The following is the text of a report set out on pages I-1 to I-106, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF GDS HOLDINGS LIMITED, J.P. MORGAN SECURITIES (FAR EAST) LIMITED, MERRILL LYNCH FAR EAST LIMITED, CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND HAITONG INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of GDS Holdings Limited and its subsidiaries (together, the "Company") set out on pages I-4 to I-106, which comprises the consolidated balance sheets of the Company as at December 31, 2017, 2018 and 2019 and June 30, 2020 and the consolidated statements of operations, the consolidated statements of comprehensive loss, the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows, for each of the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-106 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated October 21, 2020 (the "Prospectus") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified

Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Company's financial position as at December 31, 2017, 2018 and 2019 and June 30, 2020 and of the Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Company which comprises the consolidated statement of operations, the consolidated statement of comprehensive loss, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 21(b) to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
October 21, 2020

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on the consolidated financial statements of the Company for each of the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 (collectively referred as "Historical Financial Statements"). The Historical Financial Statements were audited by KPMG Huazhen LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB").

The Historical Financial Information is presented in Renminbi. All values are rounded to the nearest thousand except when otherwise indicated.

CONSOLIDATED STATEMENTS OF OPERATIONS
GDS HOLDINGS LIMITED AND SUBSIDIARIES
(In thousands of RMB, except share data and per share data, or otherwise noted)

		Years ended December 31,			Six-month periods ended June 30,	
	Note	2017	2018	2019	2019	2020
					(unaudited)	
Net revenue	3	1,616,166	2,792,077	4,122,405	1,877,030	2,582,623
Cost of revenue		(1,207,694)	(2,169,636)	(3,079,679)	(1,403,252)	(1,871,183)
Gross profit		408,472	622,441	1,042,726	473,778	711,440
Operating expenses						
Selling and marketing expenses		(90,118)	(110,570)	(129,901)	(57,637)	(60,060)
General and administrative expenses		(228,864)	(329,601)	(411,418)	(185,003)	(273,722)
Research and development expenses		(7,261)	(13,915)	(21,627)	(8,839)	(18,987)
Income from operations		82,229	168,355	479,780	222,299	358,671
Other income (expenses):						
Interest income		5,600	19,213	53,017	25,668	7,781
Interest expenses		(412,003)	(656,186)	(968,693)	(466,691)	(569,295)
Foreign currency exchange (loss) gain, net		(12,299)	20,306	(6,000)	(2,758)	(17,206)
Government grants		3,062	3,217	9,898	1,195	12,578
Gain from purchase price adjustment	12	–	–	–	–	55,154
Others, net		435	5,436	5,565	3,325	1,326
Loss before income taxes		(332,976)	(439,659)	(426,433)	(216,962)	(150,991)
Income tax benefits (expenses)	4	6,076	9,391	(15,650)	(12,817)	(42,087)
Net loss		(326,900)	(430,268)	(442,083)	(229,779)	(193,078)
Change in redemption value of redeemable preferred shares	18	–	–	(17,760)	(17,760)	–
Cumulative dividend on redeemable preferred shares	18	–	–	(40,344)	(13,472)	(26,667)
Net loss attributable to ordinary shareholders		(326,900)	(430,268)	(500,187)	(261,011)	(219,745)
Loss per ordinary share						
Basic and diluted	6	(0.42)	(0.43)	(0.45)	(0.24)	(0.19)
Weighted average number of ordinary share outstanding						
Basic and diluted	6	784,566,371	990,255,959	1,102,953,366	1,070,590,091	1,186,168,652

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Net loss	(326,900)	(430,268)	(442,083)	(229,779)	(193,078)
Other comprehensive (loss) income					
Foreign currency translation adjustments, net of nil tax	(8,608)	61,434	86,570	66,872	5,609
Comprehensive loss	(335,508)	(368,834)	(355,513)	(162,907)	(187,469)

CONSOLIDATED BALANCE SHEETS

GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	As of December 31, 2017	As of December 31, 2018	As of December 31, 2019	As of June 30, 2020
Assets					
Current assets					
Cash	7	1,873,446	2,161,622	5,810,938	7,742,082
Restricted cash	7	10,837	87	34,299	112,756
Accounts receivable, net of allowance for doubtful accounts	8	364,654	536,842	879,962	1,388,535
Value-added-tax ("VAT") recoverable		112,067	163,476	129,994	114,575
Prepaid expenses		50,373	64,843	80,913	104,357
Other current assets		42,651	110,526	148,603	155,782
Total current assets		2,454,028	3,037,396	7,084,709	9,618,087
Property and equipment, net	9	8,165,601	13,994,945	19,184,639	24,542,951
Intangible assets, net	10	348,466	482,492	394,628	557,971
Prepaid land use rights, net	11	26,245	756,957	747,187	747,680
Operating lease right-of-use assets	16	–	–	796,679	1,909,239
Goodwill	12	1,570,755	1,751,970	1,905,840	2,409,325
Deferred tax assets	4	14,305	36,974	72,931	136,809
Restricted cash	7	63,317	123,039	128,025	171,705
VAT recoverable		290,065	488,526	888,483	1,129,440
Other non-current assets		211,785	212,944	289,410	385,643
Total assets		13,144,567	20,885,243	31,492,531	41,608,850

CONSOLIDATED BALANCE SHEETS (CONTINUED)

GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

		As of December 31,			As of June 30,
	Note	**2017**	**2018**	**2019**	**2020**
Liabilities, Redeemable Preferred Shares and Shareholders' Equity					
Current liabilities					
Short-term borrowings and current portion of long-term borrowings (including RMB232,000, RMB235,250, RMB254,000 and RMB237,500 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively)	*13*	790,484	1,283,320	1,137,737	1,681,787
Accounts payable (including RMB339,175, RMB212,698, RMB181,448 and RMB243,637 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively)		1,110,411	1,508,020	1,675,966	2,880,745
Accrued expenses and other payables (including RMB91,542, RMB148,945, RMB160,401 and RMB199,029 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively)	*15*	368,624	476,564	817,883	1,541,688
Deferred revenue (including RMB46,526, RMB54,101, RMB68,003 and RMB52,290 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively)	*8*	55,609	73,077	90,316	59,826
Operating lease liabilities, current (including RMB31,869 and RMB41,576 of VIEs without recourse to the primary beneficiary as of December 31, 2019 and June 30, 2020, respectively)	*16*	–	–	55,139	73,362
Finance lease and other financing obligations, current (including RMB84,771, RMB96,787, RMB125,318 and RMB27,339 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively)	*16*	97,943	166,898	222,473	230,746
Total current liabilities		2,423,071	3,507,879	3,999,514	6,468,154

CONSOLIDATED BALANCE SHEETS (CONTINUED)
GDS HOLDINGS LIMITED AND SUBSIDIARIES
(In thousands of RMB, except share data and per share data, or otherwise noted)

		As of December 31,			As of June 30,
	Note	2017	2018	2019	2020
Long-term borrowings, excluding current portion (including RMB85,250, RMB60,000, RMB12,500 and RMB60,000 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively)	*13*	3,459,765	5,203,708	8,028,473	9,337,882
Convertible bonds payable	*14*	–	2,004,714	2,049,654	2,086,179
Operating lease liabilities, non-current (including RMB66,387 and RMB133,719 of VIEs without recourse to the primary beneficiary as of December 31, 2019 and June 30, 2020, respectively)	*16*	–	–	709,998	1,141,835
Finance lease and other financing obligations, non-current (including RMB879,685, RMB1,068,862, RMB921,965 and RMB986,301 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively)	*16*	2,303,044	4,134,327	4,751,121	7,101,401
Deferred tax liabilities (including RMB70,030, RMB69,624, RMB76,297 and RMB81,302 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively)	*4*	124,277	171,878	252,672	282,266
Other long-term liabilities (including RMB13,145, RMB10,740, RMB29,950 and RMB20,496 of VIEs without recourse to the primary beneficiary as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively)	*17*	358,898	340,812	345,537	298,334
Total liabilities		8,669,055	15,363,318	20,136,969	26,716,051
Redeemable preferred shares (US$0.00005 par value; 150,000 shares authorized, issued and outstanding as of December 31, 2019 and June 30, 2020; Redemption value of RMB1,061,981 and RMB1,064,137 as of December 31, 2019 and June 30, 2020, respectively; Liquidation value of RMB1,537,636 and RMB2,378,419 as of December 31, 2019 and June 30, 2020, respectively)	*18*	–	–	1,061,981	1,064,137

CONSOLIDATED BALANCE SHEETS (CONTINUED)
GDS HOLDINGS LIMITED AND SUBSIDIARIES
(In thousands of RMB, except share data and per share data, or otherwise noted)

		As of December 31,			As of June 30,
	Note	2017	2018	2019	2020
Shareholders' Equity					
Ordinary shares (US$0.00005 par value; 2,002,000,000 shares authorized; 873,679,343, 939,479,307, 1,148,842,379 and 1,210,996,227 Class A ordinary shares issued and outstanding as December 31, 2017, 2018 and 2019, and June 30, 2020, respectively; 67,590,336 Class B ordinary shares issued and outstanding as of December 31, 2017, 2018 and 2019, and June 30, 2020)	*21(a)*	320	341	412	434
Additional paid-in capital		5,861,445	7,275,945	12,403,043	16,125,571
Accumulated other comprehensive loss		(200,688)	(139,254)	(52,684)	(47,075)
Accumulated deficit		(1,185,565)	(1,615,107)	(2,057,190)	(2,250,268)
Total shareholders' equity		4,475,512	5,521,925	10,293,581	13,828,662
Commitments and contingencies	*24*				
Total liabilities, redeemable preferred shares and shareholders' equity		13,144,567	20,885,243	31,492,531	41,608,850

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
GDS HOLDINGS LIMITED AND SUBSIDIARIES
(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Ordinary Shares Number	Ordinary Shares Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total equity
Balance at January 1, 2017		760,009,043	260	4,036,959	(192,080)	(858,665)	2,986,474
Loss for the year		–	–	–	–	(326,900)	(326,900)
Other comprehensive loss		–	–	–	(8,608)	–	(8,608)
Total comprehensive loss		–	–	–	(8,608)	(326,900)	(335,508)
Issuance of ordinary shares	21(a)	64,257,028	21	649,813	–	–	649,834
Conversion of convertible bonds	21(a)	97,870,263	32	1,106,195	–	–	1,106,227
Shares surrendered		(866,655)	–	–	–	–	–
Shares issued to depository bank	6	20,000,000	7	(7)	–	–	–
Share-based compensation	5	–	–	59,843	–	–	59,843
Exercise of share options	5	816,880	–	4,180	–	–	4,180
Vesting of restricted shares	5	1,621,120	–	–	–	–	–
Settlement of liability-classified restricted shares award	5	502,000	–	4,462	–	–	4,462
Settlement of share options and restricted share awards with shares held by depository bank		(2,940,000)	–	–	–	–	–
Balance at December 31, 2017 and January 1, 2018		941,269,679	320	5,861,445	(200,688)	(1,185,565)	4,475,512
Impact of change in accounting policy	2 (ee)	–	–	–	–	726	726
Adjusted balance at January 1, 2018		941,269,679	320	5,861,445	(200,688)	(1,184,839)	4,476,238
Loss for the year		–	–	–	–	(430,268)	(430,268)
Other comprehensive income		–	–	–	61,434	–	61,434
Total comprehensive loss		–	–	–	61,434	(430,268)	(368,834)
Issuance of ordinary shares	21(a)	65,800,000	21	1,283,287	–	–	1,283,308
Shares surrendered		(36)	–	–	–	–	–
Share-based compensation	5	–	–	105,877	–	–	105,877
Exercise of share options	5	3,614,464	–	18,979	–	–	18,979
Vesting of restricted shares	5	7,066,060	–	–	–	–	–
Settlement of liability-classified restricted shares award	5	260,560	–	6,357	–	–	6,357
Settlement of share options and restricted share awards with shares held by depository bank		(10,941,084)	–	–	–	–	–
Balance at December 31, 2018 and January 1, 2019		1,007,069,643	341	7,275,945	(139,254)	(1,615,107)	5,521,925

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
GDS HOLDINGS LIMITED AND SUBSIDIARIES
(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Ordinary Shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total equity
		Number	Amount				
Loss for the year		–	–	–	–	(442,083)	(442,083)
Other comprehensive income		–	–	–	86,570	–	86,570
Total comprehensive loss		–	–	–	86,570	(442,083)	(355,513)
Issuance of ordinary shares	*21(a)*	160,400,184	55	4,934,071	–	–	4,934,126
Shares surrendered		(8)	–	–	–	–	–
Shares issued to depository bank	*6*	48,962,896	16	(16)	–	–	–
Redeemable preferred shares dividends	*18*	–	–	(40,344)	–	–	(40,344)
Change in redemption value of redeemable preferred shares	*18*	–	–	(17,760)	–	–	(17,760)
Share-based compensation	*5*	–	–	189,756	–	–	189,756
Exercise of share options	*5*	10,150,336	–	53,407	–	–	53,407
Vesting of restricted shares	*5*	8,885,120	–	–	–	–	–
Settlement of liability-classified restricted shares award	*5*	237,312	–	7,984	–	–	7,984
Settlement of share options and restricted share awards with shares held by depository bank		(19,272,768)	–	–	–	–	–
Balance at December 31, 2019		1,216,432,715	412	12,403,043	(52,684)	(2,057,190)	10,293,581

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
GDS HOLDINGS LIMITED AND SUBSIDIARIES
(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Ordinary Shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total equity
		Number	Amount				
(Unaudited)							
Balance at January 1, 2019		1,007,069,643	341	7,275,945	(139,254)	(1,615,107)	5,521,925
Loss for the period		–	–	–	–	(229,779)	(229,779)
Other comprehensive income		–	–	–	66,872	–	66,872
Total comprehensive loss		–	–	–	66,872	(229,779)	(162,907)
Issuance of ordinary shares	*21(a)*	109,850,744	37	2,982,205	–	–	2,982,242
Shares surrendered		(6)	–	–	–	–	–
Shares issued to depository bank	*6*	48,962,896	16	(16)	–	–	–
Change in redemption value of redeemable preferred shares		–	–	(17,760)	–	–	(17,760)
Redeemable preferred shares dividends		–	–	(13,472)	–	–	(13,472)
Share-based compensation	*5*	–	–	62,934	–	–	62,934
Exercise of share options		8,200,744	–	42,666	–	–	42,666
Settlement of liability-classified restricted shares award		121,568	–	3,627	–	–	3,627
Settlement of share options and restricted share awards with shares held by depository bank		(8,322,312)	–	–	–	–	-
Balance at June 30, 2019		1,165,883,277	394	10,336,129	(72,382)	(1,844,886)	8,419,255

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
GDS HOLDINGS LIMITED AND SUBSIDIARIES
(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Ordinary Shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total equity
		Number	Amount				
Balance at January 1, 2020		1,216,432,715	412	12,403,043	(52,684)	(2,057,190)	10,293,581
Loss for the period		–	–	–	–	(193,078)	(193,078)
Other comprehensive income		–	–	–	5,609	–	5,609
Total comprehensive loss		–	–	–	5,609	(193,078)	(187,469)
Issuance of ordinary shares	*21(a)*	62,153,848	22	3,533,263	–	–	3,533,285
Redeemable preferred shares dividends	*18*	–	–	(26,667)	–	–	(26,667)
Share-based compensation	*5*	–	–	133,842	–	–	133,842
Exercise of share options	*5*	13,960,096	–	77,415	–	–	77,415
Vesting of restricted shares	*5*	3,511,800	–	–	–	–	–
Settlement of liability-classified restricted shares award	*5*	100,136	–	4,675	–	–	4,675
Settlement of share options and restricted share awards with shares held by depository bank		(17,572,032)	–	–	–	–	–
Balance at June 30, 2020		1,278,586,563	434	16,125,571	(47,075)	(2,250,268)	13,828,662

CONSOLIDATED STATEMENTS OF CASH FLOWS

GDS HOLDINGS LIMITED AND SUBSIDIARIES

(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Years ended December 31,			Six-month periods ended June 30,	
		2017	2018	2019	2019	2020
					(unaudited)	
Cash flows from operating activities:						
Net loss		(326,900)	(430,268)	(442,083)	(229,779)	(193,078)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:						
Amortization of debt issuance cost and debt discount		48,100	61,373	99,380	53,512	57,135
Depreciation and amortization		378,130	741,507	1,142,032	523,213	709,223
Operating lease cost relating to prepaid land use rights		–	–	–	–	5,217
Net loss (gain) on disposal of property and equipment		–	2,212	(703)	(302)	(587)
Share-based compensation expense	*5*	59,843	105,877	189,756	62,934	133,842
Gain from purchase price adjustment	*12*	–	–	–	–	(55,154)
Loss from equity method investment		–	–	1,213	–	2,886
Allowance for doubtful accounts		–	241	274	81	319
Deferred tax benefit	*4*	(11,622)	(36,597)	(50,172)	(20,852)	(60,264)
Changes in operating assets and liabilities, net of effect of acquisitions:						
Accounts receivable		(134,631)	(157,708)	(342,191)	(318,442)	(427,796)
VAT recoverable		(194,335)	(221,390)	(323,044)	(148,832)	(149,564)
Prepaid expenses		520	(14,153)	(13,320)	(19,626)	(23,318)
Other current assets		11,500	(11,477)	(8,095)	(27,688)	(5,953)
Other non-current assets		(23,111)	(37,035)	(8,678)	(7,574)	(50,678)
Accounts payable		33,903	25,292	22,540	37,142	94,492
Deferred revenue		14,952	17,468	31,417	27,823	(31,195)
Accrued expenses and other payables		(83,260)	(56,693)	(20,434)	114,743	22,993
Other long-term liabilities		59,095	(1,559)	1,299	5,231	23,094
Operating leases		–	–	14,245	4,520	(35,376)
Net cash (used in) provided by operating activities		(167,816)	(12,910)	293,436	56,104	16,238

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
GDS HOLDINGS LIMITED AND SUBSIDIARIES
(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Years ended December 31,			Six-month periods ended June 30,	
		2017	2018	2019	2019	2020
					(unaudited)	
Cash flows from investing activities						
Payments for purchase of property and equipment and land use rights		(1,760,165)	(4,271,873)	(4,557,686)	(1,351,549)	(3,564,025)
Payments for purchase of intangible assets		(6,000)	–	–	–	–
Loans advanced to subsidiaries prior to acquisitions	*12*	(6,025)	–	–	–	–
Cash acquired from the business combinations	*12*	24,916	466	12,091	–	2,349
Cash paid for the business combinations		(252,780)	(359,372)	(190,066)	–	(320,000)
Cash paid for the asset acquisitions		–	(115,167)	(363,939)	(22,113)	(4,582)
Cash paid for equity investments		–	–	(6,000)	(6,000)	–
(Deposits paid) refund of deposits for potential acquisitions		(5,000)	(1,000)	(30,700)	1,000	(15,000)
Proceeds from sale of property and equipment		–	13,896	5,069	5,069	16,422
Net cash used in investing activities		(2,005,054)	(4,733,050)	(5,131,231)	(1,373,593)	(3,884,836)
Cash flows from financing activities:						
Proceeds from short-term borrowings		553,490	943,088	467,744	201,969	496,653
Proceeds from long-term borrowings		3,086,390	2,814,197	5,000,510	2,741,183	2,702,543
Repayment of short-term borrowings		(381,071)	(776,224)	(758,941)	(613,368)	(158,375)
Repayment of long-term borrowings		(1,401,023)	(834,154)	(1,968,913)	(1,140,222)	(1,196,269)
Payment of issuance cost of borrowings		(62,460)	(91,124)	(156,742)	(119,832)	(55,677)
Proceeds from exercise of stock options		3,377	16,866	55,469	43,508	77,415
Net proceeds from issuance of convertible bonds	*14*	–	1,867,304	–	–	–
Net proceeds from issuance of ordinary shares	*21(a)*	649,834	1,283,308	4,934,126	2,982,242	3,560,004
Net proceeds from issuance of redeemable preferred shares	*18*	–	–	989,349	989,349	–
Payment of redeemable preferred shares dividends	*18*	–	–	(25,014)	(11,458)	(40,068)
Payment under finance lease and other financing obligations	*16*	(68,670)	(190,718)	(289,467)	(196,310)	(78,888)
Proceeds from other financing arrangements		–	–	302,761	–	621,162
Deferred payments for purchase of property and equipment		–	–	(68,864)	–	(34,432)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
GDS HOLDINGS LIMITED AND SUBSIDIARIES
(In thousands of RMB, except share data and per share data, or otherwise noted)

	Note	Years ended December 31, 2017	2018	2019	Six-month periods ended June 30, 2019 (unaudited)	2020
Payment of contingent consideration for the acquisition of subsidiaries		(24,139)	(155,737)	(120,079)	(107,684)	(21,676)
Net cash provided by financing activities		2,355,728	4,876,806	8,361,939	4,769,377	5,872,392
Effect of exchange rate changes on cash and restricted cash		(74,250)	206,302	164,370	113,320	49,487
Net increase in cash and restricted cash		108,608	337,148	3,688,514	3,565,208	2,053,281
Cash and restricted cash at beginning of year/period		1,838,992	1,947,600	2,284,748	2,284,748	5,973,262
Cash and restricted cash at end of year/period		1,947,600	2,284,748	5,973,262	5,849,956	8,026,543
Supplemental disclosures of cash flow information						
Interest paid		358,748	633,063	841,388	383,423	488,256
Income tax paid		1,369	3,371	17,031	8,175	71,097
Supplemental disclosures of non-cash investing and financing activities						
Changes in consideration payable for the acquisition of subsidiaries		280,370	148,217	239,096	10,000	561,926
Settlement of liability-classified restricted share award	*5*	4,462	6,357	7,984	3,627	4,675
Conversion of convertible bonds	*21(a)*	1,106,227	–	–	–	–

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 DESCRIPTION OF BUSINESS

GDS Holdings Limited ("GDS Holdings") was incorporated in the Cayman Islands on December 1, 2006. GDS Holdings and its consolidated subsidiaries and consolidated variable interest entities (collectively referred to as the "Company") are principally engaged in providing colocation, managed hosting and managed cloud services in the People's Republic of China (the "PRC" excluding Taiwan, the Hong Kong Special Administrative Region (the "Hong Kong SAR") and the Macau Special Administrative Region for the purposes of this accountants' report only) and Hong Kong SAR. The Company operates its data centers in Hong Kong SAR, Shanghai Municipality, Beijing Municipality, Jiangsu Province, Guangdong Province, Sichuan Province, Hebei Province and Inner Mongolia of the PRC and serves customers that primarily operate in the cloud, internet and banking industries.

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP").

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand.

(a) Principles of Consolidation

The accompanying financial statements include the financial statements of GDS Holdings, its subsidiaries and consolidated variable interest entities and variable interest entities' subsidiaries for which the Company is the primary beneficiary.

In certain regions of the PRC, the Company's operations are conducted through Shanghai Xinwan Enterprise Management Co., Ltd. ("Management HoldCo"), Beijing Wanguo Chang'an Science and Technology Co., Ltd. ("GDS Beijing"), GDS Beijing's subsidiaries and Shanghai Shu'an Data Services Co., Ltd. ("GDS Shanghai") (referred to as the "VIEs") to comply with the PRC laws and regulations, which prohibit foreign investments in companies that are engaged in data center related business in those regions. Individuals acting as nominee equity holders ultimately hold the legal equity interests of the VIEs on behalf of the Company.

The equity holders of GDS Beijing and GDS Shanghai were William Wei Huang, CEO of the Company, and his relative. In order to enhance corporate governance and facilitate administration of the VIEs, in December 2019, GDS Holdings completed transfer of ownership of the 100% equity interest of GDS Beijing and GDS Shanghai from William Wei Huang and his relative to a newly established holding company, Management HoldCo. The entire equity interest in Management HoldCo is held by a number of management personnel designated by the Board of Directors of GDS Holdings. In conjunction with the transfer of legal ownership, GDS (Shanghai) Investment Co., Ltd. ("GDS Investment Company"), a subsidiary of GDS

Holdings, entered into a series of contractual arrangements with Management HoldCo, its shareholders, GDS Beijing and GDS Shanghai to replace the previous contractual arrangements with GDS Beijing and GDS Shanghai on substantially the same terms under such previous contractual arrangements. The previous contractual arrangements were terminated simultaneously when the current contractual arrangements came into effect, and the subsidiary of GDS Holdings under the previous and current contractual arrangements is the same entity, namely GDS Investment Company. GDS Holdings also replaced the sole director of GDS Shanghai and certain subsidiaries of GDS Beijing with a board of three directors. William Wei Huang acts as the Chairman of the board of directors of Management HoldCo, GDS Investment Company, GDS Beijing and GDS Shanghai and their subsidiaries respectively. Other management members of GDS and board appointee serve as directors and officers of Management HoldCo., GDS Investment Company, GDS Beijing and GDS Shanghai and their subsidiaries.

This restructuring could reduce risk by allocating ownership of the VIEs among a larger number of individual management shareholders, and strengthen corporate governance with the establishment of the board of directors in the VIEs and its subsidiaries. This restructuring could also create a more stable ownership structure by avoiding reliance on a single or small number of natural persons, and by buffering the ownership of the VIEs with an additional layer of legal entities, creating an institutional structure that is tied to the Company's management philosophy and culture.

VIE Agreements were entered into among GDS Beijing, GDS Shanghai, Management HoldCo, its shareholders and GDS Investment Company. The following is a summary of the contractual VIE Agreements entered among GDS Investment Company, GDS Beijing, GDS Shanghai, Management HoldCo and its shareholders.

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

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

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

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

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

Loan Agreements. Pursuant to the loan agreements between GDS Investment Company and Management HoldCo or its shareholders, GDS Investment Company has agreed to extend loans in an aggregate amount of RMB310,100 to Management HoldCo solely for the capitalization of GDS Beijing and GDS Shanghai and RMB1,000 to the shareholders of Management HoldCo solely for the capitalization of Management HoldCo. Pursuant to the loan agreements, GDS Investment Company has the right to require repayment of the loans upon delivery of thirty-day's prior notice to Management HoldCo or its shareholders, as applicable, and Management HoldCo or its shareholders can repay the loans by either sale of their equity interests in GDS Beijing and GDS Shanghai or Management HoldCo, as applicable, to GDS Investment Company or its designated person(s) pursuant to their respective exclusive call option agreements, or other methods as determined by GDS Investment Company pursuant to its articles of association and the applicable PRC laws and regulations.

Under the terms of the VIE Agreements, the Company has (i) the right to receive service fees on a yearly basis at an amount equivalent to all of the net profits of the VIEs under the exclusive technology license and services agreements when such services are provided; (ii) the right to receive all dividends declared by the VIEs and the right to all undistributed earnings of the VIEs; (iii) the right to receive the residual benefits of the VIEs through its exclusive option to acquire 100% of the equity interests in the VIEs, to the extent permitted under PRC law; and (iv) the right to require each of the shareholder of the VIEs to appoint the PRC citizen(s) as designated by GDS Investment Company to act as such shareholder's exclusive attorney-in-fact to exercise all shareholder rights, including, but not limited to, voting on all matters of the VIEs requiring shareholder approval, disposing of all or part of the shareholder's equity interest in the VIEs, and appointing directors and executive officers.

In accordance with Accounting Standards Codification ("ASC") 810-10-25-38A, the Company has a controlling financial interest in the VIEs because the Company has (i) the power to direct activities of the VIEs that most significantly impact the economic performance of the VIEs; and (ii) the obligation to absorb the expected losses and the right to receive expected residual return of the VIEs that could potentially be significant to the VIEs. The terms of the VIE Agreements and the Company's financial support to the VIEs were considered in determining that the Company is the primary beneficiary of the VIEs. Accordingly, the financial statements of the VIEs are consolidated in the Company's consolidated financial statements.

Under the terms of the VIE Agreements, the VIEs' equity holders have no rights to the net assets nor have the obligations to fund the deficit, and such rights and obligations have been vested to the Company. All of the equity (net assets) or deficits (net liabilities) and net income (loss) of the VIEs are attributed to the Company.

The Company has been advised by its PRC legal counsel that each of the VIE agreements is valid, binding and enforceable in accordance with its terms and applicable PRC laws and the ownership structure of the VIEs does not violate applicable PRC Laws. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and future PRC laws and regulations. There can be no assurance that the PRC authorities will take a view that is not contrary to or otherwise different. If the current ownership structure of the Company and the VIE Agreements are determined to be in violation of any existing or future PRC laws and regulations, the PRC government could:

- Levy fines on the Company or confiscate income of the Company;
- Revoke or suspend the VIEs' business or operating licenses;
- Discontinue or place restrictions or onerous conditions on VIE's operations;
- Require the Company to discontinue their operations in the PRC;
- Require the Company to undergo a costly and disruptive restructuring;
- Take other regulatory or enforcement actions that could be harmful to the Company's business.

The imposition of any of these government actions could result in the termination of the VIE agreements, which would result in the Company losing the (i) ability to direct the activities of the VIEs and (ii) rights to receive substantially all the economic benefits and residual returns from the VIEs and thus result in the deconsolidation of the VIEs in the Company's consolidated financial statements.

The following tables set forth the financial statement balances and amounts of the VIEs and their subsidiaries included in the consolidated financial statements after the elimination of intercompany balances and transactions among VIEs and their subsidiaries, including the liabilities with recourse to the primary beneficiary, which represented the borrowings guaranteed by GDS Holdings.

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
Assets				
Current assets				
Cash	266,560	552,153	730,960	888,353
Restricted cash	10,837	87	–	–
Accounts receivable, net of allowance for doubtful accounts	348,536	517,346	858,764	1,278,630
VAT recoverable	27,596	39,671	46,817	45,870
Prepaid expenses	32,919	32,962	39,124	55,175
Other current assets	7,283	59,499	32,929	45,152
Total current assets	693,731	1,201,718	1,708,594	2,313,180
Property and equipment, net	2,164,121	3,058,294	2,911,727	2,834,443
Intangible assets, net	143,151	181,025	159,860	149,278
Operating lease right-of-use assets	–	–	91,329	169,556
Deferred tax assets	11,846	16,676	34,157	39,486
Restricted cash	23,592	39,346	29,508	49,987
VAT recoverable	26,235	115,054	136,011	123,264
Other non-current assets	80,763	81,290	75,873	98,761
Total assets	3,143,439	4,693,403	5,147,059	5,777,955

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Liabilities				
Current liabilities				
Short-term borrowings and current portion of long-term borrowings	352,039	904,002	493,614	536,023
Accounts payable	339,175	212,698	181,448	243,637
Accrued expenses and other payables	91,542	148,945	160,401	199,029
Deferred revenue	46,526	54,101	68,003	52,290
Operating lease liabilities, current	–	–	31,869	41,576
Finance lease and other financing obligations, current	84,771	96,787	125,318	27,339
Total current third-party liabilities	914,053	1,416,533	1,060,653	1,099,894
Long-term borrowings, excluding current portion	710,594	835,424	1,335,084	1,289,454
Operating lease liabilities, non-current	–	–	66,387	133,719
Finance lease and other financing obligations, non-current	879,685	1,068,862	921,965	986,301
Deferred tax liabilities	70,030	69,624	76,297	81,302
Other long-term liabilities	13,145	10,740	29,950	20,496
Total third-party liabilities	2,587,507	3,401,183	3,490,336	3,611,166
Amounts due to GDS Holdings and its non-VIE subsidiaries, net	508,455	1,270,121	1,534,768	1,957,479
Total liabilities	3,095,962	4,671,304	5,025,104	5,568,645

As of December 31, 2017, 2018, 2019 and June 30, 2020, accounts receivable of RMB63,986, RMB78,556, RMB83,468 and RMB85,870, respectively, and property and equipment of RMB264,054, RMB335,708, RMB114,344 and RMB150,800, respectively, of VIEs were pledged solely to secure banking borrowings of VIEs.

Net revenue, net income (loss), operating, investing and financing cash flows of the VIEs that were included in the Company's consolidated financial statements for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020 are as follows:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Net revenue	1,469,929	2,712,875	4,013,561	1,837,452	2,489,175
Net income (loss)	44,541	(59,757)	99,857	7,036	87,354
Net cash provided by operating activities	186,843	739,848	414,424	24,371	261,379
Net cash used in investing activities	(286,476)	(1,063,826)	(201,995)	(91,297)	(68,734)
Net cash (used in) provided by financing activities	(7,417)	614,575	(43,547)	(4,790)	(14,773)

The unrecognized revenue producing assets that are held by the VIEs comprise of internally developed software, intellectual property and trademarks which were not recorded on the Company's consolidated balance sheets as they do not meet all the capitalization criteria.

Costs recognized by the VIEs for outsourcing and other services provided by other entities within the Company were RMB658,617, RMB1,260,481, RMB2,017,032, RMB921,386 (unaudited) and RMB1,319,663, respectively for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, net of the services provided to other entities within the Company. These inter-company transactions are eliminated in the consolidated financial statements.

(b) Use of estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include, but are not limited to, the useful lives of long-lived assets, the fair values of assets acquired and liabilities assumed and the consideration transferred in a business combination, the fair value of the reporting unit for the goodwill impairment test, the allowance for doubtful accounts receivable, the valuation of derivatives, the realization of deferred income tax assets, the fair value of share-based compensation awards, the recoverability of long-lived assets, valuation of right-of-use assets and the fair value of the asset retirement obligation. Changes in facts and circumstances may result in revised estimates. Actual results could differ from those estimates, and as such, differences may be material to the consolidated financial statements.

(c) Revenue recognition

The Company adopted ASC 606 *Revenue from Contracts with Customers* on January 1, 2018. The Company applied ASC 606 using the cumulative effect method – i.e. by recognizing the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of accumulated deficit at January 1, 2018. The Company elects to apply this guidance retrospectively only to contracts that are not completed contracts as of January 1, 2018.

The Company recognizes revenue as the Company satisfies a performance obligation by transferring control over a good or service to a customer. For each performance obligation satisfied over time, the Company recognizes revenue over time by measuring the progress toward complete satisfaction of that performance obligation. If the Company does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time. Revenue is measured as the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

For contracts with customers that contain multiple performance obligations, the Company accounts for individual performance obligations separately if they are distinct or as a series of distinct obligations if the individual performance obligations meet the series criteria. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. The transaction price is allocated to the separate performance obligation on a relative standalone selling price basis. The standalone selling price is determined based on overall pricing objectives, taking into consideration market conditions, geographic locations and other factors.

The Company derives revenue primarily from the delivery of (i) colocation services; (ii) managed services, including managed hosting services and managed cloud services. The remainder of the Company's revenue is from IT equipment sales that are either sold on a stand-alone basis or bundled in a managed service contract arrangement and consulting services.

Colocation services are services where the Company provides space, power and cooling to customers for housing and operating their IT system equipment in the Company's data centers.

Managed hosting services are services where the Company provides outsourced services to manage the customers' data center operations, including data migration, IT operations, security and data storage.

Managed cloud services are services where the Company offers direct private connection to major cloud platforms, an innovative service platform for managing hybrid clouds and, where required, the resale of public cloud services.

Certain contracts with customers for colocation services and managed services provide for variable considerations that are primarily based on the usage of such services. Revenues on such contracts are recognized based on the agreed usage-based fees as the actual services are rendered throughout the contract term. Certain contracts with remaining customers provide for a fixed consideration over the contract service period. Revenue on such contracts are recognized on a straight-line basis over the term of the contract.

In certain colocation and managed hosting service contracts, the Company agrees to charge customers for their actual power consumption. Relevant revenue is recognized based on actual power consumption during each period. In certain other colocation and managed hosting service contracts, the Company specifies a fixed power consumption limit each month for customers. If a customer's actual power consumption is below the limit, no additional fee is charged. If the actual power consumption is above the limit, the Company charges the customer additional power consumption fees calculated based on the portion of actual power consumption exceeding the limit, multiplied by a fixed unit price, which is determined based on market price, without providing the customer with any rights to acquire additional goods or services. Accordingly, relevant revenue is recognized each month based on actual additional power consumption fees.

The Company's colocation service and managed service contracts with customers contain both lease and non-lease components. The Company elected to adopt the practical expedient which allows lessors to combine lease and non-lease components and account for them as one component if i) they have the same timing and pattern of transfer; and ii) the lease component, if accounted for separately, would be classified as an operating lease. The Company elected to apply the practical expedient on the contracts that meet the conditions. In addition, the Company has performed a qualitative analysis to determine that the non-lease component is the predominant component of its revenue stream as the customer would ascribe more value to the services provided rather than to the lease component. Therefore, the combined component is accounted for in accordance with the current revenue accounting guidance ("Topic 606"). For contracts that do not meet the conditions required to adopt the practical expedient, the lease component is accounted for in accordance with the current lease accounting guidance ("Topic 842"), which is immaterial for the year ended December 31, 2019 and for the six-month period ended June 30, 2020. The Company has elected to apply the practical expedient on a prospective basis.

Revenue recognized for colocation or managed hosting and cloud services delivered prior to billing is recorded within accounts receivable. The Company generally bills the customer on a monthly or quarterly basis in arrears.

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

The sale of IT equipment is recognized when the customer obtains control of the equipment, which is typically when delivery has occurred, the customer accepts the equipment and the Company has no performance obligation after the delivery.

In certain managed service contracts, the Company sells and delivers IT equipment such as servers and computer terminals prior to the delivery of the services. Since sale of equipment can be distinguished and is separately identifiable from other promises in the contract and it is distinct within the context of the contract, the sale of equipment is considered a separate performance obligation. Accordingly, the contract consideration is allocated to the equipment and the managed services based on their relative standalone selling prices.

Consulting services are provided to customers for a fixed amount over the service period, usually less than one year. The Company recognizes revenues from consulting services over the period when the services were provided, since customers simultaneously receive and consume the benefit of the services. The Company uses the input method based on the pattern of service provided to the customers.

Revenue is generally recognized on a gross basis as the Company is primarily responsible for fulfilling the contract, assumes inventory risk and has discretion in establishing the price when selling to the customer. To the extent the Company does not meet the criteria for recognizing revenue on a gross basis, the Company records the revenue on a net basis.

(d) Cost of revenue

Cost of revenue consists primarily of utility costs, depreciation of property and equipment, rental costs, labor costs and other costs directly attributable to the provision of the service revenue.

(e) Research and development and advertising costs

Research and development and advertising costs are expensed as incurred. Research and development costs amounted to RMB7,261, RMB13,915, RMB21,627, RMB8,839 (unaudited) and RMB18,987, respectively for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020. Research and development costs consist primarily of payroll and related personnel costs for developing or significantly improving the Company's services and products.

Advertising costs amounted to RMB10,189, RMB6,332, RMB7,454, RMB2,308 (unaudited) and RMB1,669, respectively for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020.

(f) Government grants

Government grants are recognized when received and when all the conditions for their receipt have been met. Subsidies that compensate the Company for expenses incurred are recognized as a reduction of expenses in the consolidated statements of operations. Subsidies that are not associated with expenses are recognized as other income.

Subsidies for the acquisition of property and equipment are recorded as a liability until earned and then depreciated over the useful life of the related assets as a reduction of the depreciation charges. Subsidies for obtaining the rights to use land are recorded as a liability until earned and then amortized over the land use right period as a reduction of the amortization charges of the related land use rights. In 2010 and 2011, the Company received government subsidies that required the Company to operate in a particular area for a certain period. The Company recorded the subsidies in other long-term liabilities when the subsidies were received and subsequently recognized as government subsidy income ratably over the period the Company is required to operate in the area. In 2017, the Company received government subsidies that required the Company to pass certain inspection on the related project. The Company recorded such subsidies in other long-term liabilities when received, which are reclassified to accrued expenses and other payables when the inspection is expected to be completed within one year, and will be recorded as government subsidy income when the conditions are met.

As of December 31, 2017, 2018 and 2019, and June 30, 2020, deferred government grants of RMB16,789, RMB9,771, RMB6,507 and RMB6,196 are recorded in other long-term liabilities, respectively. Deferred government grants of nil, RMB4,800, RMB6,003 and RMB172 are recorded in accrued expenses and other payables, respectively, in the consolidated balance sheets as of December 31, 2017, 2018 and 2019, and June 30, 2020.

(g) Capitalized interest

A reconciliation of total interest costs to "Interest expenses" as reported in the consolidated statements of operations for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020 is as follows:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Total interest cost	466,460	749,730	1,040,898	510,568	598,296
Less: interest costs capitalized	(54,457)	(93,544)	(72,205)	(43,877)	(29,001)
Interest expenses	412,003	656,186	968,693	466,691	569,295

Interest costs that are directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. The capitalization of interest costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, interest costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of interest costs is ceased when the asset is substantially complete and ready for its intended use.

(h) Debt issuance costs

Debt issuance costs are capitalized and are amortized over the life of the related debts based on the effective interest method. Such amortization is included as a component of interest expense.

Unamortised debt issuance costs of RMB134,395, RMB203,779, RMB273,822 and RMB277,563 are presented as a reduction of debt as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively.

(i) Income tax

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets for which it is more likely than not that the related tax benefits will not be realized. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties in general and administrative expenses.

(j) Share-based compensation

The Company accounts for the compensation cost from share-based payment transactions with employees based on the grant-date fair value of the equity instrument issued. The grant-date fair value of the award is recognized as compensation expense, net of forfeitures, over the period during which an employee is required to provide service in exchange for the award, which is generally the vesting period. When no future services are required to be performed by the employee in exchange for an award of equity instruments, and if such award does not contain a performance or market condition, the cost of the award is expensed on the grant date. The Company recognizes compensation cost for an award with only service conditions that has a graded vesting schedule on a straight-line basis over the requisite service period for the entire award, provided that the cumulative amount of compensation cost recognized at any date at least equals the portion of the grant-date value of such award that is vested at that date.

Awards granted to employees with performance conditions attached are measured at fair value on the grant date and are recognized as the compensation expenses in the period and thereafter when the performance goal becomes probable to achieve. Awards granted to employees with market conditions attached are measured at fair value on the grant date and are recognized as the compensation expenses over the estimated requisite service period, regardless of whether the market condition has been satisfied if the requisite service period is fulfilled.

The Company recognizes the estimated compensation cost of service-based restricted share based on the fair value of its ordinary shares on the date of the grant. The Company recognizes the compensation cost, net of forfeitures, over its respective vesting term. The Company recognizes the estimated compensation cost of performance-based restricted share based on the fair value of its ordinary shares on the date of the grant. The rewards are earned upon attainment of identified performance goals. The Company recognizes the compensation cost, net of forfeitures, over the performance period. The Company also adjusts the compensation cost based on the probability of performance goal achievement at the end of each reporting period.

The Company accounts for forfeitures when they occur. Compensation cost previously recognized are reversed in the period the award is forfeited, for an award that is forfeited before completion of the requisite service period.

Share-based payment transactions with nonemployees in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the earlier of either the date on which the counterparty's performance is complete or the date at which a commitment for performance by the counterparty to earn the equity instrument is reached.

For further information on share-based compensation, see Note 5 below.

(k) Employee benefits

Pursuant to relevant PRC regulations, the Company is required to make contributions to various defined contribution plans organized by municipal and provincial PRC governments. The contributions are made for each PRC employee at rates ranging from 28% to 49% on a standard salary base as determined by local social security bureau. Contributions to the defined contribution plans are charged to the consolidated statements of operations when the related service is provided.

(l) Foreign currency translation and foreign currency risks

The functional currency of GDS Holdings is the USD ("US$"), whereas the functional currency of its subsidiaries and consolidated VIEs in PRC, subsidiaries in Hong Kong SAR and subsidiaries in Singapore is the RMB, Hong Kong dollar ("HKD") and Singapore dollar ("SGD"), respectively. The reporting currency of the Company is RMB as the major operations of the Company are within the PRC.

Transactions denominated in currencies other than the functional currency are re-measured into the functional currency at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are remeasured at the exchange rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical costs in foreign currency are re-measured using the exchange rates at the dates of the initial transactions. Exchange gains and losses are recognized in profit or loss and are reported in foreign currency exchange gain (loss) on a net basis.

The results of foreign operations are translated into RMB at the exchange rate as of the balance sheet date for assets and liabilities, the average daily exchange rate for each month for income and expense items and the historical exchange rates for equity accounts. Translation gains and losses are recorded in other comprehensive income and accumulated in the translation adjustment component of equity until the sale or liquidation of the foreign entity.

The RMB is not a freely convertible currency. The PRC State Administration for Foreign Exchange, under the authority of the PRC government, controls the conversion of RMB to foreign currencies. The value of the RMB is subject to changes of central government policies and international economic and political developments affecting supply and demand in the China foreign exchange trading system market. The Company's cash and restricted cash denominated in RMB amounted to RMB458,971, RMB1,134,694, RMB2,119,758 and RMB2,693,980 as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively.

As of December 31, 2019, the Company's cash and restricted cash were deposited in major financial institutions located in PRC, Hong Kong SAR, US and Singapore, and were denominated in the following currencies:

	RMB	**USD**	**HKD**	**JPY**	**EUR**	**SGD**
In PRC	2,096,453	205,827	–	–	–	–
In Hong Kong SAR	23,305	46,973	240,357	27,547	153	–
In US	–	257,227	–	–	–	–
In Singapore	–	10,932	–	–	–	176
Total in original currency	2,119,758	520,959	240,357	27,547	153	176
RMB equivalent	2,119,758	3,634,318	215,312	1,765	1,200	909

As of June 30, 2020, the Company's cash and restricted cash were deposited in major financial institutions located in PRC, Hong Kong SAR, US and Singapore, and were denominated in the following currencies:

	RMB	**USD**	**HKD**	**JPY**	**EUR**	**SGD**
In PRC	2,657,679	71,653	–	–	–	–
In Hong Kong SAR	36,301	17,641	210,906	30,909	146	–
In US	–	630,873	–	–	–	–
In Singapore	–	4,258	–	–	–	1,605
Total in original currency	2,693,980	724,425	210,906	30,909	146	1,605
RMB equivalent	2,693,980	5,128,567	192,641	2,034	1,166	8,155

(m) Concentration of credit risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash and cash equivalent, restricted cash, and accounts receivable. The Company's investment policy requires cash and cash equivalents and restricted cash to be placed with high-quality financial institutions and to limit the amount of credit risk from any one issuer. The Company regularly evaluates the credit standing of the counterparties or financial institutions.

The Company conducts credit evaluations on its customers prior to delivery of goods or services. The assessment of customer creditworthiness is primarily based on historical collection records, research of publicly available information and customer on-site visits by senior management. Based on this analysis, the Company determines what credit terms, if any, to offer to each customer individually. If the assessment indicates a likelihood of collection risk, the Company will not deliver the services or sell the products to the customer or require the customer to pay cash, post letters of credit to secure payment or to make significant down payments. Historically, credit losses on accounts receivable have been insignificant.

(n) Earnings (loss) per share

Basic earnings (loss) per ordinary share is computed by dividing net income (loss) attributable to the Company's ordinary shareholders by the weighted average number of ordinary shares outstanding during the year using the two-class method. Under the two-class method, net income (loss) attributable to the Company's ordinary shareholders is allocated between ordinary shares and other participating securities based on participating rights in undistributed earnings. The Company's redeemable preferred shares (Note 18) are participating securities since the holders of these securities participate in dividends on the same basis as ordinary shareholders. These participating securities are not included in the computation of basic loss per ordinary share in periods when the Company reports net loss, because these participating security holders have no obligation to share in the losses of the Company.

Diluted earnings (loss) per share is calculated by dividing net income (loss) attributable to the Company's ordinary shareholders as adjusted for the effect of dilutive ordinary share equivalents, if any, by the weighted average number of ordinary and dilutive ordinary share equivalents outstanding during the year. Ordinary share equivalents include the ordinary shares issuable upon the exercise of the outstanding share options (using the treasury stock method) and conversion of redeemable preferred shares and convertible bonds (using the as-if-converted method). Potential dilutive securities are not included in the calculation of diluted earnings (loss) per share if the impact is anti-dilutive.

(o) Cash and cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company does not have any cash equivalents as of December 31, 2017, 2018 and 2019, and June 30, 2020.

(p) Restricted cash

Restricted cash represents amounts held by banks, which are not available for the Company's use, as security for bank borrowings, related interests and certain special capital expenditures. Upon repayment of bank borrowings and the related interests, the deposits are released by the bank and available for general use by the Company.

(q) Fair value of financial instruments

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels (Note 20 to the consolidated financial statements):

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

(r) Contract balances

The timing of revenue recognition, billings and cash collections result in accounts receivable, contract assets and contract liabilities (i.e. deferred revenue). Accounts receivable are recorded at the invoice amount, net of an allowance for doubtful account and is recognized in the period when the Company has transferred products or provided services to its customers and when its right to consideration is unconditional. Amounts collected on accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. Prior to the adoption of ASC 326, *Financial Instruments – Credit Loss*, the Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and customers' financial condition, the amount of receivables in dispute, the accounts receivable aging, and the customers' repayment patterns. The Company reviews its allowance for doubtful accounts on a customer-by-customer basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Upon adoption of ASC 326 starting from January 1, 2020, the provision of credit losses for accounts receivable is based upon the current expected credit losses ("CECL") model. The CECL model requires an estimate of the credit losses expected over the life of accounts receivable since initial recognition, and accounts receivable with similar risk characteristics are grouped together when estimating CECL. In assessing the CECL, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical credit loss experience, adjusted for relevant factors impacting collectability and forward-looking information indicative of external market conditions. While the Company uses the best information available in making determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond the Company's control. Accounts receivable that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts. The Company does not have any off-balance-sheet credit exposure related to its customers.

A contract asset exists when the Company has transferred products or provided services to its customers but customer payment is contingent upon satisfaction of additional performance obligations. Contract assets are recorded in other current assets and other assets in the consolidated balance sheet.

Deferred revenue (a contract liability) is recognized when the Company has an unconditional right to a payment before it transfers goods or services to customers.

(s) Equity Method Investments

The Company's investments in entities in which the Company can exercise significant influence but does not own a majority equity interest or control are generally accounted for under the equity method of accounting, as the Company concluded it does not have control, but has the ability to exercise significant influence over the investees. Equity method investments are initially measured at cost, and are subsequently adjusted for cash contributions, distributions and the Company's share of the income and losses of the investees. The Company records its equity method investment in other non-current assets in the consolidated balance sheet. The Company's proportionate share of the income or loss from its equity method investment are recorded in others, net in the consolidated statement of operations. The Company reviews its investment periodically to determine if any investment may be impaired considering both qualitative and quantitative factors that may have a significant impact on the investees' fair value. The Company did not record any impairment charges related to its equity method investment for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020. Equity method investment is recorded in other non-current assets on the consolidated balance sheets.

(t) Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any recorded impairment. Property and equipment acquired under finance leases are initially recorded at the present value of minimum lease payments.

Gains or losses arising from the disposal of an item of property and equipment are determined based on the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of disposal.

The estimated useful lives are presented below.

Land	Remaining lease terms
Buildings	Shorter of the lease term and 30 years
Data center equipment	
– Machinery	10 – 20 years
– Other equipment	3 – 5 years
Leasehold improvement	Shorter of the lease term and the estimated useful lives of the assets
Furniture and office equipment	3 – 5 years
Vehicles	5 years

Construction in progress primarily consists of the cost of data center buildings and the related construction expenditures that are required to prepare the data center buildings for their intended use.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use. Once a data center building is ready for its intended use and becomes operational, construction in progress is transferred to the respective category of property and equipment and is depreciated over the estimated useful life of the underlying assets.

Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. For assets acquired under a finance lease, the assets are amortized in a manner consistent with the Company's normal depreciation policy for owned assets if the lease transfers ownership to the Company by the end of the lease term or contains a bargain-purchase-option. Otherwise, assets acquired under a finance lease are amortized over the lease term.

(u) Long-lived assets held for sale

Long-lived assets are classified as held-for-sale if: (1) the Company has committed to a plan to sell the assets that are available for sale in its present condition, including initiating actions to complete the sale that is probable to qualify for as a completed sale within one year; (2) it is unlikely that significant changes to the plan will be made or the plan will be withdrawn; (3) the assets are being marketed for sale at a price that is reasonable in related to its current value. Long-lived assets held for sale are recorded at the lower of carrying value and fair value less cost to sell. A loss shall be recognized for any initial or subsequent write-down to fair-value less cost to sell. Long-lived assets held for sale are not depreciated while classified as held for sale.

(v) Leases

The Company is a lessee in several non-cancellable operating leases and finance leases, primarily for data centers, lands, offices and other equipment. The Company adopted ASC 842 on January 1, 2019, using a modified retrospective method.

Accounting for leases before adoption of ASC 842, Leases

Before adoption of ASC 842, the Company accounted for leases in accordance with ASC 840, *Leases*, according to which, leases were classified at the lease inception date as either a capital lease or an operating lease. A lease was a capital lease if any of the following conditions existed: a) ownership is transferred to the lessee by the end of the lease term, b) there is a bargain purchase option, c) the lease term is at least 75% of the property's estimated remaining economic life, or d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date. The Company recorded a capital lease as an asset and an obligation at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term.

If at any time the lessee and lessor agree to change the provisions of the lease, other than by renewing the lease or extending its term, in a manner that would have resulted in a different classification of the lease under the lease classification criteria had the changed terms been in effect at lease inception, the revised agreement was considered as a new agreement over its term, and the lease classification criteria was applied for purposes of classifying the new lease.

The Company recorded an asset and related financing obligation for the estimated construction costs under build-to-suit lease arrangements where it was considered the owner for accounting purposes, to the extent the Company was involved in the construction of the building or structural improvements or had construction risk prior to commencement of a lease. Upon completion of the construction and commencement of the lease terms, the Company assessed whether these arrangements qualify for sales recognition under the deemed sale-leaseback transaction. If the arrangements did not qualify for sales recognition under the sale-leaseback accounting guidance, the Company continued to be the deemed owner of the build-to-suit assets for financial reporting purposes. The Company kept the construction costs of the assets on its balance sheet. In addition, lease payments less the portion considered to be interest expense decreased the financing liability.

Rental costs on operating leases were charged to expense on a straight-line basis over the lease term. Certain operating leases contain rent holidays and escalating rent. Rent holidays and escalating rent were considered in determining the straight-line rent expense to be recorded over the lease term. Rental costs associated with building operating leases that were incurred during the construction of leasehold improvements and to otherwise ready the property for the Company's intended use were recognized as rental expenses and were not capitalized.

Accounting for leases after adoption of ASC 842, Leases

The Company determines if an arrangement is or contains a lease at its inception.

The Company recognizes lease liabilities and right-of-use ("ROU") assets at lease commencement date. Lease liabilities are initially and subsequently measured at the present value of unpaid lease payments at the lease commencement date and is subsequently measured at amortized cost using the effective-interest method. Since most of the Company's leases do not provide an implicit rate, the Company uses its own incremental borrowing rate on a collateralized basis in determining the present value of unpaid lease payments.

ROU assets are initially measured at cost, which consist of (i) initial measurement of the lease liability; (ii) lease payments made to the lessor at or before the commencement date less any lease incentives received; and (iii) initial direct costs incurred by the Company. Variable lease payments are excluded from the measurement of ROU assets and lease liabilities and are recognized in the period in which the obligation for those payments is incurred. For operating leases, the Company recognizes a single lease cost on a straight-line basis over the remaining lease term. For finance leases, the ROU assets are subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term. Amortization of the ROU assets are recognized and presented separately from interest expense on the lease liability.

ROU assets for operating and finance leases are periodically reduced by impairment losses. The Company uses the long-lived assets impairment guidance in ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*, to determine whether a ROU asset is impaired, and if so, the amount of the impairment loss to recognize.

Prior to the adoption of ASC 842, prepayment for land use rights are presented as prepaid land use rights on the consolidated balance sheet and are measured at cost and subsequently amortized using the straight-line method. Upon the adoption of ASC 842 on January 1, 2019, land use rights acquired are assessed in accordance with ASC 842 and recognized in operating lease right-of-use assets if they meet the definition of operating lease, or property and equipment if they meet the definition of finance lease.

The Company has elected not to recognize ROU assets and lease liabilities for short-term leases (i.e. leases that, at the commencement date, have a lease term of 12 months or less and do not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise).

The Company records an asset and related financing obligation for the estimated construction costs under build-to-suit lease arrangements where it controls the asset during construction. Upon completion of the construction and commencement of the lease terms, the Company assesses whether these arrangements qualify for sales recognition under the deemed sale-leaseback transaction. If the arrangements do not qualify for sales recognition under the sale-leaseback accounting guidance, the Company continues to be the deemed owner of the build-to-suit assets for financial reporting purposes. The Company keeps the construction costs of the assets on its balance sheet. In addition, lease payments less the portion considered to be interest expense decrease the financing liability.

If a lease is modified and that modification is not accounted for as a separate contract, the classification of the lease is reassessed as of the effective date of the modification based on its modified terms and conditions and the facts and circumstances as of that date.

(w) Asset retirement costs

The Company's asset retirement obligations are primarily related to its data center buildings, of which the majority are leased under long-term arrangements, and, in certain cases, are required to be returned to the landlords in their original condition.

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred. The corresponding asset retirement costs are capitalized as part of the cost of leasehold improvements and are depreciated over the shorter of the asset or the term of the lease subsequent to the initial measurement. The Company accretes the liability in relation to the asset retirement obligations over time and the accretion expense is recorded in cost of revenue.

Asset retirement obligations are recorded in other long-term liabilities. The following table summarizes the activity of the asset retirement obligation liability:

Asset retirement obligations as of January 1, 2017	9,305
Additions	7,394
Accretion expense	949
Asset retirement obligations as of December 31, 2017	17,648
Additions	16,391
Accretion expense	1,840
Asset retirement obligations as of December 31, 2018	35,879
Additions	13,572
Accretion expense	2,990
Asset retirement obligations as of December 31, 2019	52,441
Additions	8,438
Accretion expense	1,840
Asset retirement obligations as of June 30, 2020	62,719

(x) Intangible assets

Intangible assets acquired in the acquisitions comprised of customer relationships and licenses.

The weighted-average amortization period by major intangible asset class is as follows:

Customer relationships	5-15 years
Licenses	20 years

Customer relationships represent the orders, backlog and customer lists, which arise from contractual rights or through means other than contracts. Customer relationships are amortized using a straight-line method, as the pattern in which the economic benefits of the intangible assets are consumed or used up cannot be reliably determined. The amortization period of customer relationships is determined based on the remaining contractual period of the contracts with the customers at the time of acquisition and an estimate of the contract renewal period.

Licenses are amortized using a straight-line method over the estimated beneficial period. The amortization period of licenses is determined based on the terms of those licenses.

The intangible assets before January 1, 2019 also include favorable leases acquired in the acquisitions with weighted-average amortization period of 13 to 20 years. Favorable lease was recognized as an intangible asset if the terms of the acquiree's operating lease were favorable relative to market terms. Favorable lease was amortized on a straight-line method over the lease term. Upon adoption of ASC 842, *Leases* on January 1, 2019, favorable leases were reclassified to operating lease ROU assets.

(y) Prepaid land use rights

The land use rights represent the amounts paid and relevant costs incurred for the rights to use land in the PRC and Hong Kong SAR acquired before the adoption of ASC 842, and are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the remaining terms of the land use right ranging from 27 to 42 years.

(z) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in the acquisition that are not individually identified and separately recognized.

Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the stock prices, business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Application of the goodwill impairment test requires judgment, including the identification of the reporting unit, assignment of assets and liabilities to the reporting unit, assignment of goodwill to the reporting unit, and determination of the fair value of each reporting unit.

The Company has the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying value prior to performing the goodwill impairment test. If it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount, the goodwill impairment test is not required. If the goodwill impairment test is required, the fair value of the reporting unit is compared with its carrying amount (including goodwill). If the fair value of the reporting unit is less than its carrying amount, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. In assessing the qualitative factors, the Group considered the impact of key factors such as changes in the general economic conditions including the impact of COVID-19, changes in industry and competitive environment, stock price, actual revenue performance compared to previous years, and cash flow generation. Based on the results of the qualitative assessment completed as of December 31, 2017, 2018 and 2019, and June 30, 2020, there were no indicators of impairment. Therefore, no impairment charge was recognized for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020.

(aa) Impairment of long-lived assets

Long-lived assets (primarily including property and equipment, operating lease right-of-use assets and prepaid land use rights) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived assets or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. For the purposes of impairment testing of long-lived assets, the Company has concluded that an individual data center is the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. When there were circumstances that require a long-lived asset or asset group for certain data centers be tested for possible impairment, the Company compared undiscounted cash flows generated by that asset or asset group to its carrying amount. As a result of the test, the carrying amount of the long-lived assets or asset group is recoverable on an undiscounted cash flow basis. Accordingly, no impairment losses were recorded for long-lived assets for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020.

(bb) Value-added-tax ("VAT")

Entities that are VAT general taxpayers are permitted to offset qualified input VAT paid to suppliers against their output VAT upon receipt of appropriate supplier VAT invoices on an entity by entity basis. When the output VAT exceeds the input VAT, the difference is remitted to tax authorities, usually on a monthly basis; whereas when the input VAT exceeds the output VAT, the difference is treated as VAT recoverable which can be carried forward indefinitely to offset future net VAT payables. VAT related to purchases and sales which have not been settled at the balance sheet date is disclosed separately as an asset and liability, respectively, in the consolidated balance sheets.

As of December 31, 2017, 2018 and 2019, and June 30, 2020, the Company recorded a VAT recoverable of RMB112,067, RMB163,476, RMB129,994 and RMB114,575 in current assets, and RMB290,065, RMB488,526, RMB888,483 and RMB1,129,440 in non-current assets, respectively. The Company also recorded VAT payables of RMB11,213, RMB11,350 RMB7,886 and RMB16,663 in accrued expenses and other payables, respectively, in the consolidated balance sheets as of December 31, 2017, 2018 and 2019, and June 30, 2020.

(cc) Derivative financial instruments

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

The Company entered into interest rate swap and foreign currency forward contracts primarily for the purpose to manage the interest rate risk for the long-term borrowings. The Company has elected not to apply hedge accounting to these derivative instruments and recognized all derivatives on the Company's consolidated balance sheets at fair value. The Company estimates the fair value of its interest rate swap and foreign currency forward contracts using a pricing model based on market observable inputs. Fair value gains or losses associated with interest rate swap and foreign currency forward contracts are recorded within interest expenses and foreign exchange gain/(loss) in the Company's consolidated statements of operations. Cash received or paid for realized gains or losses associated with interest rate swap and foreign currency forward contracts are included in operating cash flows in the consolidated statements of cash flows.

For further information on derivative financial instruments, see Note 19 below.

(dd) Commitment and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(ee) Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

1) The Company adopted ASC 606 *Revenue from Contracts with Customers* on January 1, 2018. The Company applied ASC 606 using the cumulative effect method – i.e. by recognizing the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of accumulated deficit at January 1, 2018. The Company elects to apply this guidance retrospectively only to contracts that are not completed contracts as of January 1, 2018. Therefore, the comparative information has not been adjusted and continues to be reported under ASC 605 *Revenue Recognition*.

Certain sales agreement of the Company contains contingent consideration terms regarding the IT equipment sales. Before the adoption of ASC 606, the allocation of arrangement consideration to the delivered items is limited to amounts of revenue that are not contingent. Upon the adoption of ASC 606, sales are recognized as the Company transfers control of the promised products or services to the customers. The revenue recognition of such IT equipment sales was accelerated as the control transfers. The Company estimates variable consideration to which it expects to be entitled, given consideration to the risk of revenue reversal in making the estimate. As a result, the Company made an adjustment to decrease the opening balance of accumulated deficit by RMB726 at January 1, 2018.

The impact for adoption of ASC 606 to the Company's consolidated statement of operations for the year ended December 31, 2018 is as follows:

Consolidated Statement of Operations:

	Year ended December 31, 2018	**Adjustments**	**Amounts without adoption of ASC 606**
Net revenue	2,792,077	1,569	2,793,646
Cost of revenue	(2,169,636)	(843)	(2,170,479)
Income from operations	168,355	726	169,081
Net loss	(430,268)	726	(429,542)
Loss per ordinary share			
Basic and diluted	(0.43)	0.00	(0.43)

2) The Company adopted ASC 842, *Leases* on January 1, 2019. The Company applied ASC 842 using a modified retrospective transition method on all leases existing at January 1, 2019, the date of initial application. As a result, the Company was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods before January 1, 2019.

The Company has elected the package of the transition practical expedients, including (1) not to reassess whether any expired or existing contracts, including land easements that were not previously accounted for as leases, are or contain leases, (2) not to reassess the lease classification for any expired or existing leases, and (3) not to reassess initial direct costs for any existing leases.

As a practical expedient, the Company has elected that for all leases, where it is the lessee, not to separate non-lease components from lease components and instead to account for all lease and non-lease components associated with each lease as a single lease component. The Company did not elect the practical expedient to use hindsight for leases existing at the adoption date.

Adoption of the standard had a significant impact on the Company's financial results, including the (1) recognition of new ROU assets and liabilities for operating leases; (2) reclassification of intangible assets for favorable leases for operating leases to ROU assets; and (3) de-recognition of other financing obligations and construction in progress for assets under construction in build-to-suit lease arrangements. The adoption of ASC 842 does not have impact to the accumulated deficit of the Company as of January 1, 2019.

The impact for adoption of ASC 842 to the related items of the Company's consolidated balance sheet as of January 1, 2019 is as follows:

	Balances at December 31, 2018	Adjustments due to adoption of ASC 842	Balances at January 1, 2019
Assets			
Prepaid expenses	64,843	2,051	66,894
Property and equipment, net	13,994,945	(336,719)	13,658,226
Intangible assets, net	482,492	(44,552)	437,940
Operating lease ROU assets	–	513,961	513,961
Liabilities			
Accounts payable	1,508,020	(3,864)	1,504,156
Accrued expenses and other payables	476,564	(13,085)	463,479
Operating lease liabilities, current	–	67,006	67,006
Operating lease liabilities, non-current	–	416,601	416,601
Finance lease and other financing obligations, non-current	4,134,327	(331,917)	3,802,410

In addition, the account caption of "Capital lease and other financing obligations" was changed to "Finance lease and other financing obligations" upon adoption of ASC 842.

3) The Company adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* on January 1, 2018. According to this ASU, the amounts generally described as restricted cash are included within cash when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated

statements of cash flows using a retrospective transition method to each period. As a result of the adoption of ASU 2016-18, the consolidated statement of cash flows was retrospectively adjusted by excluding the increase of restricted cash of RMB9,762 from cash flows from operating activities, RMB3,619 from cash flows from investing activities and RMB33,100 from cash flows from financing activities for the year ended December 31, 2017. A reconciliation of cash and restricted cash in the consolidated balance sheets to the amounts in the consolidated statements of cash flows is in Note 7.

4) The Company adopted ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* on January 1, 2018. According to this ASU, cash payments not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be separated and classified as cash outflows for financing activities and operating activities. Cash payments up to the amount of the contingent consideration liability recognized at the acquisition date (including measurement-period adjustments) should be classified as financing activities; any excess should be classified as operating activities. Cash payments made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be classified as cash outflows for investing activities. The amendments in this ASU should be applied using a retrospective transition method to each period presented. As a result of the adoption of ASU 2016-15, the consolidated statement of cash flows for the year ended December 31, 2017 was retrospectively adjusted by reclassifying the payment of contingent consideration for acquisition of subsidiaries of RMB27,105 from investing activities to cash flows from operating activities and financing activities of RMB2,966 and RMB24,139, respectively.

5) The Company adopted ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* on January 1, 2018. This ASU requires the recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, which consequently eliminates the exception for an intra-entity transfer of an asset other than inventory to the recognition of current and deferred income taxes. Deferred tax assets recognized as a result of this ASU shall be assessed for realizability. ASU 2016-16 was applied on a modified retrospective basis, with a cumulative-effect adjustment directly to accumulated deficit of the Company as of January 1, 2018, and the comparative information is not adjusted. The adoption of this ASU does not have impact to the accumulated deficit of the Company as of January 1, 2018.

6) The Company adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* on January 1, 2020. This ASU changes the fair value measurement disclosure requirements of ASC 820. Under this ASU, key provisions include new, eliminated and modified disclosure. The adoption of this ASU does not have a material impact on the consolidated financial statements.

7) The Company adopted ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* on January 1, 2020. This ASU is to simplify the subsequent measurement of goodwill. The ASU eliminates step 2 from the goodwill impairment test and the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This ASU is applied on a prospective basis. The adoption of this standard does not have impact on the Company's consolidated financial statements.

8) The Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, and subsequent amendments to the initial guidance within ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-11 and ASU 2020-02, collectively referred to as "ASC 326" on January 1, 2020 using the modified retrospective approach. ASC 326 requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASC 326 eliminates the probable initial recognition threshold in current GAAP and, instead, reflects an entity's current estimate of all expected credit losses. This adoption did not have material impact on the Company's consolidated financial statements.

New Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12, *Income Tax (Topic 740)*, Simplifying the Accounting for Income Taxes, which simplifies accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The ASU also improves consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. For public entities, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted including adoption in any interim period for periods for which financial statements have not yet been issued. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*, which clarifies the interaction for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact on the adoption of this standard will have on its consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20)* and *Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40),* which reduces the number of accounting models for convertible debt instruments and convertible preferred stock and clarifies the scope and certain requirements under Subtopic 815-40. The ASU also improves the guidance related to the disclosures and earnings-per-share (EPS) for convertible instruments and contract in entity's own equity. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact on the adoption of this standard will have on its consolidated financial statements.

3 REVENUE

Net revenue consisted of the following:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
				(unaudited)	
Colocation services	1,219,086	2,104,259	3,261,745	1,532,192	2,069,387
Managed service and others	372,774	655,231	832,826	343,848	497,677
Service revenue	1,591,860	2,759,490	4,094,571	1,876,040	2,567,064
IT equipment sales	24,306	32,587	27,834	990	15,559
Total	1,616,166	2,792,077	4,122,405	1,877,030	2,582,623

4 INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands, GDS Holdings is not subject to any income tax in the Cayman Islands.

The Company's PRC entities are subject to the PRC Corporate Income Tax ("CIT") rate of 25%.

The Company's Hong Kong SAR entities are subject to the Hong Kong SAR Profits Tax rate of 16.5%. A two-tiered Profits Tax rates regime was introduced since year 2018 where the first HK$2 million of assessable profits earned will be taxed at half the current tax rate (8.25%) whilst the remaining profits will continue to be taxed at 16.5%. There is an anti-fragmentation measure where each group will have to nominate only one entity in the group to benefit from the progressive rates.

The Company's Singapore entities are subject to the Singapore CIT rate of 17%.

The operating results before income tax and the provision for income taxes by tax jurisdictions for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020 is as follows:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
				(unaudited)	
Loss (income) before income taxes:					
PRC	130,961	237,232	68,080	59,174	(46,466)
Other jurisdictions	202,015	202,427	358,353	157,788	197,457
Total loss before income taxes	332,976	439,659	426,433	216,962	150,991
Current tax expenses:					
PRC	5,546	27,206	65,819	33,669	102,351
Other jurisdictions	–	–	3	–	–
Total current tax expenses	5,546	27,206	65,822	33,669	102,351
Deferred tax benefits:					
PRC	(11,683)	(36,597)	(50,172)	(20,852)	(60,264)
Other jurisdictions	61	–	–	–	–
Total deferred tax benefits	(11,622)	(36,597)	(50,172)	(20,852)	(60,264)
Total income taxes (benefits) expenses	(6,076)	(9,391)	15,650	12,817	42,087

The actual income tax expense reported in the consolidated statements of operations differs from the amount computed by applying the PRC statutory income tax rate to loss before income taxes due to the following:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
PRC enterprise income tax rate	25.0%	25.0%	25.0%	25.0%	25.0%
Non-PRC Resident Enterprises not subject to income tax	(14.8)%	(9.2)%	(21.4)%	(16.8)%	(43.4)%
Tax differential for entities in non-PRC jurisdiction	(0.8)%	(1.2)%	(1.4)%	(1.3)%	(2.5)%
Preferential tax rate	0.0%	0.0%	0.0%	0.0%	(0.8)%
Tax effect of current year/period permanent differences	0.0%	(1.3)%	1.5%	0.0%	3.3%
Non-taxable income	0.0%	0.0%	0.0%	0.0%	9.1%
Expiration of unused net operating losses	(2.6)%	(10.1)%	(1.4)%	0.0%	0.0%
Change in valuation allowance	(5.2)%	(1.0)%	(8.7)%	(17.0)%	(23.4)%
Return to provision adjustment	0.2%	(0.1)%	2.7%	4.2%	4.8%
	1.8%	2.1%	(3.7)%	(5.9)%	(27.9)%

The components of deferred tax assets and liabilities are as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Deferred tax assets:				
Allowance for accounts receivable	–	48	12	104
Government subsidy	4,197	3,643	3,127	1,592
Accrued expenses	14,024	26,867	27,601	35,741
Asset retirement obligation	4,412	8,970	13,110	15,680
Leases	–	–	–	13,457
Net operating loss carry forwards	170,267	192,505	267,159	322,473
Total gross deferred tax assets	192,900	232,033	311,009	389,047
Valuation allowance on deferred tax assets	(152,241)	(155,852)	(205,976)	(246,750)
Deferred tax assets, net of valuation allowance	40,659	76,181	105,033	142,297
Deferred tax liabilities:				
Property and equipment	(52,417)	(80,544)	(171,656)	(148,284)
Intangible assets	(82,305)	(116,156)	(97,102)	(137,878)
Prepaid land use rights	(1,693)	(1,653)	(1,612)	(1,592)
Leases	(14,216)	(12,732)	(9,568)	–
Accounts receivable	–	–	(4,836)	–
Total deferred tax liabilities	(150,631)	(211,085)	(284,774)	(287,754)
Net deferred tax liabilities	(109,972)	(134,904)	(179,741)	(145,457)
Analysis as:				
Deferred tax assets	14,305	36,974	72,931	136,809
Deferred tax liabilities	(124,277)	(171,878)	(252,672)	(282,266)
Net deferred tax liabilities	(109,972)	(134,904)	(179,741)	(145,457)

The following table presents the movement of the valuation allowance for the deferred tax assets:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Balance at the beginning of the year/period	134,935	152,241	155,852	155,852	205,976
Increase during the year/period	17,306	3,611	50,124	37,142	40,774
Balance at the end of the year/period	152,241	155,852	205,976	192,994	246,750

As of December 31, 2019, the Company's net deferred tax assets were RMB72,931, which is net of a valuation allowance of RMB205,976. The deferred tax assets for net operating loss carry forwards and related valuation allowance were RMB235,057 and RMB181,985, respectively as of December 31, 2019. As of June 30, 2020, the Company's net deferred tax assets were RMB136,809, which is net of a valuation allowance of RMB246,750. The deferred tax assets for net operating loss carry forwards and related valuation allowance were RMB316,985 and RMB207,304, respectively as of June 30, 2020. This valuation allowance was related to the deferred tax assets of certain subsidiaries of the Company. These entities were in a cumulative loss position with net operating loss carry forwards which are subject to expiration. Management evaluated the realizability of the deferred tax assets associated with the Company's net operating loss carry forwards to determine whether there was more than a 50% likelihood that these deferred tax assets would be realized, based on the Company's expectations of future taxable income and timing of net operating losses carry forwards expirations. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or utilized. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

The net operating losses carry forwards of the Company's PRC subsidiaries amounted to RMB978,738 as of December 31, 2019, of which RMB52,656, RMB70,408, RMB146,464, RMB292,983 and RMB416,227 will expire if unused by December 31, 2020, 2021, 2022, 2023 and 2024, respectively.

The net operating losses carry forwards of the Company's PRC subsidiaries amounted to RMB1,175,104 as of June 30, 2020, of which RMB28,534, RMB42,796, RMB95,686, RMB290,251, RMB350,896 and RMB366,941 will expire if unused by December 31, 2020, 2021, 2022, 2023, 2024 and 2025, respectively.

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Company's overall operations, and more specifically, with regard to tax residency status. The 2008 Enterprise Income Tax Law (the "EIT Law") includes a provision specifying that legal entities organized outside the PRC are considered residents for Chinese income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities are considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc., occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Company does not believe that the legal entities organized outside the PRC should be treated as residents for EIT Law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC are deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%.

If the Company were to be non-resident for PRC tax purposes, dividends paid to it from profits earned by the PRC subsidiaries after January 1, 2008 would be subject to a withholding tax. The EIT Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC-resident enterprise to its non-PRC-resident corporate investor for earnings generated beginning on January 1, 2008. Undistributed earnings generated prior to January 1, 2008 are exempt from such withholding tax. The Company has not recognized any deferred tax liability for the undistributed earnings of the PRC-resident enterprise as of December 31, 2017, 2018 and 2019, and June 30, 2020 as the Company plans to permanently reinvest these earnings in the PRC. Each of the PRC subsidiaries does not have a plan to pay dividends in the foreseeable future and intends to retain any future earnings for use in the operation and expansion of its business in the PRC.

5 SHARE-BASED COMPENSATION

Equity Incentive Plans

The Company adopted the 2014 Equity Incentive Plan (the 2014 Plan) in July 2014 for the granting of share options to key employees, directors and external consultants in exchange for their services. The total number of shares, which may be issued under the 2014 Plan, is 29,240,000 shares.

The Company adopted the 2016 Equity Incentive Plan (the 2016 Plan) in August 2016 for the granting of share options, stock appreciation rights and other stock-based award (collectively referred to as the Awards) to key employees and directors. The maximum aggregate number of shares, which may be subject to Awards under the Plan, is 56,707,560 shares, provided, however, that the maximum aggregate number of shares are subject to certain automatic approval mechanism up to 3% of total issued and outstanding shares of the Company, if and whenever the shares which may be subject to equity awards under the 2016 Plan accounts for less than 1.5% of the Company's total issued and outstanding shares.

In June 2018, the Company granted 500,000 share options under the 2014 Plan to an external consultant at an exercise price of US$0.7792 (RMB5.0) per option, which were immediately vested. The options have a contractual term of five years. The Company recognized the fair value of such options granted and vested amounted to US$2,429 (RMB16,073) immediately to profit and loss. The fair value of such options was determined to be approximately the difference between the grant date share price and the exercise price.

A summary of the option activity is as follows:

	Number of options	Weighted average exercise price	Weighted average grant-date fair value per option
		(RMB)	(RMB)
Options outstanding at January 1, 2017	28,589,782	5.2	3.2
Granted	333,334	5.2	10.6
Exercised	(816,880)	5.3	1.9
Forfeited	(19,000)	5.3	1.9
Options outstanding at December 31, 2017	28,087,236	5.1	3.2
Granted	500,000	5.0	31.2
Exercised	(3,614,464)	5.2	4.5
Forfeited	(193,340)	5.0	6.2
Options outstanding at December 31, 2018	24,779,432	5.3	2.2
Granted	–		
Exercised	(10,150,336)	5.6	3.5
Forfeited	–		
Options outstanding at December 31, 2019	14,629,096	5.4	1.7
Exercised	(13,960,096)	5.5	1.6
Options outstanding at June 30, 2020	669,000	5.5	2.9
Options vested and expect to vest at December 31, 2019	14,629,096	5.4	1.7
Options vested and expect to vest at June 30, 2020	669,000	5.5	2.9

Total intrinsic value of options exercised was RMB5,535, RMB77,917, RMB266,863, RMB204,449 (unaudited) and RMB615,542, respectively, for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020.

The following table summarizes information with respect to stock options outstanding and stock options exercisable as of December 31, 2019:

	Number of shares	Weighted average remaining contractual life	Weighted average exercise price
		(years)	(RMB)
Options outstanding and exercisable	14,629,096	1.0	5.4

The following table summarizes information with respect to stock options outstanding and stock options exercisable as of June 30, 2020:

	Number of shares	Weighted average remaining contractual life	Weighted average exercise price
		(years)	(RMB)
Options outstanding and exercisable	669,000	0.8	5.5

As of December 31, 2017, 2018 and 2019, and June 30, 2020, there were no unvested employee or non-employee stock options. Aggregate intrinsic value of options outstanding and exercisable as of December 31, 2019 and June 30, 2020 was RMB578,481 and RMB43,470, respectively.

Settlement of liability-classified restricted shares award

In May, August and November 2017, the Company issued a total of 502,000 fully vested restricted shares to its directors to settle a portion of their remuneration for services provided by the directors, which had been recorded in general and administrative expenses. The number of restricted shares issued was determined by the fair value of the restricted shares on the date of settlement and the share-settled portion of the liability of RMB4,462.

In March, May, August and November 2018, the Company issued a total of 260,560 fully vested restricted shares to its directors to settle a portion of their remuneration for services provided by the directors, which had been recorded in general and administrative expenses. The number of restricted shares issued was determined by the fair value of the restricted shares on the date of settlement and the share-settled portion of the liability of RMB6,357.

In March, May, August and November 2019, the Company issued a total of 237,312 fully vested restricted shares to its directors to settle a portion of their remuneration for services provided by the directors, which had been recorded in general and administrative expenses. The number of restricted shares issued was determined by the fair value of the restricted shares on the date of settlement and the share-settled portion of the liability of RMB7,984.

In March and June 2020, the Company issued a total of 100,136 fully vested restricted shares to its directors to settle a portion of their remuneration for services provided by the directors, which had been recorded in general and administrative expenses. The number of restricted shares issued was determined by the fair value of the restricted shares on the date of settlement and the share-settled portion of the liability of RMB4,675.

Pursuant to ASC 480-10-25-14, such award that is share-settleable for a fixed monetary amount is a liability-classified award and therefore is re-measured each reporting period until settlement.

Upon issuance of the shares to settle the obligation, equity is increased by the amount of the liability settled in shares and no additional share-based compensation expense was recorded.

Restricted shares to directors, officers and employees

In December 2017, July 2018 and August 2019, the Company granted non-vested restricted shares of 13,475,060, 12,941,952 and 14,314,160, respectively, to employees, officers and directors. The restricted share awards contained service and market conditions, or service and performance conditions, which are tied to the financial performance of the Company. For restricted shares granted, the value of the restricted shares was determined by the fair value of the restricted shares on the grant date, on which all criteria for establishing the grant dates were satisfied. The value of restricted shares subject to service conditions and market conditions attached is recognized as the compensation expense using the graded-vesting method. The value of restricted shares with performance conditions attached is recognized as compensation expense using the graded-vesting method only when the achievement of performance conditions becomes probable. For restricted shares with market conditions, the probability to achieve market conditions is reflected in the grant date fair value.

A summary of the restricted share activity is as follows:

	Number of Shares	Weighted average grant-date fair value per share
		(RMB)
Unvested at January 1, 2017	12,910,080	6.0
Granted	13,977,060	5.2
Vested	(2,123,120)	8.5
Forfeited	(238,400)	6.8
Unvested at December 31, 2017	24,525,620	5.3
Granted	13,202,512	14.5
Vested	(7,326,620)	6.0
Forfeited	(891,008)	5.9
Unvested at December 31, 2018	29,510,504	9.3
Granted	14,551,472	34.2
Vested	(9,122,432)	9.3
Forfeited	(1,582,248)	10.7
Unvested at December 31, 2019	33,357,296	22.4
Granted	100,136	46.8
Vested	(3,611,936)	8.0
Forfeited	(656,248)	8.2
Unvested at June 30, 2020	29,189,248	24.6

The Company recognized share-based compensation expenses of RMB56,237, RMB89,804, RMB189,447, RMB62,795 (unaudited) and RMB133,842 for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, respectively, for the restricted share awards. As of December 31, 2019, total unrecognized compensation expense relating to the unvested shares was RMB360,461, which is expected to be recognized over a weighted average period of 1.77 years using the graded-vesting attribution method. As of June 30, 2020, total unrecognized compensation expense relating to the unvested shares was RMB229,750, which is expected to be recognized over a weighted average period of 1.52 years using the graded-vesting attribution method. The Company did not capitalize any of the share-based compensation expenses as part of the cost of any asset for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020.

Total intrinsic value of restricted shares vested was RMB16,596, RMB160,264, RMB311,923, RMB74,940 (unaudited) and RMB182,254, respectively, for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020. Aggregate intrinsic value of unvested restricted shares as of December 31, 2019 and June 30, 2020 was RMB1,500,376 and RMB2,057,665, respectively.

The fair value of the restricted shares granted is estimated on the date of grant using the Monte Carlo simulation model with the following assumptions used.

Grant date:	July 2017	August 2018	August 2019
Risk-free rate of return	1.29 – 1.63%	2.047% – 2.418%	1.67% – 1.88%
Volatility	20.43 – 21.48%	71.85%	63.22%
Expected dividend yield	0.00%	0.00%	0.00%
Share price at grant date	US$1.191 (RMB8.0)	US$3.125 (RMB21.3)	US$5.02375 (RMB34.6)
Expected term	2 – 4 years	1 – 3 years	1 – 3 years

(1) Volatility

Expected volatility is assumed based on the historical volatility of the Company's comparable companies or the Company in the period equal to the expected term of each grant.

(2) Risk-free interest rate

Risk-free rate equal to the United States Government Treasury Yield Rates for a term equal to the remaining expected term.

(3) Dividend yield

The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the restricted shares.

A summary of share-based compensation expenses for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020 is as follows:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Costs of revenue	9,941	18,008	46,007	14,858	34,439
Selling and marketing expenses	18,390	25,213	39,436	14,697	26,124
General and administrative expenses	30,866	61,707	101,949	32,509	71,527
Research and development expenses	646	949	2,364	870	1,752
Total share-based compensation expenses	59,843	105,877	189,756	62,934	133,842

6 LOSS PER ORDINARY SHARE

The computation of basic and diluted loss per share is as follows:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Net loss	(326,900)	(430,268)	(442,083)	(229,779)	(193,078)
Change in redemption value of redeemable preferred shares	–	–	(17,760)	(17,760)	–
Cumulative dividend on redeemable preferred shares	–	–	(40,344)	(13,472)	(26,667)
Net loss attributable to ordinary shareholders	(326,900)	(430,268)	(500,187)	(261,011)	(219,745)
Weighted average number of ordinary shares outstanding – basic and diluted	784,566,371	990,255,959	1,102,953,366	1,070,590,091	1,186,168,652
Loss per ordinary share – basic and diluted	(0.42)	(0.43)	(0.45)	(0.24)	(0.19)

Note: During the years ended December 31, 2017 and 2019, the Company issued 20,000,000 and 48,962,896 ordinary shares, respectively, to its share depository bank, which have been and will continue to be used to settle stock option and restricted share awards upon their exercise. No consideration was received by the Company for this issuance of ordinary shares. These ordinary shares are legally issued and outstanding but are treated as escrowed shares for accounting purposes and, therefore, have been excluded from the computation of loss per ordinary share. Any ordinary shares not used in the settlement of stock option and restricted share awards will be returned to the Company.

The following securities were excluded from the computation of diluted loss per share as inclusion would have been anti-dilutive. The share options and restricted shares below represented the maximum number of shares to be issued.

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Share options/Restricted shares	52,612,856	54,289,936	47,986,392	43,134,256	29,858,248
Convertible bonds payable	–	46,527,600	46,527,600	46,527,600	46,527,600
Total	52,612,856	100,817,536	94,513,992	89,661,856	76,385,848

7 CASH AND RESTRICTED CASH

A reconciliation of cash and restricted cash in the consolidated balance sheets to the amounts in the consolidated statements of cash flows is as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Cash	1,873,446	2,161,622	5,810,938	7,742,082
Restricted cash – current assets	10,837	87	34,299	112,756
Restricted cash – non-current assets	63,317	123,039	128,025	171,705
Total cash and restricted cash shown in the consolidated statements of cash flows	1,947,600	2,284,748	5,973,262	8,026,543

Restricted cash was mainly for the purpose of securing the repayment of long-term bank borrowings and related interests and certain specific capital expenditure.

8 CONTRACT BALANCES

Accounts Receivable, Net

Accounts receivable, net consisted of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
				(unaudited)
Accounts receivable	364,654	541,355	881,177	1,388,987
Less: allowance for doubtful accounts	–	(241)	(133)	(452)
Accounts receivable, net	364,654	541,114	881,044	1,388,535
Including:				
– Current portion	364,654	536,842	879,962	1,388,535
– Non-current portion	–	4,272	1,082	–

As of December 31, 2017, 2018 and 2019, and June 30, 2020, the accounts receivable expected to be received after one year amounted to nil, RMB4,272, RMB1,082 and nil were recorded in other non-current assets in the consolidated balance sheet, respectively.

Accounts receivable of RMB136,043, RMB365,938, RMB520,382 and RMB949,474 was pledged as security for bank loans (Note 13) as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively. Accounts receivable of RMB115,349 was pledged as security for finance lease and other financing obligations (Note 16) as of June 30, 2020.

The following table presents the movement of the allowance for doubtful accounts:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Balance at the beginning of the year/period	–	–	241	241	133
Allowance made during the year/period	–	241	274	81	319
Write-off during the year/period	–	–	(382)	–	–
Balance at the end of the year/period	–	241	133	322	452

During the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, the Company made an allowance on accounts receivable of nil, RMB241, RMB274, RMB81 (unaudited) and RMB319, respectively.

Deferred Revenue

The opening and closing balances of the Company's deferred revenue are as following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Beginning balance	40,657	55,609	73,077	105,735
Increase/(Decrease)	14,952	17,468	32,658	(31,044)
Closing balance	55,609	73,077	105,735	74,691

The difference between the opening and closing balances of the Company's deferred revenue primarily results from the timing difference between the satisfaction of the Company's performance obligation and the customer's payment. As of December 31, 2018 and 2019, and June 30, 2020, the deferred revenue expected to be recognized as revenue after one year amounted to nil, RMB15,419 and RMB14,865, respectively, were recorded in other long-term liabilities in the consolidated balance sheet. The amounts of revenue recognized during the years ended December 31, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020 from the respective opening deferred revenue balance of the year/period was RMB43,192, RMB66,500, RMB61,696 (unaudited) and RMB77,366, respectively.

Remaining performance obligations

The Company elected to apply the practical expedient that allows the Company not to disclose the remaining performance obligations for variable considerations. This includes usage-based contracts for certain colocation and managed hosting services.

As of December 31, 2019, approximately RMB1,693,411 of total revenues and deferred revenues are expected to be recognized in future periods, the majority of which will be recognized over the next three years.

As of June 30, 2020, approximately RMB1,296,829 of total revenues and deferred revenues are expected to be recognized in future periods, the majority of which will be recognized over the next three years.

9 PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
At cost:				
Land	–	–	855,310	877,640
Buildings	2,693,843	4,382,469	5,964,048	8,198,521
Data center equipment	2,202,247	4,225,963	5,567,606	8,322,958
Leasehold improvement	2,243,691	4,239,601	6,111,733	6,955,273
Furniture and office equipment	36,762	45,057	61,974	74,858
Vehicles	2,972	4,086	4,115	4,141
	7,179,515	12,897,176	18,564,786	24,433,391
Less: Accumulated depreciation	(965,758)	(1,534,368)	(2,580,320)	(3,267,380)
	6,213,757	11,362,808	15,984,466	21,166,011
Construction in progress	1,951,844	2,632,137	3,200,173	3,376,940
Property and equipment, net	8,165,601	13,994,945	19,184,639	24,542,951

(1) The carrying amounts of the Company's property and equipment acquired under finance leases and other financing arrangement were RMB2,539,520, RMB4,570,666, RMB6,070,349 and RMB7,764,891 as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively.

(2) Depreciation of property and equipment (including assets acquired under finance leases and other financing arrangement) was RMB352,480, RMB682,451, RMB1,057,171, RMB481,288 (unaudited) and RMB668,067 for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, respectively, and included in the following captions:

	Years ended December 31,			Six-month periods ended June 30,	
	2017	2018	2019	2019	2020
				(unaudited)	
Cost of revenue	345,025	674,560	1,045,446	476,361	631,329
General and administrative expenses	6,902	7,319	10,448	4,405	35,207
Research and development expenses	553	572	1,277	522	1,531
	352,480	682,451	1,057,171	481,288	668,067

(3) Property and equipment with net a book value of RMB698,922, RMB1,716,736, RMB2,493,872 and RMB3,987,569 was pledged as security for bank loans (Note 13) and other financing obligations (Note 16) as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively.

(4) As of December 31, 2017, 2018 and 2019, and June 30, 2020, payables for purchase of property and equipment that are contractually due beyond one year of RMB195,749, RMB206,591, RMB231,458 and RMB185,310, respectively, are recorded in other long-term liabilities in the consolidated balance sheets.

10 INTANGIBLE ASSETS, NET

Intangible assets consisted of the following:

	Note	As of December 31,			As of June 30,
		2017	2018	2019	2020
Customer relationships	*12*	379,322	532,322	547,322	693,500
Favorable leases	*12*	15,500	49,500	–	–
Licenses		6,000	6,000	6,000	6,000
		400,822	587,822	553,322	699,500
Less: accumulated amortization		(52,356)	(105,330)	(158,694)	(141,529)
Intangible assets, net		348,466	482,492	394,628	557,971

The Company's customer relationships and favorable leases were acquired in business combinations (Note 12). Amortization of intangible assets was RMB25,103, RMB52,974, RMB58,312, RMB28,963 (unaudited) and RMB27,657 respectively for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020.

Estimated future amortization expense related to these intangible assets as of December 31, 2019 and June 30, 2020 is as follows:

Fiscal year ending December 31,	
2020	51,691
2021	51,691
2022	51,691
2023	50,149
2024	43,677
Thereafter	145,729
Total	394,628

Twelve-month periods ending June 30,	
2021	76,864
2022	76,924
2023	76,782
2024	71,516
2025	65,814
Thereafter	190,071
Total	557,971

11 PREPAID LAND USE RIGHTS

Prepaid land use rights, representing the amounts paid and relevant costs incurred for the rights to use land in the PRC and Hong Kong SAR acquired before the adoption of ASC 842, consisted of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Prepaid land use rights	28,370	765,114	782,319	797,134
Less: Accumulated amortization	(2,125)	(8,157)	(35,132)	(49,454)
Prepaid land use rights, net	26,245	756,957	747,187	747,680

Amortization of prepaid land use rights was RMB547, RMB6,082, RMB26,393, RMB12,962 (unaudited) and RMB13,499 for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, respectively.

Prepaid land use rights with a net book value of RMB6,091, RMB13,241, RMB741,032 and RMB734,566 were pledged as security for bank loans (Note 13) as of December 31, 2017, 2018 and 2019, and June 30, 2020 respectively.

Upon the adoption of ASC 842 on January 1, 2019, land use rights acquired are assessed in accordance with ASC 842 and recognized in operating lease right-of-use assets if they meet the definition of operating lease, or property and equipment if they meet the definition of finance lease (Note 2(v)).

12 BUSINESS COMBINATIONS

The movement of goodwill is set out as below:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Balance at the beginning of the year/period	1,341,087	1,570,755	1,751,970	1,905,840
Addition during the year/period	229,668	181,215	153,870	503,485
Balance at end of the year/period	1,570,755	1,751,970	1,905,840	2,409,325

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. The goodwill is not deductible for tax purposes. Goodwill is assigned to the design, build-out and operation of data centers reporting unit.

Shenzhen 5 Acquisition

On June 29, 2017, the Company consummated an acquisition of all equity interests in a target group comprising onshore and offshore entities from third parties for an aggregate contingent consideration of RMB312,000. As of December 31, 2019 and June 30, 2020, the fair value of remaining consideration payable of RMB16,762 was recorded in other payables with payment schedule based on the milestone related to the achievement of all specified conditions.

The target group owns a data center project ("Shenzhen 5") in Shenzhen, China. At the date of acquisition, the data center had just commenced its operations.

The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair value on the acquisition date and consisted of the following major items.

	Note	
Fair value of consideration	*(i)*	294,491
Effective settlement of pre-existing relationships upon consolidation	*(ii)*	6,025
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash		(11,153)
Property and equipment	*(iii)*	(821,405)
Identifiable intangible assets	*(iv)*	(176,500)
Other assets		(59,520)
Accounts payable		219,207
Finance lease and other financing obligations, current		23,156
Finance lease and other financing obligations, non-current		363,380
Long-term borrowings		217,790
Deferred tax liabilities		45,931
Other liabilities		55,299
Total identifiable net assets		(143,815)
Goodwill	*(v)*	156,701

Note (i): The fair value of consideration represents the present value of the purchase price of RMB312,000.

Note (ii): Prior to the acquisition, the Company had other receivables from the target group of RMB6,025, which was effectively settled with the seller upon completion of the acquisition.

Note (iii): Property and equipment acquired included properties acquired under finance lease of RMB416,000.

Note (iv): Identifiable intangible assets acquired consisted of customer relationships of RMB176,500 with an estimated useful life of 14.4 years.

Note (v): Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. Goodwill is assigned to the design, build-out and operation of data centers reporting unit. Goodwill primarily represents the expected synergies from combining operations of the target group with those of the Company and intangible assets that do not qualify for separate recognition and is not deductible for tax purposes. In accordance with ASC 350, goodwill is not amortized but is tested for impairment.

The amounts of net revenue and net loss of the target group included in the Company's consolidated statements of operations from the acquisition date to December 31, 2017 amounted to RMB42,072 and RMB23,859, respectively.

Guangzhou 2 Acquisition

On October 9, 2017, the Company consummated an acquisition of all equity interests in a target group comprising onshore and offshore entities from third parties for a cash consideration of RMB233,984. The Company had paid the full consideration during 2018.

The target group owns a data center project ("Guangzhou 2") in Guangzhou, China.

The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair value on the acquisition date and consisted of the following major items.

	Note	
Fair value of consideration		233,984
Effective settlement of pre-existing relationships upon consolidation	*(i)*	(1,807)
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash		(10,144)
Accounts receivable		(25,177)
Property and equipment	*(ii)*	(319,943)
Identifiable intangible assets	*(iii)*	(98,500)
Other assets		(14,135)
Accounts payable		56,431
Finance lease and other financing obligations, current		5,958
Finance lease and other financing obligations, non-current		101,875
Short-term borrowings		50,750
Long-term borrowings		52,999
Deferred tax liabilities		35,097
Other liabilities		5,579
Total identifiable net assets		(159,210)
Goodwill	*(iv)*	72,967

Note (i): Prior to the acquisition, the Company had payables to the target group of RMB1,807, which was effectively settled with the seller upon completion of the acquisition.

Note (ii): Property and equipment acquired included properties acquired under finance lease of RMB106,000.

Note (iii): Identifiable intangible assets acquired consisted of customer relationships of RMB98,500 with an estimated useful life of 11.8 years.

Note (iv): Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. Goodwill is assigned to the design, build-out and operation of data centers reporting unit. Goodwill primarily represents the expected synergies from combining operations of the target group with those of the Company and intangible assets that do not qualify for separate recognition and is not deductible for tax purposes. In accordance with ASC 350, goodwill is not amortized but is tested for impairment.

The amounts of net revenue and net income of the target group included in the Company's consolidated statements of operations from the acquisition date to December 31, 2017 amounted to RMB26,573 and RMB2,734, respectively.

Guangzhou 3 Acquisition

On May 2, 2018, the Company consummated an acquisition of all equity interests in a target group comprising onshore and offshore entities from third parties for an aggregate cash consideration of RMB262,244 (including contingent considerations of RMB245,244). As of the acquisition date, the Company estimated that, pursuant to the share purchase agreement, all specified conditions would be met and the Company would be obligated to settle full amount of the purchase price of RMB262,244. As of December 31, 2019, the fair value of remaining consideration payable was RMB118,336, of which RMB95,274 and RMB23,062 were recorded in other payables and other long-term liabilities, respectively. Pursuant to a supplemental agreement entered into between the seller and the Company in May 2020, both parties agreed to reduce the total cash consideration (including contingent consideration) from RMB262,244 to RMB207,310, subject to the achievement of the revised conditions as set out in the supplemental agreement. The adjustment of the cash consideration of RMB55,154 was recognized as gain from purchase price adjustment in the consolidated statement of operations for the six-month period ended June 30, 2020. As of June 30, 2020, the fair value of remaining consideration payable was RMB51,067, of which RMB31,412 and RMB19,655 were recorded in other payables and other long-term liabilities, respectively. The payment schedule of remaining consideration is based on the milestone related to the achievement of all specified conditions.

The target group owns a data center project ("Guangzhou 3") in Guangzhou, China.

The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair value on the acquisition date and consisted of the following major items.

	Note	
Fair value of consideration	*(i)*	247,937
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash		(62)
Accounts receivable		(13,995)
Property and equipment	*(ii)*	(780,312)
Identifiable intangible assets	*(iii)*	(130,000)
Other assets		(43,039)
Accounts payable		471,532
Finance lease and other financing obligations, non-current		282,051
Short-term borrowings		47,580

	Note	
Long-term borrowings		30,000
Deferred tax liabilities		26,503
Other liabilities		2,849
Total identifiable net assets		(106,893)
Goodwill	*(iv)*	141,044

Note (i): The fair value of consideration represents the present value of the purchase price of RMB262,244.

Note (ii): Property and equipment acquired included properties acquired under finance lease of RMB291,000.

Note (iii): Identifiable intangible assets acquired consisted of customer relationships of RMB130,000 with an estimated useful life of 7 years.

Note (iv): Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. Goodwill is assigned to the design, build-out and operation of data centers reporting unit. Goodwill primarily represents the expected synergies from combining operations of the target group with those of the Company and intangible assets that do not qualify for separate recognition and is not deductible for tax purposes. In accordance with ASC 350, goodwill is not amortized but is tested for impairment.

The amounts of net revenue and net loss of the target group included in the Company's consolidated statements of operations from the acquisition date to December 31, 2018 amounted to RMB85,298 and RMB11,727 respectively.

Shanghai 11 Acquisition

On June 1, 2018, the Company consummated an acquisition of all equity interests in a target entity from third parties for an aggregate cash consideration of RMB320,000 (including contingent considerations of RMB70,000). As of the acquisition date, the Company estimated that, pursuant to the share purchase agreement, all specified conditions would be met and the Company would be obligated to settle full amount of the purchase price of RMB320,000. As of December 31, 2019, the fair value of remaining consideration payable of RMB1,400 was recorded in other payables, which was paid in the six-month period ended June 30, 2020.

The target entity owns a data center project ("Shanghai 11") in Shanghai, China.

The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair value on the acquisition date and consisted of the following major items.

	Note	
Fair value of consideration	*(i)*	319,119
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash		(404)
Property and equipment		(233,405)
Identifiable intangible assets	*(ii)*	(57,000)
Other assets		(94,647)
Accounts payable		91,136
Deferred tax liabilities		9,995
Other liabilities		5,377
Total identifiable net assets		(278,948)
Goodwill	*(iii)*	40,171

Note (i): The fair value of the consideration represents the present value of the purchase price of RMB320,000.

Note (ii): Identifiable intangible assets acquired consisted of customer relationships of RMB23,000 with an estimated useful life of 10 years and favourable lease of RMB34,000 with an estimated useful life of 13.6 years. The favourable lease was reclassified to operating lease ROU assets upon adoption of ASC 842 *Leases* on January 1, 2019.

Note (iii): Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. Goodwill is assigned to the design, build-out and operation of data centers reporting unit. Goodwill primarily represents the expected synergies from combining operations of the target group with those of the Company and intangible assets that do not qualify for separate recognition and is not deductible for tax purposes. In accordance with ASC 350, goodwill is not amortized but is tested for impairment.

The amounts of net revenue and net loss of the target entity included in the Company's consolidated statements of operations from the acquisition date to December 31, 2018 amounted to RMB35,489 and RMB2,924, respectively.

Guangzhou 6 Acquisition

On October 18, 2019, the Company consummated an acquisition of all equity interests in a target entity from a third party for an aggregate cash consideration of RMB431,727 (including contingent considerations of RMB243,736). As of the acquisition date, the Company estimated that, pursuant to the share purchase agreement, all specified conditions would be met and the Company would be obligated to settle full amount of the purchase price of RMB431,727. As of December 31, 2019 and June 30, 2020, the fair value of remaining consideration payable was RMB235,526 and RMB224,653, respectively, which was recorded in other payables. The payment schedule of remaining consideration is based on the milestone related to the achievement of all specified conditions.

The target entity owns a data center project ("Guangzhou 6") in Guangzhou, China.

The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair value on the acquisition date and consisted of the following major items.

	Note	
Fair value of consideration	*(i)*	423,075
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash		(12,091)
Property and equipment	*(ii)*	(493,026)
Operating lease ROU assets		(9,168)
Identifiable intangible assets	*(iii)*	(15,000)
Other assets		(44,549)
Accounts payable		118,486
Finance lease and other financing obligations, current		16,828
Operating lease liabilities, current		886
Finance lease and other financing obligations, non-current		157,366
Operating lease liabilities, non-current		8,282
Deferred tax liabilities		1,040
Other liabilities		1,741
Total identifiable net assets		(269,205)
Goodwill	*(iv)*	153,870

Note (i): The fair value of consideration represents the present value of the purchase price of RMB431,727.

Note (ii): Property and equipment acquired included properties acquired under finance lease of RMB174,194.

Note (iii): Identifiable intangible assets acquired consisted of customer relationships of RMB15,000 with an estimated useful life of 7.8 years.

Note (iv): Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. Goodwill is assigned to the design, build-out and operation of data centers reporting unit. Goodwill primarily represents the expected synergies from combining operations of the target group with those of the Company and intangible assets that do not qualify for separate recognition and is not deductible for tax purposes. In accordance with ASC 350, goodwill is not amortized but is tested for impairment.

The amounts of net revenue and net loss of the target entity included in the Company's consolidated statements of operations from the acquisition date to December 31, 2019 amounted to nil and RMB8,816, respectively.

Beijing 10, Beijing 11 and Beijing 12 Acquisition

On June 5, 2020, the Company consummated an acquisition of all equity interests in a target group from third parties for an aggregate cash consideration of RMB847,586 (including contingent considerations of RMB130,720). As of the acquisition date, the Company estimated that, pursuant to the share purchase agreement, all specified conditions would be met and the Company would be obligated to settle full amount of the purchase price of RMB847,586. As of June 30, 2020, the fair value of remaining consideration payable was RMB527,586, which was recorded in other payables. The payment schedule of remaining consideration is based on the milestone related to the achievement of all specified conditions.

The target group owns three data center projects ("Beijing 10, Beijing 11 and Beijing 12") in Beijing, China.

The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair value on the acquisition date and consisted of the following major items.

	Note	
Fair value of consideration		847,586
Effective settlement of pre-existing relationship upon consolidation	*(i)*	34,477
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash		(2,349)
Accounts receivable		(81,027)
Property and equipment	*(ii)*	(1,971,432)
Operating lease ROU assets		(94,821)
Identifiable intangible assets	*(iii)*	(191,000)
Other assets		(149,956)
Accounts payable		727,043
Finance lease and other financing obligations, current		171,979
Operating lease liabilities, current		6,092
Finance lease and other financing obligations, non-current		1,062,114
Operating lease liabilities, non-current		92,360
Deferred tax liabilities		13,833
Other liabilities		38,586
Total identifiable net assets		(378,578)
Goodwill	*(iv)*	503,485

Note (i): Prior to the acquisition, the Company had receivables from the target group of RMB34,477, which was effectively settled upon completion of the acquisition.

Note (ii): Property and equipment acquired included properties acquired under finance lease of RMB632,427.

Note (iii): Identifiable intangible assets acquired consisted of customer relationships of RMB191,000 with an estimated useful life of 7.6 years.

Note (iv): Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in the acquisition. Goodwill is assigned to the design, build-out and operation of data centers reporting unit. Goodwill primarily represents the expected synergies from combining operations of the target group with those of the Company and intangible assets that do not qualify for separate recognition and is not deductible for tax purposes. In accordance with ASC 350, goodwill is not amortized but is tested for impairment.

The amounts of net revenue and net profit of the target group included in the Company's consolidated statements of operations from the acquisition date to June 30, 2020 amounted to RMB28,850 and RMB582, respectively.

Supplemental pro forma financial information as if the acquisitions had occurred as of the earliest date presented has not been provided as the acquisitions are not material to the Company's results of operations for the years ended December 31, 2017, 2018 and 2019 and the six-month periods ended June 30, 2019 and 2020, either individually or in aggregate.

Asset acquisitions

In 2018, 2019 and the six months ended June 30, 2020, the Company consummated several acquisitions of certain target entities for total cash considerations (net of the cash acquired) of RMB124,667, RMB367,509 and RMB36,952, respectively. These acquisitions did not meet the definition of a business as of the acquisition date in accordance with ASC 805, *Business Combinations*, and were accounted for as assets acquisitions. The primary assets acquired were properties self-owned or under finance leases, equipment and leasehold improvements. As of December 31, 2019 and June 30, 2020, the remaining consideration payable was RMB13,070 and RMB45,440, respectively, which was recorded in other payables.

13 LOANS AND BORROWINGS

The Company's borrowings consisted of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Short-term borrowings	462,946	684,788	397,213	734,208
Current portion of long-term borrowings	327,538	598,532	740,524	947,579
Sub-total	790,484	1,283,320	1,137,737	1,681,787
Long-term borrowings, excluding current portion	3,459,765	5,203,708	8,028,473	9,337,882
Total loans and borrowings	4,250,249	6,487,028	9,166,210	11,019,669

Short-term borrowings

The Company's short-term borrowings consisted of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Unsecured short-term borrowings	230,000	30,000	80,000	70,000
Secured short-term borrowings	232,946	654,788	317,213	664,208
	462,946	684,788	397,213	734,208

Short-term borrowings were secured by the following assets:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
				(unaudited)
Accounts receivable *(Note)*	11,615	18,796	11,535	37,782
Property and equipment, net	–	203,290	–	–
	11,615	222,086	11,535	37,782

The weighted average interest rates of short-term borrowings outstanding as of December 31, 2017, 2018 and 2019, and June 30, 2020 were 7.93%, 7.01%, 5.64% and 5.40% per annum, respectively.

Long-term borrowings

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

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
Unsecured long-term borrowings	167,250	85,250	42,500	127,500
Secured long-term borrowings	3,620,053	5,716,990	8,726,497	10,157,961
	3,787,303	5,802,240	8,768,997	10,285,461

Long-term borrowings were secured by the following assets:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
				(unaudited)
Accounts receivable *(Note)*	124,428	347,142	508,847	911,692
Property and equipment, net	698,922	1,513,446	2,493,872	3,401,995
Prepaid land use rights, net	6,091	13,241	741,032	734,566
	829,441	1,873,829	3,743,751	5,048,253

Note: The Company applied accounts receivable generated from certain data center operation as collateral to secure borrowings.

The weighted average interest rates of long-term borrowings as of December 31, 2017, 2018 and 2019, and June 30, 2020 were 6.93%, 7.42%, 7.40% and 7.02% per annum, respectively, taking into the consideration of debt issuance costs incurred relating to the facilities.

The outstanding long-term borrowings mature serially from 2020 to 2032. The aggregate maturities of the above long-term borrowings for each for the five years and thereafter subsequent to December 31, 2019 are as follows:

	Long-term borrowings
Twelve-months ending December 31,	
2020	740,524
2021	1,875,218
2022	1,395,398
2023	2,844,152
2024	1,163,453
Thereafter	750,252
	8,768,997

The aggregate maturities of the above long-term borrowings for each for the five years and thereafter subsequent to June 30, 2020 are as follows:

	Long-term borrowings
Twelve-months ending June 30,	
2021	947,579
2022	1,995,581
2023	2,094,516
2024	2,258,340
2025	968,067
Thereafter	2,021,378
	10,285,461

The Company entered into secured loan agreements with various financial institutions for project development and working capital purpose with terms ranging from 1 to 13 years.

As of December 31, 2019, the Company had total working capital and project financing credit facilities of RMB11,984,401 from various financial institutions, of which the unused amount was RMB2,587,575. As of December 31, 2019, the Company had drawn down RMB9,396,826 of which RMB397,213 was recorded in short-term borrowings and RMB8,768,997 (net of debt issuance costs of RMB230,616) was recorded in long-term borrowings, respectively. Drawdowns from the credit facility are subject to the approval of the banks and are subject to the terms and conditions of each agreement.

As of June 30, 2020, the Company had total working capital and project financing credit facilities of RMB17,814,872 from various financial institutions, of which the unused amount was RMB6,555,311. As of June 30, 2020, the Company had drawn down RMB11,259,561, of which RMB734,208 (net of debt issuance costs of RMB690) was recorded in short-term borrowings and RMB10,285,461 (net of debt issuance costs of RMB239,202) was recorded in long-term borrowings, respectively.

More specifically, the terms of these secured loan facility agreements generally include one or more of the following conditions. If any of the below conditions were to be triggered, the Company could be obligated to notify the lender or repay any loans outstanding immediately or on an accelerated repayment schedule:

(i) STT Communications Ltd. ceases to, directly or indirectly, own at least 50.1% of the equity interests of STT GDC Pte. Ltd. ("STT GDC");

(ii) STT GDC (a) is not or ceases to, directly or indirectly, be the beneficial owner of at least 25% of the issued share capital of GDS Holdings, or (b) does not or ceases to have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to cast, or control the casting of, at least 25% of the votes that may be cast at a meeting of the board of directors (or similar governing body) of GDS Holdings, or (c) is not or ceases to be the single largest shareholder of GDS Holdings;

(iii) GDS Holdings and GDS Investment Company are not or cease to be, directly or indirectly, the legal and beneficial owner of 100% of the equity interests of, and have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to control, GDS Investment Company (in the case of GDS Holdings), GDS Beijing, Global Data Solutions Co., Ltd. ("GDS Suzhou"), a subsidiary company of GDS Beijing and the relevant borrowing subsidiaries;

(iv) Management HoldCo ceases to, directly or indirectly, own at least 100% of the equity interests of and have the power to control GDS Beijing or GDS Suzhou;

(v) GDS Beijing, GDS Suzhou and the relevant borrowing subsidiaries cease to, directly or indirectly, be the legal and beneficial owner of 100% of the equity interests of, and have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to control, their consolidated subsidiaries;

(vi) there are changes in the shareholding structure of a principal operating subsidiary of GDS Holdings, as defined in the relevant loan facility agreement; and

(vii) the IDC license of GDS Beijing or the borrowing subsidiaries, or the authorization by GDS Beijing to one such subsidiary to operate the data center business and provide IDC services under the auspices of the IDC license held by GDS Beijing, is cancelled or fail to be renewed on or before the expiry date.

There are certain other events in the loan facility agreements the occurrence of which could obligate GDS Holdings to notify the lender or repay any loans outstanding immediately or on an accelerated repayment schedule, including, among others, if the borrowing subsidiary fails to use the loan in accordance with the use of proceeds as provided in the loan facility agreement, the borrowing subsidiary violates or fails to perform any of its commitments under the loan facility agreement, or if GDS Holdings is delisted before the maturity date under the relevant loan facility agreement. In addition, the terms of these loan agreements include financial covenants that limit certain financial ratios, such as the interest coverage ratio and gross leverage ratio, during the relevant period, as defined in the agreements. The terms of these loan agreements also include cross default provisions which could be triggered if the Company (i) fails to repay any financial indebtedness in an aggregate amount exceeding US$4,500, or, in some cases, RMB50,000, when due or within any originally applicable grace period; (ii) fails to repay any financial indebtedness or perform any of its obligations under any agreement which could have a material adverse effect on its performance of the loan facility agreements; (iii) fails to repay any financial indebtedness raised with any financial institution; or (iv) fails to perform any loan facility agreement with any financial institution which could result in immediate or accelerated repayment of the financial indebtedness or downgrading of the borrowing subsidiary by any credit rating agency administered by the People's Bank of China ("PBOC") in accordance with the regulations promulgated by PBOC governing loan market rating standards. As of June 30, 2020, the Company was in compliance with all of the abovementioned covenants.

14 CONVERTIBLE BONDS PAYABLE

Convertible Bonds due December 30, 2019 issued by the Company ("Convertible Bonds due 2019")

On December 30, 2015, the Company entered into a subscription agreement with two investors (referred to as "PA investor" and STT GDC Pte. Ltd. or "STT GDC") for Convertible Bonds due 2019 in an aggregate principal amount of US$250,000 in four tranches. On December 30, 2015 and January 29, 2016, the Company received the first tranche of US$100,000 (RMB648,950) from PA investor and the second tranche of US$50,000 (RMB324,475) from STT GDC, respectively. The subscription for the remaining third and fourth tranches of the Convertible Bonds due 2019 in the aggregate principal amount of US$100,000 (RMB648,950) expired on September 30, 2016. The Company pledged 100% of the equity interests in a subsidiary to the investors.

The key terms of the Convertible Bonds due 2019 are summarized as follows:

Maturity Date

- December 30, 2019

Interest

- A simple rate of 5% per annum on the outstanding principal amount, payable by the Company semi-annually (the "Cash Interest").

- In the event that the bond holder has redeemed or converted part or whole of the principal amount, the bond holder shall be entitled to additional interest with a simple rate of 5% per annum (the "Accrued Interest"), payable in cash on the Maturity Date in the case of redemption or by issuance of ordinary shares of the Company at the Conversion Price on the Conversion Date in the case of conversion.

Conversion of the Convertible Bonds due 2019

- If the Company completes a qualifying initial public offering ("QIPO"), the bond holder, at any time between the date of completion of such QIPO (the "QIPO Completion Date") and the Maturity Date (the "Conversion Period"), have the right to convert up to 100% of the principal amount of the bond (in multiples of US$10,000), together with the Accrued Interest thereon, into ordinary shares of the Company. The conversion price shall be US$1.675262 subject to adjustments for situations such as share dividend, share split, consolidation, recapitalization, exchange or substitution of ordinary shares at any time or from time to time. The Company determined that there was no embedded beneficial conversion feature ("BCF") attributable to Convertible Bonds due 2019 at the commitment date because the initial conversion price of Convertible Bonds due 2019 was greater than the estimated fair value of the Company's ordinary shares as of December 30, 2015. The estimated fair value of the underlying ordinary shares on December 30, 2015 was determined by management with the assistance of an independent valuation firm. The valuation used an income approach, which requires the estimation of future cash flows and the application of an appropriate discount rate with reference to comparable listed companies engaged in a similar industry to convert such future cash flows to a single present value.

- The Company determined that the embedded conversion option of the Convertible Bonds due 2019 was not required to be accounted for as an embedded derivative for periods prior to the Company's IPO, as the underlying ordinary shares were not publicly traded or otherwise readily convertible into cash. Upon the listing of the Company's ordinary shares on November 2, 2016, the embedded conversion option has been accounted for separately as an embedded derivative with changes in its fair value recognized through the consolidated statement of operations. With the assistance of an independent appraiser, the Company determined that the fair value of the embedded conversion feature as a derivative liability was immaterial as of November 2, 2016 and December 31, 2016. Accordingly, no gain or loss was recognized in respect of the change in the fair value of such derivative liability for the year ended December 31, 2016.

- If the Company completes a QIPO and the closing price of its shares is at or above 125% of the conversion price (i.e. 25% premium to the conversion price) for a period of at least ten consecutive trading days, the Company may, at its unilateral option, notify the bondholder that the bond then outstanding will be mandatorily converted at the end of the notice period in accordance with the terms and conditions of the bond.

Redemption on maturity

- Unless previously converted or purchased and cancelled in the circumstances, the bond will be redeemed on December 30, 2019 at its principal amount, plus Accrued Interest thereon.

In November 2017, the bond holders of the Convertible Bonds due 2019, exercised the right to convert 100% of the principal amount of the bonds, together with the Accrued Interest thereon into 97,870,263 newly issued Class A ordinary shares at the conversion price of US$1.675262 pursuant to the terms of the bonds. Concurrent with the conversion, the accrued but unpaid Cash Interest was relinquished. The difference between par value of the shares issued of RMB32 and the carrying value of the convertible bonds, Accrued Interest and unpaid Cash Interest of RMB1,106,195 were recorded as additional paid-in capital upon conversion.

Convertible Notes due June 1, 2025 issued by the Company ("Convertible Bonds due 2025")

On June 5, 2018, the Company completed its issuance of Convertible Bonds due 2025 in an aggregate principal amount of US$300,000. The related issuance costs of US$8,948 were deducted from principal of the Convertible Bonds due 2025 and amortized over the period from issuance to the first put date (i.e. June 1, 2023) using the effective interest rate method. As of December 31, 2018 and 2019 and June 30, 2020, accrued interests of RMB3,432 and RMB3,488 and RMB3,540, respectively were recorded in accrued expenses.

The key terms of the Convertible Bonds due 2025 are summarized as follows:

Maturity Date

- June 1, 2025

Interest

- 2.0% per annum, accruing from June 5, 2018 (computed on the basis of 360-day year composed of twelve 30-day months), payable semiannually in arrears on June 1 and December 1 of each year.

Repurchase of Notes

- Holders will have the right to require the Company to repurchase for cash all of their notes, or any portion of the principal thereof that is equal to US$1 thousand or an integral multiple of US$1 thousand, on June 1, 2023 or if a fundamental change occurs at any time.

Tax redemption

- The Company may redeem, at its option, all but not part of the Convertible Bonds due 2025 if it becomes obligated to pay to the holder of any note "additional amounts" (which are more than a de minimis amount) as a result of any change in tax law at the price equal to 100% of the principal amount together with accrued and unpaid interest. Upon receiving notice of redemption, each holder will have the right to elect to: convert its notes; or not have its notes redeemed and GDS Holdings will not pay any additional amounts as a result of such change in tax law.

Conversion rights

- Holders may convert their notes at their option at any time prior to the close of business on the third scheduled trading day immediately preceding the maturity date.

- The conversion rate is initially 19.3865 American Depository Shares or ADSs (each representing eight Class A ordinary shares) of the Company per US$1 thousand principal amount of notes (equivalent to an initial conversion price of approximately US$51.58 per ADS), and subject to changes under certain anti-dilution conditions.

The Company determined that the embedded conversion option of the Convertible Bonds due 2025 was not required to be accounted for as an embedded derivative pursuant to ASC 815 *Derivatives and Hedging*. The Company also determined that there was no embedded BCF attributable to Convertible Bonds due 2025 at the commitment date because the initial conversion price of Convertible Bonds due 2025 was greater than the fair value of the Company's ordinary shares. Contingent BCF will be assessed upon occurrence of an adjusting event to the conversion price. The Company also determined there was no other embedded derivative to be separated from the Convertible Bonds due 2025.

The effective interest rate of the Convertible Bonds, after considering the related issuance cost, was 2.65% as of December 31, 2018 and 2019, and June 30, 2020, respectively.

15 ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables consisted of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Accrued interest expenses	21,114	32,902	43,776	48,795
Accrued debt issuance costs and other financing costs	34,194	618	28,082	53,933
Income tax payable	20,122	43,898	93,307	128,100
Other tax payable	18,541	30,663	28,259	54,519
Consideration payables for acquisitions	159,489	192,367	362,032	845,853
Deferred government grants	–	4,800	6,003	172
Accrued payroll and welfare benefits	47,432	77,134	97,486	75,178
Accrued professional fees	15,725	32,076	41,630	42,734
Accrued rental fees	8,417	13,085	–	–
Accrued data center outsourcing service fees	–	10,715	17,989	6,857
Amount due to related parties	–	–	11,988	21,388
Amount due to a financial institution	–	–	34,190	112,380
Interest rate swap contracts *(Note 19)*	135	1,074	351	17,182
Other accrued operating expenses	29,701	28,818	38,020	59,484
Other payables	13,754	8,414	14,770	75,113
	368,624	476,564	817,883	1,541,688

16 LEASE

Disclosures related to periods prior to adoption of the New Accounting Standard for Leases

Capital lease and other financing obligations

The Company's capital lease and other financing obligations are summarized as follows:

	As of December 31, 2017			As of December 31, 2018		
	Capital lease obligations	Other financing obligations	Total	Capital lease obligations	Other financing obligations	Total
Within 1 year	212,780	45,007	257,787	352,524	37,150	389,674
After 1 year but within 2 years	220,293	63,151	283,444	453,891	80,276	534,167
After 2 years but within 3 years	316,475	75,685	392,160	286,468	107,497	393,965
After 3 years but within 4 years	144,052	76,678	220,730	282,627	111,616	394,243
After 4 years but within 5 years	141,910	80,832	222,742	292,481	113,667	406,148
After 5 years	1,900,744	1,469,318	3,370,062	3,926,028	1,878,098	5,804,126
Total	2,936,254	1,810,671	4,746,925	5,594,019	2,328,304	7,922,323
Less: total future interest	(1,209,120)	(905,590)	(2,114,710)	(2,300,484)	(1,160,108)	(3,460,592)
Less: estimated construction costs	–	(231,228)	(231,228)	–	(160,506)	(160,506)
Present value of capital lease and other financing obligations	1,727,134	673,853	2,400,987	3,293,535	1,007,690	4,301,225
Including:						
– Current portion			97,943			166,898
– Non-current portion			2,303,044			4,134,327

The Company's capital and build-to-suit leases expire at various dates ranging from 2020 to 2039. The weighted average effective interest rate of the Company's capital and build-to-suit leases was 7.28% and 6.99% as of December 31, 2017 and 2018, respectively.

Operating leases

The Company leases data centers, offices and other equipment that are classified as operating leases.

Future minimum operating lease payments as of December 31, 2017 are summarized as follow:

Twelve-months ending December 31,	
2018	135,599
2019	101,152
2020	88,587
2021	48,939
2022	48,723
Thereafter	337,355
Total	760,355

Future minimum operating lease payments as of December 31, 2018 are summarized as follow:

Twelve-months ending December 31,	
2019	95,082
2020	69,541
2021	48,072
2022	41,758
2023	40,952
Thereafter	407,070
Total	702,475

Rental expenses were approximately RMB155,148 and RMB108,550 for the years ended December 31, 2017 and 2018, respectively. The Company did not sublease any of its operating leases for the periods presented.

Disclosures related to periods after the adoption of the New Accounting Standard for Leases

Leases and other financing obligations

Maturities of lease and other financing obligations as at December 31, 2019 and June 30, 2020 were as follows:

	As of December 31, 2019					As of June 30, 2020				
	Finance lease obligations	Other financing obligations	Total of finance lease and other financing obligations	Operating lease obligations	Total	Finance lease obligations	Other financing obligations	Total of finance lease and other financing obligations	Operating lease obligations	Total
Within 1 year	502,261	32,232	534,493	97,993	632,486	545,457	164,867	710,324	140,967	851,291
After 1 year but within 2 years	399,200	37,462	436,662	72,046	508,708	521,945	233,151	755,096	123,042	878,138
After 2 years but within 3 years	399,843	72,845	472,688	64,151	536,839	553,473	306,028	859,501	101,640	961,141
After 3 years but within 4 years	414,126	69,248	483,374	64,086	547,460	569,126	291,552	860,678	101,750	962,428
After 4 years but within 5 years	429,902	65,688	495,590	64,547	560,137	610,207	276,749	886,956	105,115	992,071
After 5 years	5,905,408	163,480	6,068,888	880,855	6,949,743	7,234,194	647,305	7,881,499	1,411,770	9,293,269
Total	8,050,740	440,955	8,491,695	1,243,678	9,735,373	10,034,402	1,919,652	11,954,054	1,984,284	13,938,338
Less: total future interest	(3,387,232)	(121,742)	(3,508,974)	(478,541)	(3,987,515)	(4,076,294)	(497,689)	(4,573,983)	(769,087)	(5,343,070)
Less: estimated construction costs	–	(9,127)	(9,127)	–	(9,127)	–	(47,924)	(47,924)	–	(47,924)
Present value of lease and other financing obligations	4,663,508	310,086	4,973,594	765,137	5,738,731	5,958,108	1,374,039	7,332,147	1,215,197	8,547,344
Including:										
– Current portion			222,473	55,139	277,612			230,746	73,362	304,108
– Non-current portion			4,751,121	709,998	5,461,119			7,101,401	1,141,835	8,243,236

As of December 31, 2019 and June 30, 2020, the Company has additional leases, primarily for data center buildings, that have not yet commenced with total future lease payments of RMB815,472 and RMB292,830, respectively. These leases are expected to commence in fiscal year 2020 with lease terms of 1 year to 20 years.

The components of lease cost are as follows:

	Year ended December 31,	Six-month periods ended June 30,	
	2019	2019	2020
		(unaudited)	
Finance lease cost:			
– Amortization of right-of-use assets	222,101	103,566	169,352
– Interest on lease liabilities	299,511	144,928	192,489
Operating lease cost	100,469	50,702	85,028
Short-term lease cost	5,004	1,772	3,223
Variable lease cost *(Note)*	–	–	(40,189)
Total lease cost	627,085	300,968	409,903

Note: During the six-month period ended June 30, 2020, the Company was granted lease concessions of RMB40,142 by certain landlords due to the effects of the COVID-19 pandemic. The lease concessions were primarily in the form of rent reduction. Such concessions were recognized as variable lease cost (credit) in the period when the concession was granted. In addition, the Company recognized variable lease cost (credit) of RMB47 in the six-month period ended June 30, 2020 for certain finance leases with floating interest rate.

Supplemental cash flow information related to leases is as follows:

	Year ended December 31,	Six-month periods ended June 30,	
	2019	2019	2020
		(unaudited)	
Cash paid for amounts included in measurement of lease liabilities *(Note)*:			
– Operating cash flows from finance leases	(248,417)	(119,396)	(159,802)
– Operating cash flows from operating leases	(116,295)	(45,312)	(62,123)
– Financing cash flows from finance leases	(302,679)	(203,911)	(78,888)
Non-cash information on lease liabilities arising from obtaining ROU assets			
– Finance leases	708,757	699,524	660,325
– Operating leases	333,775	3,770	406,853

Note: The above table does not include cash paid for purchase of land use rights and initial direct costs of leases of RMB800,431 and RMB570,821 in the year ended December 31, 2019 and the six-month period ended June 30, 2020, respectively, which are included in "Payments for purchase of property and equipment and land use rights" in the consolidated statements of cash flows.

Weighted average remaining lease term and weighted average discount rate for leases, excluding prepaid land use rights, are as follows:

	As of December 31, 2019	As of June 30, 2020
Weighted average remaining lease term:		
– Finance leases	15.2	14.1
– Operating leases	15.6	15.9
Weighted average discount rate:		
– Finance leases	6.91%	7.06%
– Operating leases	6.35%	6.25%

The Company enters into lease arrangements primarily for data center spaces, office spaces and equipment.

Data center buildings and land leases

During the year ended December 31, 2017, in addition to the capital lease liabilities assumed in the business combination, the Company recorded additional capital leases for two data center buildings with initial capital lease obligations totaling RMB262,206 through new lease agreements. In addition, the Company also recorded capital lease assets and capital lease obligations of RMB157,000 as a result of the amendment in respect of an existing lease. The leases have terms of 20 years through July 2035 to November 2037.

During the year ended December 31, 2018, the Company recorded additional capital leases for seven data center buildings with initial capital lease obligations totaling RMB1,300,453 through new lease agreements or acquisition of subsidiaries. The leases have terms of 15 or 20 years through March 2033 to June 2038.

During the year ended December 31, 2019 and the six-month period ended June 30, 2020, the Company entered into lease agreements with the landlords to lease the buildings and land, including those acquired through acquisition of subsidiaries, for certain data centers. The Company assessed the lease classification of the building and land components separately at the commencement date. During the year ended December 31, 2019 and the six-month period ended June 30, 2020, the Company recorded additional finance lease liabilities of RMB779,252 and RMB988,890 and operating lease liabilities of RMB167,685 and RMB390,515, respectively, through the above new leases or acquisition of subsidiaries.

Build-to-suit leases

In October 2017, the Company entered into lease agreements with third party developer-lessors for the development, construction and the lease of four brand new buildings (the "Shanghai 6 Lease" and "Shanghai 7 Lease") in Shanghai, China. In accordance with ASC 840-40-55, the Company determined that it was the owner of the two buildings during the construction period for financial reporting purposes as it had substantially all of the construction period risks based on the maximum guarantee test (without considering probability that the Company having to make the payments). Accordingly, the Company recorded an asset for the estimated construction costs incurred for of the project and a liability for those costs funded by the lessor-developer during the construction period.

The constructions of the buildings in Shanghai 6 Lease by the developer-lessors had completed by December 31, 2018. Upon completion of the construction and commencement of the lease term, the Company assessed and concluded that the arrangements did not qualify for sales recognition under the sale-leaseback accounting guidance, and the Company continued to be the deemed owner of the build-to-suit assets for financial reporting purposes. Accordingly, the Company kept the construction costs of the assets on its balance sheet. In addition, lease payments less the portion considered to be interest expense decrease the financing liability. Upon adoption of ASC 842, the assets and liabilities for these leases recognized under ASC 840 were derecognized and then accounted for as finance leases in accordance with ASC 842 since January 1, 2019.

Upon adoption of ASC 842, the Company determined that it does not control the building in Shanghai 7 Lease during the construction period, and derecognized the related assets and liabilities recognized. The construction of the building in Shanghai 7 Lease completed in the year ended December 31, 2019, and a finance lease obligation of RMB108,160 and an operating lease liability of RMB132,196 was recognized in accordance with ASC 842 upon completion of the construction and commencement of the lease term.

In July and August 2018, the Company entered into two lease agreements with a third-party developer-lessor for the development, construction and lease of two brand new buildings (the "Shanghai 12 Lease" and the "Shanghai 13 Lease") in Shanghai, China. The Company paid deposits for the leases to the developer-lessor. Shanghai 12 Lease has an estimated lease term of 15.7 years commencing upon the delivery of the respective completed building to the Company to November 2035. Shanghai 13 Lease has a lease term of 20 years commencing upon the delivery of the respective completed building to the Company. The buildings will be constructed based on the Company's specifications and will not include any interior elements, such as electrical wiring, interior walls, ventilation and air conditioning systems, flooring or normal tenant improvements (referred to as cold-shell buildings). Upon completion of constructions and the delivery of the cold-shell buildings, the Company will convert the buildings into data centers. No rent is paid by the Company during the construction of the buildings. All project hard costs are to be paid by the developer-lessors, including site preparation and construction costs. If the Company terminates the agreements before the construction of the buildings are completed, the Company is obligated to reimburse the developer-lessors for costs incurred during the construction period, including but not limited to project application costs, project design fees, ground preparation and levelling costs. Before adoption of ASC 842, the Company determined that it was the owner of the buildings in Shanghai 12 Lease and Shanghai 13 Lease during the construction period for financial reporting purposes in accordance with ASC 840, as it had substantially all of the construction period risks based on the maximum guarantee test (without considering probability that the Company having to make the payments). Accordingly, the Company recorded an asset for the estimated construction costs incurred for the project and a liability for those costs funded by the lessor-developer during the construction period as of December 31, 2018. Upon adoption of ASC 842, the Company determined that it does not control the buildings in Shanghai 12 Lease and Shanghai 13 Lease during the construction period, and derecognized the related assets and liabilities recognized. The construction of the buildings in Shanghai 12 Lease and Shanghai 13 Lease completed in the six-month period ended June 30, 2020, finance lease obligations of RMB287,233 and operating lease liabilities of RMB62,205 were recognized.

Equipment lease

During the year ended December 31, 2017, the Company entered into a lease agreement with a third party lessor in respect of certain data center equipment (the "Hebei Equipment Lease"). Hebei Equipment Lease has a lease term of 3 years from November 2017 to November 2020. The Company determined that the lease is a capital lease as the present value of the minimum lease payments exceeded 90% of the fair value of the leased equipment at the inception of the lease. Accordingly, on the lease commencement date, the Company recorded capital lease assets and capital lease obligations at an amount equal to the present value of the minimum lease payments of RMB177,922.

During the year ended December 31, 2018, the Company entered into five lease agreements with third party lessors in respect of certain data center equipment. These equipment leases have lease terms of 3 years with initial capital lease obligations totaling RMB108,665.

During the year ended December 31, 2019 and the six-month period ended June 30, 2020, the Company entered into lease agreements with a third-party lessor for the leases of certain equipment in Hebei, China, in which the underlying assets needs to be constructed. The lessor purchased these underlying assets prior to the lease commencement for the construction based on the Company's specifications and supervision. The Company had the right to obtain the partially constructed underlying assets at any point during the construction period by making a payment to the lessor, so the Company concluded that it controls the underlying assets before the lease commencement in accordance with ASC 842-40-55-5. Accordingly, the Company recorded an asset for the estimated construction costs incurred for the equipment and a liability for those costs funded by the lessor during the construction period. Upon completion of the construction, the Company will assess if the arrangement qualifies for sales recognition under the sale and lease back accounting guidance. As of December 31, 2019 and June 30, 2020, the obligations under above lease arrangements are recognized as other financing obligations.

In 2019, the Company also entered into two lease agreements with a third-party lessor for the leases of certain equipment in Hebei, China. As the ownership of the underlying assets will be transferred to the Company by the end of the lease term, such leases are recognized as finance leases. The relevant leases commenced when the Company received the equipment. The amount paid by the lessor to its vendor for equipment which was not received by the Company at December 31, 2019, was recognized as other financing obligations. Such other financing obligations were reclassified to finance lease obligation upon commencement of the lease in the six-month period ended June 30, 2020.

17 OTHER LONG-TERM LIABILITIES

Other long-term liabilities consisted of the following:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
				(unaudited)
Consideration payable for acquisitions	120,881	79,083	23,062	19,655
Payables for purchase of property and equipment	195,749	206,591	231,459	185,310
Deferred revenue – non-current *(Note 8)*	–	–	15,419	14,865
Deferred government grants	16,789	9,771	6,507	6,196
Interest rate swap contracts *(Note 19)*	–	–	10,408	–
Asset retirement obligations	17,648	35,879	52,441	62,719
Others	7,831	9,488	6,241	9,589
Total	358,898	340,812	345,537	298,334

18 REDEEMABLE PREFERRED SHARES

On March 27, 2019 (the "Issue Date"), GDS Holdings completed its issuance of 150,000 Convertible Preferred Shares ("redeemable preferred shares") to an investor at the subscription price of US$1 thousand per share with total consideration of US$150,000.

The movement of redeemable preferred shares is set out as below:

	Redeemable preferred shares
Balance at January 1, 2019	–
Issuance of redeemable preferred shares	989,349
Change in redemption value of redeemable preferred shares	17,760
Accrual of redeemable preferred shares dividends	40,344
Settlement of redeemable preferred shares dividends	(25,014)
Foreign exchange impact	39,542
Balance at December 31, 2019	1,061,981
Accrual of redeemable preferred shares dividends	26,667
Settlement of redeemable preferred shares dividends	(40,068)
Foreign exchange impact	15,557
Balance at June 30, 2020	1,064,137

Key terms of the convertible preferred shares

Dividends

The holders of the preferred shares are entitled to receive, in priority to the holders of the ordinary shares, cumulative preferred share dividends which are payable quarterly in arrears on March 15, June 15, September 15 and December 15, commencing on June 15, 2019 (each such payment date being a "Regular Dividend Payment Date"). The dividends are 5.0% per annum of the respective preferred shares Stated Value (i.e. the subscription price of preferred shares plus any accrued dividends that are not paid on Regular Dividend Payment Date) (and shall be adjusted to an amount equal to the ordinary share dividend rate if higher). The dividend rate will increase to 7.0% per annum and further increase by 50 basis points each quarter thereafter if the Company has not redeemed all of the preferred shares outstanding as of the eighth anniversary of the Issue Date. The dividends are computed on a basis of a 360-day year and the actual number of days elapsed. Dividends may, at the option of the Company, be paid in cash only, be paid in cash or in additional preferred shares, or a combination thereof.

Conversion

The holders of preferred shares have the right to convert any or all of their holdings of preferred shares Stated Value into Class A Ordinary Shares based on the conversion rate then in effect.

In addition, if, at any time beginning on March 15, 2022, (i) the volume-weighted average price ("VWAP") per ADS of the GDS Holdings equals or exceeds US$53.40 (adjusted as according to anti-dilution provisions) for at least 20 trading days in any period of 30 consecutive trading days and (ii) the average daily trading volume of the ADS for such 20 qualifying trading days is at least US$10,000 in the aggregate, at the Company's election, all of the preferred shares then outstanding shall be converted into a number of Class A Ordinary Shares based on the conversion rate then in effect.

The initial conversion rate is corresponding to a conversion price of US$35.60 per ADS, and will be subject to adjustments for any split, subdivision, combination, consolidation, recapitalization or similar event.

Liquidation preference

Upon a liquidation, after satisfaction of all liabilities and obligations to creditors of the Company and before any distribution or payment shall be made to holders of ordinary shares, each holder of preferred shares shall be entitled to receive an amount per preferred share equal to the greater of: (1) the Stated Value of preferred shares plus any dividends accumulated but unpaid thereon after the immediately preceding Regular Dividend Payment Date to but excluding the date of liquidation; (2) the payment such holders would have received had such holders, immediately prior to such liquidation converted their preferred shares into Class A Ordinary Shares.

Optional Redemption by the Company

The preferred shares may be redeemed, in whole or in part, at any time after March 15, 2027, at the option of the Company at a redemption price per share equal to the sum of the Stated Value per preferred share to be redeemed plus an amount per share equal to accrued but unpaid dividends on such preferred shares after the immediately preceding Regular Dividend Payment Date to but excluding the date of redemption.

Repurchase at the Option of the Holder Upon a Fundamental Change

Upon the occurrence of a Fundamental Change, as defined in the share subscription agreement, each holder of preferred shares shall have the right to require the Company to repurchase all or any portion of such holder's preferred shares at a purchase price per preferred share equal to the greater of:

(i) the sum of (x) 100% multiplied by the Stated Value per preferred share plus (y) an amount equal to accrued but unpaid dividends on such preferred share after the immediately preceding Regular Dividend Payment Date to but excluding the date of repurchase, plus (z) solely in the event that such Fundamental Change occurs prior to the third anniversary of the Issue Date, the present value of all undeclared dividends from the date of redemption to, and including, the third anniversary of the Issue Date, in each case, discounted to the date of redemption on the basis of actual days elapsed (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, which is the yield to maturity at the time of computation of United States Treasury securities with a constant maturity, plus 50 basis points, and

(ii) the amount of cash and/or other assets such holder would have received had such holder, immediately prior to the occurrence of such Fundamental Change, converted such preferred shares into Class A Ordinary Shares.

Financing for Redemption of Convertible Preferred Shares

In the event that any preferred shares remain outstanding from and after the tenth anniversary of the Issue Date, the holders of preferred shares constituting at least 90% of the preferred shares issued as of the Issue Date (as adjusted for any split, subdivision, combination, consolidation, recapitalization or similar event with respect to the preferred shares) shall have the right to require the Company to sell all or a portion of its business and/or to conduct other fundraising or refinancing activities, and use reasonable best efforts to consummate such sale or to issue equity or debt securities (or obtain other debt financing) in an amount sufficient to redeem in full in cash, and use best endeavors to as soon as reasonably practicable redeem in full in cash, all of the preferred shares then outstanding at a redemption price per share equal to the sum of the Stated Value per preferred share to be redeemed plus an amount per share equal to accrued but unpaid dividends on such preferred shares after the immediately preceding Regular Dividend Payment Date to but excluding the date of redemption.

Voting rights

The holders of the preferred shares have voting rights equivalent to the ordinary shareholders on an "if converted" basis. In addition, the Company shall not take certain actions without first obtaining the written consent or affirmative vote at a meeting called for that purpose by holders of at least 75% of the then outstanding preferred shares.

The Company has classified these preferred shares as mezzanine equity in the consolidated balance sheets since they are contingently redeemable upon a Fundamental Change or include liquidation preference provisions that are not solely within the Company's control. The Company evaluated the embedded conversion, call and put options in the preferred shares to determine if they require bifurcation and are accounted for as derivatives, and concluded that there were no embedded derivatives to be bifurcated from the preferred share pursuant to ASC 815. The Company also determined that there was no BCF attributable to the preferred shares because the initial conversion price was higher than the fair value of the Company's ordinary shares.

The Company incurred issuance cost of US$2,646 for the issuance of such preferred shares, which was treated as an adjustment to the initial value of the redeemable preferred shares. The Company has elected to measure the redeemable preferred shares by recognizing changes in the redemption value immediately as they occur and adjust the carrying amount to equal the redemption value at the end of each reporting period. As a result, such issuance cost is immediately recognized as a change in redemption value and charged against retained earnings or, in the absence of retained earnings, by charges against additional paid-in capital.

19 DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31, 2017, 2018 and 2019, and June 30, 2020, the Company had outstanding interest rate swap contracts with notional amounts of US$25,000, US$82,200, US$118,500 and US$115,900, respectively.

The following table reflects the fair values of derivatives included in the consolidated balance sheets as of December 31, 2017, 2018 and 2019, and June 30, 2020:

	Consolidated balance sheets location	As of December 31,			As of June 30,
		2017	2018	2019	2020
Interest rate swap contracts (not designated as hedging instruments)	Other non-current assets	–	1,263	–	–
Interest rate swap contracts (not designated as hedging instruments)	Accrued expenses and other payables	135	1,074	351	17,182
Interest rate swap contracts (not designated as hedging instruments)	Other long-term liabilities	–	–	10,408	–

The following table reflects the location in the consolidated statements of operations and the amount of realized and unrealized gains (losses) recognized for the derivative contracts not designated as hedging instruments for the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020:

	Consolidated statements of operations location	Years ended December 31,			Six-month periods ended June 30,	
		2017	2018	2019	2019	2020
					(unaudited)	
Interest rate swap contracts (not designated as hedging instruments) – realized loss	Interest expenses	(199)	(75)	(1,652)	(378)	(3,084)
Interest rate swap contracts (not designated as hedging instruments) – unrealized (loss) gain	Interest expenses	(140)	156	(10,606)	(12,575)	(6,180)
Foreign currency forward contracts (not designated as hedging instruments) – realized loss	Foreign currency exchange (loss) gain, net	(2,904)	–	–	–	–
		(3,243)	81	(12,258)	(12,953)	(9,264)

20 FAIR VALUE MEASUREMENT

As of December 31, 2017, 2018 and 2019, and June 30, 2020, the Company's financial assets and liabilities measured at fair value on a recurring basis were as follows:

	Fair value measurement using Level 2 inputs			
	As of December 31,			As of June 30,
	2017	2018	2019	2020
Assets				
– Interest rate swap contracts *(Note 19)*	–	1,263	–	–
Liabilities				
– Interest rate swap contracts *(Note 19)*	135	1,074	10,759	17,182

Following is a description of the valuation techniques that the Company uses to measure fair value of other financial assets and financial liabilities:

- Short-term financial instruments (cash, restricted cash, accounts receivable and payable, short-term borrowings, and accrued expenses and other payables) – cost approximates fair value because of the short maturity period.

- Long-term borrowings – fair value is based on the amount of future cash flows associated with each debt instrument discounted at the Company's current borrowing rate for similar debt instruments of comparable terms. The carrying values of the long-term borrowings approximate their fair values as all the long-term debt carry variable interest rates which approximate rates currently offered by the Company's bankers for similar debt instruments of comparable maturities.

- Convertible Bonds payable – the estimated fair value was RMB1,512,677, RMB2,448,646 and RMB3,408,248 as of December 31, 2018 and 2019 and June 30, 2020, respectively. The fair value was measured based on the price in the open market.

21 EQUITY

(a) Ordinary Shares

In October 2017, the Company issued 64,257,028 Class A ordinary shares to CyrusOne Inc., a third-party investor, at the price of US$1.55625 per share.

In November 2017, the bond holders of the Convertible Bonds due 2019, exercised the right to convert 100% of the principal amount of the bonds, together with the Accrued Interest thereon into 97,870,263 newly issued Class A ordinary shares at the conversion price of US$1.675262 pursuant to the terms of the bonds.

On January 26, 2018, the Company completed a public offering in which the Company offered and sold 8,000,000 ADSs (or 64,000,000 Class A ordinary shares), and SBCVC Holdings Limited ("SBCVC"), one of the Company's principal shareholders, sold 3,000,000 ADSs (or 24,000,000 Class A ordinary shares), at a price of US$26.00 per ADS. On January 29, 2018, the underwriters exercised their option to purchase from the Company and SBCVC additional 225,000 ADSs (or 1,800,000 Class A ordinary shares) and 1,425,000 ADSs (or 11,400,000 Class A ordinary shares), respectively. The Company raised a total of US$202,696 (RMB1,283,308) in proceeds from this public offering, net of underwriting discounts and commissions and other issuance costs.

On March 19, 2019, the Company completed a public offering in which the Company offered and sold 13,731,343 ADSs (or 109,850,744 Class A ordinary shares), including 1,791,044 ADSs (or 14,328,352 Class A ordinary shares) purchased by the underwriters by exercising their option. The Company raised a total of US$444,699 (RMB2,982,242) in proceeds from this public offering, net of underwriting discounts and commissions and other issuance costs.

On December 10, 2019, the Company completed a public offering in which the Company offered and sold 6,318,680 ADSs (or 50,549,440 Class A ordinary shares), including 824,175 ADSs (or 6,593,400 Class A ordinary shares) purchased by the underwriters by exercising their option. The Company raised a total of US$277,256 (RMB1,951,884) in proceeds from this public offering, net of underwriting discounts and commissions and other issuance costs.

In June 2020, two investors, Hillhouse Capital ("Hillhouse") and STT GDC, purchased, through a private placement, US$400,000 and US$105,000 respectively of 62,153,848 newly issued Class A ordinary shares of the Company at a price equivalent to US$65 per ADS (or US$8.125 per share). The Company raised a total of US$500,784 (RMB3,533,285) in proceeds from this private placement, after deducting underwriting commissions and other issuance costs.

As of June 30, 2020, the Company's outstanding share capital consisted of 1,210,996,227 Class A ordinary shares and 67,590,336 Class B ordinary shares.

(b) Dividends

No dividends of ordinary shares have been paid or declared by the Company during the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020.

Dividends of preferred share have been paid or declared by the Company during the year ended December 2019 and the six-month period ended June 30, 2020. See Note 18 above.

22 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, the related parties of the Company are as follows:

Name of party	Relationship
STT GDC	Principal ordinary shareholder of the Company
STT Singapore DC Pte. Ltd.	Subsidiary of STT GDC
STT DEFU 2 Pte. Ltd.	Subsidiary of STT GDC

In addition to the related party information disclosed elsewhere in the consolidated financial statements, the Company entered into the following material related party transactions.

(a) Major transactions with related parties

		Years ended December 31,			Six-month periods ended June 30,	
		2017	2018	2019	2019	2020
					(unaudited)	
Commission income						
STT Singapore DC Pte. Ltd.	*(i)*	–	–	624	–	246
STT DEFU 2 Pte. Ltd.	*(i)*	–	–	332	–	244
		–	–	956	–	490
Conversion of convertible bonds from a related party						
STT GDC	*(ii)*	366,958	–	–	–	–
Interest expenses						
STT GDC	*(ii)*	30,078	–	–	–	–

(b) Major balances with related parties

		As of December 31,			As of June 30,
		2017	2018	2019	2020
Amount due to related parties:	*(i)*				
STT DEFU 2 Pte. Ltd..............		–	–	6,638	11,193
STT Singapore DC Pte. Ltd......		–	–	5,350	10,195
		–	–	11,988	21,388

Note (i): During the year ended December 31, 2019, the Company successfully referred a customer to STT Singapore DC Pte. Ltd. and STT DEFU 2 Pte. Ltd. and recognized RMB624 and RMB332, respectively, as commission income. Income earned is based on amount billed on behalf of these two related parties to the ultimate customer amounting to RMB55,392 and RMB43,069, respectively. As of December 31, 2019, amount due to related parties represents the service fee received on behalf of the related parties for one of their customers, which is recorded in accrued expenses and other payables.

During the six-month period ended June 30, 2020, the Company recognized RMB246 and RMB244, respectively, as commission income from STT Singapore DC Pte. Ltd. and STT DEFU 2 Pte. Ltd. Income earned is based on amount billed on behalf of these two related parties to the ultimate customer amounting to RMB17,237 and RMB19,655, respectively. As of June 30, 2020, amount due to related parties represents the service fee received on behalf of the related parties for one of their customers, which is recorded in accrued expenses and other payables.

These amounts due to related parties are trade in nature and are settled on a recurring basis.

Note (ii): During the year ended December 31, 2017, the related interest expense arising from the Convertible Bonds due 2019 subscribed by STT GDC amounted to RMB30,078.

In November 2017, the Convertible Bonds due 2019 and the Accrued Interest thereon due to STT GDC were fully converted into 32,540,515 newly issued Class A ordinary shares at the conversion price of US$1.675262. In addition, upon conversion, the accrued but unpaid Cash Interest due to STT GDC of RMB4,991 was relinquished.

23 DISTRIBUTION OF PROFIT

Pursuant to the laws and regulations of the PRC, the Company's PRC entities are required to allocate at least 10% of their after tax profits, after making good of accumulated losses as reported in their PRC statutory financial statements, to the general reserve fund and have the right to discontinue allocations to the general reserve fund if the balance of such reserve has reached 50% of their registered capital. The general reserves are not available for distribution to the shareholders (except in liquidation) and may not be transferred in the form of loans, advances, or cash dividend.

These PRC entities are restricted in their ability to transfer the registered capital and general reserve fund to GDS Holdings in the form of dividends, loans or advances. The restricted portion amounted to RMB2,495,075, RMB4,768,715, RMB7,367,536 and RMB8,437,718 as of December 31, 2017, 2018 and 2019, and June 30, 2020, respectively, including non-distributable general reserve fund of RMB214, RMB579, RMB15,712 and RMB15,712 as of December 31, 2017, 2018 and 2019, and June 30, 2020 respectively.

24 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitments outstanding at December 31, 2017, 2018 and 2019, and June 30, 2020 not provided for in the financial statements were as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
Contracted for.........................	1,065,551	1,017,325	2,722,084	3,343,911

Commitment for purchase of land use rights was RMB4,500 and nil as of December 31, 2019 and June 30, 2020, respectively.

(b) Lease commitments

The Company's lease commitments are disclosed in Note 16.

(c) Litigation contingencies

In August 2018, the Company and its chief executive officer and chief financial officer were named as defendants in a consolidated class action lawsuit filed in the United States District Court. The complaints in the action allege that the Company's registration statements contained misstatements or omissions regarding its business, operation, and compliance in violation of the U.S. securities laws. As of December 31, 2019, the Company had unpaid legal cost and other related costs of approximately RMB5,748 pertaining to this. On April 7, 2020, the US District Court for the Southern District of New York granted the motion of the defendants (including GDS Holdings, its chief executive officer and chief financial officer) to dismiss the class action lawsuit. On May 6, 2020, plaintiffs filed a notice of appeal of that decision. On June 29, 2020, plaintiffs voluntarily withdrew their appeal, resulting in the dismissal of the case against all Defendants with prejudice.

25 SEGMENT INFORMATION

The Company has one operating segment, which is the design, build-out and operation of data centers. The Company's chief operating decision maker is the chief executive officer of the Company who reviews the Company's consolidated results of operations in assessing performance of and making decisions about resource allocations to this segment. Accordingly, no reportable segment information is presented.

During the years ended December 31, 2017, 2018 and 2019, and the six-month periods ended June 30, 2019 and 2020, substantially all of the Company's operations are in the PRC. As of December 31, 2017, 2018 and 2019, and June 30, 2020 the long-lived assets amounted to RMB6,695, RMB742,390, RMB1,605,892 and RMB1,740,765, respectively, were located in Hong Kong SAR, and substantially all of the remaining long-lived assets were in the PRC.

26 MAJOR CUSTOMERS

During the year ended December 31, 2017, the Company had three direct contracting customers, which generated over 10% of the Company's total revenues or RMB318,359, RMB166,384 and RMB163,719, respectively. During the year ended December 31, 2018, the Company had three direct contracting customers, which generated over 10% of the Company's total revenues or RMB563,698, RMB490,523 and RMB376,881, respectively. During the year ended December 31, 2019, the Company had three direct contracting customers, which generated over 10% of the Company's total revenues or RMB1,010,794, RMB712,780 and RMB535,990, respectively. During the six-month period ended June 30, 2020, the Company had three direct contracting customers, which generated over 10% of the Company's total revenues or RMB670,730, RMB416,396 and RMB270,071, respectively. During the years ended December 31, 2017, 2018 and 2019 and six-month period ended June 30, 2020, one of three direct contracting customers was also an end user customer.

27 SUBSEQUENT EVENTS

a) New loan facilities

From July 2020 to October 19, 2020, six of the subsidiaries of the Company entered into various facility agreements with third-party banks for a total amount of RMB4,662,000 with various maturity dates.

b) Coronavirus outbreak

Beginning in January 2020, the emergence and wide spread of the novel Coronavirus ("COVID-19") has resulted in quarantines, travel restrictions, and the temporary closure of businesses and facilities in China and elsewhere. Substantially all of the Company's revenue and workforce are concentrated in China. Any economic slowdown in China or worldwide due to COVID-19 may adversely affect the Company's business operations, financial condition and operating results, including but not limited to negative impact to the Company's total revenues, slower collection of accounts receivable and additional allowance for doubtful accounts. While many of the restrictions on movement within China have been relaxed, the economy is seemingly on the path of recovery and the Company's business has not been materially impacted at this time, there remains uncertainty about the viral resurgence which may impact the business ongoing performance and development. With the uncertainties surrounding the COVID-19 outbreak until a cure and vaccine has be discovered, the threat to the business disruption and the related financial impact remains.

c) Establishment of a joint venture

In July 2020, the Company formed a joint venture ("JV") to undertake a major new data center project in Beijing ("BJ13") with a private equity fund ("CPE Fund") controlled by CITIC Private Equity Funds Management Co., Limited. The Company initially owns a 58% controlling interest in the JV, while CPE Fund owns 42%. The JV has taken an 82% equity interest in Tenglong IOT (Beijing) Data Technology Co., Ltd ("LicenseCo.") through the acquisition of shares and injection of new capital. The LicenseCo. has taken an 88% equity interest in a company which owns the land use right for the site ("LandCo.") through the injection of new capital. The JV will proceed to acquire the remaining 18% of the LicenseCo. when the data center development is complete and certain other conditions are met. The LicenseCo. will buy out the remaining 12% equity interest in the LandCo. when certain conditions are met. On completion of the project and satisfaction of certain other conditions, the Company will acquire CPE Fund's 42% equity interest in the JV.

d) Offer to acquire Beijing 14

On September 22, 2020, the Company extended a legally-binding offer to acquire 100% of the equity interests in target companies which own a major data center in the Shunyi District of Beijing ("BJ14"). This transaction is subject to entry into definitive agreements as well as the completion of certain conditions precedent to the closing the transaction.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to June 30, 2020.