially following our acquisition of Gehua in October 2011.

**Table of Contents****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:

	2009		For the Year Ended December 31, 2010			2011	
	RMB	%	RMB	%	RMB	US\$	%
(in thousands, except percentages)							
Cost of revenues:							
Telecommunications costs	180,612	57.6	322,701	61.5	600,321	95,381	58.8
Others	48,692	15.5	74,157	14.1	144,050	22,888	14.1
Total cost of revenues	229,304	73.1	396,858	75.6	744,371	118,269	72.9

Telecommunications costs refer to expenses incurred in acquiring telecommunication resources from carriers for our data centers, including bandwidth and cabinet leasing costs that 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, payroll and other compensation costs and other miscellaneous items related to our service offerings. We expect that our cost of revenues will continue to increase as our business expands, both organically and as a direct result of acquiring the Managed Network Entities and Gehua. Additionally, we anticipate recording significant expenses related to the amortization of the intangible assets related to the acquisition of the Managed Network Entities and Gehua as these intangible assets are amortized over their remaining useful lives.

**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 for our continuing operations, both as an absolute amount and as a percentage of total net revenues for the periods indicated.

	2009		For the Year Ended December 31, 2010			2011	
	RMB	% of Net Revenues	RMB  (in thousands, except percentages)	% of Net Revenues	RMB	US\$	% of Net Revenues
Operating expenses:							
Sales and marketing expenses <sup>(1)</sup>	24,132	7.7	51,392	9.8	80,885	12,851	7.9
General and administrative expenses <sup>(1)</sup>	25,457	8.1	282,298	53.7	82,926	13,176	8.1
Research and development expenses <sup>(1)</sup>	7,607	2.4	19,924	3.8	34,657	5,506	3.4
Changes in the fair value of contingent purchase consideration payable			7,537	1.4	63,185	10,039	6.2