21Vianet Group, Inc.
Form 424B4
April 21, 2011
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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-173292 and
Registration No. 333-173637

PROSPECTUS

13,000,000 American Depositary Shares

21Vianet Group, Inc.

Representing 78,000,000 Class A Ordinary Shares

21Vianet Group, Inc. is offering 13,000,000 American depositary shares, or ADSs, each representing six Class A ordinary shares, par value US$0.00001 per share. This is our initial public offering and no public market currently exists for our ADSs or shares.

We have been approved to list our ADSs on the NASDAQ Global Market under the symbol VNET.

Investing in our ADSs involves risks. See Risk Factors beginning on page 13.

PRICE US$15.00 PER ADS

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Company
Per ADS	*US$ 15.00*	*US$ 1.05*	*US$ 13.95*
Total	*US$ 195,000,000*	*US$ 13,650,000*	*US$ 181,350,000*

We have granted the underwriters the right to purchase up to an additional 1,950,000 ADSs to cover over-allotments.

Immediately prior to the completion of this offering, our outstanding share capital will consist of Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to ten votes and is convertible at any time into one Class A ordinary share. Immediately after the completion of this offering, our existing shareholders and management will hold 244,515,330 Class B ordinary shares, which represent 96.9% of our aggregate voting power, assuming the underwriters do not exercise the over-allotment option.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the ADSs to purchasers on or about April 27, 2011.

MORGAN STANLEY *BARCLAYS CAPITAL* *J.P. MORGAN*

PIPER JAFFRAY *WILLIAM BLAIR & COMPANY* *PACIFIC CREST SECURITIES*

April 21, 2011

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You should rely only on the information contained in this prospectus or any related free-writing prospectus filed with the Securities and Exchange Commission, or the SEC, in connection with this offering. We have not authorized anyone to provide you with information that is different from that contained in this prospectus or in any free writing prospectus. We are offering to sell, and seeking offers to buy, the ADSs only in jurisdictions where offers and sales are permitted. The information contained in this prospectus or in any filed free writing prospectus is current only as of its date, regardless of the time of its delivery or of any sale of the ADSs.

We have not taken any action to permit a public offering of the ADSs outside the United States or to permit the possession or distribution of this prospectus outside the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about and observe any restrictions relating to the offering of the ADSs and the distribution of this prospectus outside the United States.

Until May 16, 2011 (the 25th day after the date of this prospectus), all dealers that buy, sell or trade ADSs, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in the ADSs, you should carefully read this entire prospectus, including our financial statements and related notes included in this prospectus and the information set forth under the headings Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations.

Our Business

We are the largest carrier-neutral Internet data center services provider in China as measured by revenues in 2009, according to data released by International Data Corporation, or IDC, a third-party research firm. We host our customers servers and networking equipment and provide interconnectivity to improve the performance, availability and security of their Internet infrastructure. We also provide managed network services to enable customers to deliver data across the Internet in a faster and more reliable manner through our extensive data transmission network and our proprietary BroadEx smart routing technology. We believe that the scale of our data center and networking assets positions us well to capture opportunities and become a leader in the rapidly emerging market for cloud computing infrastructure services in China.

Our infrastructure consists of our high-quality data centers and an extensive data transmission network. We operate 47 data centers located in 33 cities throughout China, including all of China s major Internet hubs, with over 5,700 cabinets under management housing over 39,000 servers. Our data transmission network includes more than 260 points of presence, or POPs. A POP refers to an access point from one place to the rest of the Internet. Most of our data centers and all of our POPs are connected by our private optical fibers network across China.

As a carrier-neutral Internet infrastructure services provider, our infrastructure is interconnected with the networks operated by all of China s telecommunications carriers, major non-carriers and local Internet service providers, or ISPs. This interconnectivity enables each of our data centers to function as a network access point for our customers data traffic. In addition, our proprietary BroadEx smart routing technology allows us to automatically select an optimized route to direct our customers data traffic to ensure fast and reliable data transmission. We believe this high-level interconnectivity within and beyond our network distinguishes us from our competitors and provides an effective solution to address our customers needs that arise from inadequate network interconnectivity in China.

We have a diversified and loyal customer base. As of December 31, 2010, we had more than 1,300 customers, including many leading Chinese and global companies operating in China across a broad range of industries. Our customers include Internet companies, government entities, blue-chip enterprises and small- to mid-sized enterprises. Our average monthly churn rate, or customer attrition rate, as measured by monthly recurring revenues was approximately 0.9% in 2010. Our monthly recurring revenue from our top 20 customers in 2010 has increased from RMB7.7 million (US$1.2 million) in January 2009 to RMB18.2 million (US$2.7 million) in December 2010.

Our net revenues increased from RMB240.8 million in 2008, to RMB313.6 million in 2009 and to RMB525.2 million (US$79.6 million) in 2010, representing a compound annual growth rate, or CAGR, of 47.7% from 2008 to 2010. The total number of cabinets under our management increased from 2,787 as of December 31, 2008 to 4,157 as of December 31, 2009 and to 5,750 as of December 31, 2010. Our average monthly recurring revenues increased from RMB20.7 million in 2008 to RMB24.4 million in 2009 and to RMB41.9 million (US$6.3 million) in 2010. We recorded a net profit from continuing operations of RMB10.6 million and RMB60.0 million in 2008 and 2009, respectively. Our net loss from continuing operations in 2010 was RMB234.7 million (US$35.6 million), which reflected share-based compensation expenses of RMB277.9 million (US$42.1 million).

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Our Industry

Demand for data center services is growing globally as well as in China. The rapid growth of China s data center services market is primarily driven by the following factors:

- increasing Internet penetration;
- increasing consumption of online media content;
- increasing mobile Internet usage;
- growing IT outsourcing by enterprises; and
- emergence of cloud computing.

Despite the growth of Internet services and applications, the public Internet infrastructure and interconnectivity of networks in China are still inadequate to handle the ever growing bandwidth requirements and data traffic. As a result, businesses are increasingly relying upon Internet infrastructure services providers and in particular, carrier-neutral Internet infrastructure services providers, to enhance and optimize key elements of their IT and network infrastructure.

According to IDC, the data center services market in China was US$667.1 million in 2009, a 22.7% increase over 2008, and is expected to reach US$1.9 billion by 2014, representing a five-year CAGR of 23.8%. Although carrier-operated data centers historically have held dominant positions in the data center services industry in China, the demand for carrier-neutral data center services is rapidly growing. According to IDC, the market share of carrier-neutral data centers in the total data center services market in China increased from 32.1% in 2008 to 35.1% in 2009.

Our Competitive Strengths and Strategies

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

- leading market position and strong brand recognition;
- premium data centers and extensive interconnected nationwide data transmission network;
- diversified and loyal customer base;

- strong focus on customer satisfaction and technological innovation;
- in-depth industry knowledge with strong research and development capabilities; and
- experienced and stable management team.

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

- increase the number of cabinets under management;
- expand and optimize our network;
- broaden our customer base and deepen customer relationships;
- capitalize on the growth opportunities in cloud computing;

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- develop a network ecosystem in China; and
- pursue strategic acquisitions, investments and alliances.

Our Challenges

We face risks and uncertainties, including those relating to the following:

- our ability to successfully implement our expansion plan;
- the reliability and quality of our infrastructure or services;
- our competition with, and dependency on, China Telecom and China Unicom for telecommunication resources;
- our ability to renew leases for our data centers on commercially reasonable terms;
- our business expansion, including the acquisition and integration of new businesses;
- our ability to attract new customers and retain existing customers;
- our ability to compete effectively;
- our transition to a publicly traded company;
- our ability to make technological advancements and respond to regulatory changes; and
- the potential demolition and relocation of our data centers due to government mandates.

See Risk Factors and Special Note Regarding Forward-Looking Statements for a discussion of these and other risks and uncertainties associated with our business and investing in our ADSs.

Our Corporate Structure

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

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

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The following diagram illustrates our current corporate structure:

(1) Messrs. Sheng Chen and Jun Zhang, our co-founders, hold approximately 70% and 30% of the equity interests in 21Vianet Technology, respectively, and are parties to the contractual agreements through which we conduct our operations in China.
(2) The remaining 49% of the equity interest in Shanghai Wantong is owned by a company affiliated with the Shanghai government.
(3) We have an option to acquire the remaining 49% of equity interests in ZBXT and CYSD by December 31, 2011.
(4) ZBXT has four subsidiaries in China: Xingyunhengtong Beijing Network Technology Co., Ltd., Fuzhou Yongjiahong Communication Technology Co., Ltd., Beijing Bikonghengtong Network Technology Co., Ltd. and Beijing Bozhiruihai Network Technology Co., Ltd.
(5) CYSD has one subsidiary in China: Jiu Jiang Zhongyatonglian Network Technology Co., Ltd.

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Corporate Information

Our principal executive offices are located at M5, 1 Jiuxianqiao East Road, Chaoyang District, Beijing, 100016, the People s Republic of China. Our telephone number at this address is +8610 8456 2121. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

Our website is *www.21vianet.com*. The information contained on our website is not a part of this prospectus. Our agent for service of process in the U.S. is Law Debenture Corporate Services Inc., located at 400 Madison Avenue, 4th Floor, New York, New York 10017.

Our Shareholding Structure

As of the date of this prospectus, we have ordinary shares and preferred shares. Immediately prior to the completion of this offering, our ordinary shares will be divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares will be entitled to one vote per share, while holders of Class B ordinary shares will be entitled to ten votes per share. Class A ordinary shares represented by our ADSs will be issued and sold in this offering. Immediately prior to the completion of this offering, all then outstanding ordinary shares and preferred shares will be automatically re-designated as Class B ordinary shares. See Description of Share Capital-Ordinary Shares for more detailed description of our Class A ordinary shares and Class B ordinary shares.

After the completion of this offering, our existing shareholders and management will continue to retain a majority of our aggregate voting power due to our dual-class voting structure. Assuming the underwriters do not exercise the over-allotment option, our existing shareholders and management will hold 244,515,330 Class B ordinary shares, representing 96.9% of our aggregate voting power, immediately after the completion of this offering. Upon the completion of this offering, our board of directors consists of five directors, including four existing directors and one independent director. We plan to appoint a second independent director within 90 days of this offering and have a majority independent board within one year of this offering.

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THE OFFERING

Offering price	US$15.00 per ADS.
ADSs offered by us	13,000,000 ADSs.
ADSs outstanding immediately after this offering	13,000,000 ADSs (or 14,950,000 ADSs if the over-allotment option is exercised in full).
Ordinary shares outstanding immediately after this offering	322,515,330 shares (or 334,215,330 shares if the over-allotment option is exercised in full), par value US$0.00001 per share, comprised of (i) 78,000,000 Class A ordinary shares (or 89,700,000 Class A ordinary shares in total if the over-allotment option is exercised in full) and (ii) 244,515,330 Class B ordinary shares.
Ordinary Shares	Immediately prior to the completion of this offering, our ordinary shares will consist of Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. In respect of matters requiring a shareholders vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to ten votes. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares will be automatically converted into an equal number of Class A ordinary shares.
Over-allotment option	We have granted the underwriters an option, which is exercisable within 30 days from the date of this prospectus, to purchase up to an aggregate of 1,950,000 additional ADSs at the initial public offering price, less underwriting discounts and commissions.
The ADSs	Each ADS represents six Class A ordinary shares, par value US$0.00001 per share.
	The depositary will be the holder of the Class A ordinary shares underlying your ADSs and you will have rights as provided in the deposit agreement among us, the depositary and all holders and beneficial owners of ADSs from time to time.
	Although we do not expect to pay dividends in the foreseeable future, if we declare dividends on our Class A ordinary shares, the depositary will pay you the cash dividends and other distributions it receives on our Class A ordinary shares, after deducting its fees and expenses and subject to the terms and conditions set forth in the deposit agreement.

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	You may turn in your ADSs to the depositary in exchange for the Class A ordinary shares underlying your ADSs. The depositary will charge you fees for any exchange.
	We may amend or terminate the deposit agreement without your consent, and if you continue to hold your ADSs, you agree to be bound by the deposit agreement as amended.
	You should carefully read the section in this prospectus entitled Description of American Depositary Shares to better understand the terms of the ADSs. You should also read the deposit agreement, which is an exhibit to the registration statement that includes this prospectus.
Use of proceeds	Our net proceeds from this offering are expected to be approximately US$177.2 million, or approximately US$204.4 million if the underwriters exercise their over-allotment option to purchase additional ADSs in full, based on the initial public offering price of US$15.00 per ADS, after deducting underwriting discounts and commissions and the estimated offering expenses payable by us. We anticipate using the proceeds as follows: approximately US$70.0 million to expand our data center infrastructure; approximately US$30.0 million to expand our network infrastructure; and the remaining amount to fund working capital and for other general corporate purposes, including research and development, and strategic investments in, and acquisitions of, complementary businesses.
Listing	We have been approved to have the ADSs listed on the NASDAQ Global Market.
Proposed NASDAQ Global Market symbol	VNET
Depositary	Citibank, N.A.
Lock-up	We, our directors, executive officers, existing shareholders and certain of our option holders have agreed with the underwriters not to sell, transfer or otherwise dispose of any of our ordinary shares or ADSs representing our ordinary shares for 180 days after the date of this prospectus. In addition, we have instructed Citibank N.A., as depositary, not to accept any deposit of any ordinary shares or issue any ADSs for 180 days after the date of this prospectus (other than in connection with this offering), unless we instruct the depositary otherwise. See Underwriting.
Reserved ADSs	At our request, the underwriters have reserved for sale, at the initial public offering price, up to an aggregate of 625,000 ADSs offered in this offering to some of our directors, officers, employees, business associates and related persons through a directed share program.

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Risk factors	See Risk Factors and other information included in this prospectus for a discussion of risks you should carefully consider before investing in our ADSs.

The number of ordinary shares that will be outstanding immediately after this offering:

- assumes no exercise of the underwriters over-allotment option to purchase additional ADSs;
- assumes the conversion of all outstanding preferred shares into 148,162,920 Class B ordinary shares immediately prior to the completion of this offering;
- excludes 25,639,510 Class A ordinary shares issuable upon the exercise of outstanding options as of the date of this prospectus under our 2010 share incentive plan, as amended, at a weighted average exercise price of approximately US$0.15 per ordinary share;
- excludes 10,946,120 Class A ordinary shares reserved for future issuance under our 2010 share incentive plan; and
- gives effect to a 10-for-1 share split that became effective on March 31, 2011.

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SUMMARY CONSOLIDATED FINANCIAL DATA AND OPERATING DATA

You should read the following information concerning us in conjunction with our consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

Our summary consolidated financial data presented below for the years ended December 31, 2008, 2009 and 2010 and our balance sheet data as of December 31, 2009 and 2010 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. Our balance sheet data as of December 31, 2008 have been derived from our audited financial statements not included in this prospectus. Our audited consolidated financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America, or U.S. GAAP. Our historical results are not necessarily indicative of our results for future periods.

	For the Year Ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US$
	(in thousands, except share, per share data)			
Consolidated Statement of Operations Data:				
Net revenues				
Hosting and related services	213,181	284,780	374,946	56,810
Managed network services	27,590	28,855	150,257	22,766
Total net revenues	240,771	313,635	525,203	79,576
Cost of revenues(1)	(174,598)	(229,304)	(396,858)	(60,130)
Gross profit	66,173	84,331	128,345	19,446
Operating expenses:				
Sales and marketing expenses(1)	(21,125)	(24,132)	(51,392)	(7,787)
General and administrative expenses(1)	(31,823)	(25,457)	(282,298)	(42,772)
Research and development costs(1)	(5,858)	(7,607)	(19,924)	(3,019)
Changes in the fair value of contingent purchase consideration payable			(7,537)	(1,142)
Operating profit (loss)	7,367	27,135	(232,806)	(35,274)
Net profit (loss) from continuing operations	10,608	59,981	(234,715)	(35,563)
Loss from discontinued operations	(28,566)	(63,910)	(12,952)	(1,962)
Net loss	(17,958)	(3,929)	(247,667)	(37,525)
Net loss attributable to non-controlling interest	(295)	(1,990)	(7,722)	(1,170)
Net loss attributable to ordinary shareholders	(18,253)	(5,919)	(255,389)	(38,695)
Earning (loss) per share:				
Net profit (loss) from continuing operations	0.14	0.81	(3.39)	(0.51)
Loss from discontinued operations	(0.40)	(0.89)	(0.18)	(0.03)
Basic	(0.26)	(0.08)	(3.57)	(0.54)
Net profit (loss) from continuing operations	0.06	0.32	(3.39)	(0.51)
Loss from discontinued operations	(0.16)	(0.35)	(0.18)	(0.03)
Diluted	(0.10)	(0.03)	(3.57)	(0.54)
Shares used in earning (loss) per share computation:				
Basic	71,526,320	71,526,320	71,526,320	71,526,320

Diluted	182,492,500	182,492,500	71,526,320	71,526,320
Non-GAAP Financial Data:(2)				
Adjusted gross profit	68,505	86,478	141,990	21,514
Adjusted net profit	7,666	24,902	59,454	9,008
EBITDA	22,546	48,110	(201,761)	(30,570)
Adjusted EBITDA	22,546	48,110	83,657	12,675

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

	For the Year Ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US$
	(in thousands)			
Allocation of share-based compensation expenses:				
Cost of revenues			4,645	704
Sales and marketing expenses			11,884	1,801
General and administrative expenses			254,936	38,626
Research and development costs			6,416	972
Total share-based compensation expenses			277,881	42,103

(2) See Non-GAAP Financial Measures.

The following table presents certain selected operating data as of and for the dates and periods indicated.

	As of and for the Year Ended December 31,		
	2008	2009	2010
Selected Operating Data:			
Number of cabinets at period end	2,787	4,157	5,750
Average monthly recurring revenues (RMB in thousands)	20,731	24,363	41,884
Number of customers at period end	1,224	1,225	1,355
Churn rate as measured by monthly recurring revenues	3.3%	0.8%	0.9%

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

	As of December 31,					
	2008	2009	2010			
	RMB	RMB	RMB	US$	US$ Pro forma[1]	US$ Pro forma as adjusted[2]
	(in thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	75,338	71,998	83,256	12,615	47,615	225,607
Accounts receivable	39,814	40,262	76,373	11,572	11,572	11,572
Total current assets	133,522	213,838	193,957	29,388	64,388	241,573
Property and equipment, net	93,308	99,103	197,015	29,851	29,851	29,851
Intangible assets	22,830	17,161	157,086	23,801	23,801	23,801
Goodwill	12,507	12,507	170,171	25,784	25,784	25,784
Total assets	263,067	347,123	725,587	109,939	144,939	322,124
Total current liabilities	272,824	315,734	210,559	31,903	31,903	31,903
Total liabilities	307,912	326,929	444,004	67,274	67,274	67,274
Total mezzanine equity	991,110	991,110	991,110	150,168		
Total shareholders (deficit) equity	(1,035,955)	(970,916)	(709,527)	(107,503)	77,665	254,850

Notes: (1) The pro forma consolidated balance sheet data as of December 31, 2010 has been adjusted to give effect to (A) the issuance of a total of 37,196,750 Series C1 preferred shares on January 14, 2011 and February 17, 2011, with net proceeds of US$35.0 million and (B) the automatic conversion of all of our outstanding ordinary shares and preferred shares into Class B ordinary shares immediately prior to completion of this offering.

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(2) The pro forma as adjusted consolidated balance sheet data as of December 31, 2010 has been adjusted to give effect to (A) the pro forma adjustments as set forth in (1) above and (B) the issuance and sale of Class A ordinary shares in the form of ADSs by us in this offering, at the initial public offering price of US$15.00 per ADS, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, and assuming no exercise by the underwriters of over-allotment options to acquire additional ADSs.

Non-GAAP Financial Measures

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

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

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

- they do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the interest expenses, or the cash requirements necessary to service interest or principal payments, on our debt;
- they do not reflect income taxes or the cash requirements for any tax payments;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and adjusted net profit, EBITDA and adjusted EBITDA do not reflect any cash requirements for such replacements;

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

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

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

	For the Year Ended December 31,			
	2008	2009	2010	
	RMB	RMB	RMB	US$
	(in thousands)			
Gross profit	66,173	84,331	128,345	19,446
Plus: share-based compensation expenses			4,645	704
Plus: amortization expenses of intangible assets derived from acquisitions	2,332	2,147	9,000	1,364
Adjusted gross profit	**68,505**	**86,478**	**141,990**	**21,514**
Net profit (loss) from continuing operations	10,608	59,981	(234,715)	(35,563)
Plus: share-based compensation expenses			277,881	42,103
Plus: amortization expenses of intangible assets derived from acquisitions	2,332	2,147	9,000	1,364
Plus: changes in the fair value of contingent purchase consideration payable			7,537	1,142
Less: unrecognized tax benefits, tax incentive receipt and outside basis difference	(5,274)	(37,226)	(249)	(38)
Adjusted net profit	**7,666**	**24,902**	**59,454**	**9,008**
Net profit (loss) from continuing operations	10,608	59,981	(234,715)	(35,563)
Plus: income tax expense (benefit)	3,821	(32,860)	1,588	241
Less: foreign exchange gain	(5,545)	(88)	(1,646)	(249)
Plus: other expenses	1,123	1,207	906	137
Less: other income	(2,294)	(694)	(1,152)	(175)
Plus: interest expense	1,297	416	2,793	423
Less: interest income	(1,643)	(827)	(580)	(88)
Plus: depreciation	12,263	15,990	19,673	2,981
Plus: amortization	2,916	4,985	11,372	1,723
EBITDA	**22,546**	**48,110**	**(201,761)**	**(30,570)**
Plus: share-based compensation expenses			277,881	42,103
Plus: changes in the fair value of contingent purchase consideration payable			7,537	1,142
Adjusted EBITDA	**22,546**	**48,110**	**83,657**	**12,675**

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RISK FACTORS

An investment in our ADSs involves significant risks. You should consider carefully all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our ADSs. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our ADSs could decline, and you may lose all or part of your investment.

Risks Related to Our Business and Industry

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

We plan to further increase our services capacities. We plan to increase the aggregate number of cabinets under our management from 5,750 cabinets as of December 31, 2010 to more than 10,000 cabinets by the end of 2013 through adding new self-built data centers and partnered data centers. In addition, we plan to expand our private optical fiber network to cover all of our major data centers throughout China and plan to increase our network services capacity from over 295 gigabits per second presently to over 1,000 gigabits per second by the end of 2013. To achieve this expansion plan, we will be required to commit a substantial amount of operating and financial resources. Our planned capital expenditures, together with our ongoing operating expenses, will cause substantial cash outflows. If we are not able to generate sufficient operating cash flows or obtain third-party financings, our ability to fund our expansion plan may be limited. Additional debt or equity financing may not be available when needed or, if available, may not be available on satisfactory terms. Our inability to obtain additional debt and/or equity financing or to generate sufficient cash from operations may require us to prioritize projects or curtail capital expenditures and could adversely affect our results of operations.

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

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

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

- equipment failure;

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- power outages;
- human error or accidents;
- network connectivity downtime;
- physical, electronic and cyber security breaches;
- fire, earthquake, hurricane, tornado, flood and other natural disasters;
- extreme temperatures;
- water damage;
- public health emergencies;
- fiber cuts;
- terrorist attacks; and
- theft, sabotage and vandalism.

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

Any future services interruptions could:

- require us to waive fees for the month or provide free services in the following month;
- cause our customers to seek damages for losses incurred;
- require us to replace existing equipment or add redundant facilities;
- cause existing customers to cancel or elect not to renew their contracts;

affect our reputation as a reliable provider of data center services; or

make it more difficult for us to attract new customers or cause us to lose market share.

Any of these events could materially increase our expenses or reduce our revenue, which would have a material adverse effect on our operating results.

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

Our business depends on our relationships with China Telecom and China Unicom, two major telecommunications carriers in China, for hosting facilities and bandwidth, and to some extent, for optical fibers. We directly enter into agreements with the local subsidiaries of China Telecom or China Unicom, where we lease some or all of the cabinets in the data centers built and operated by them, with power systems, cabling and wiring and other data center equipment pre-installed. Because each local subsidiary of China Telecom or China Unicom has independent legal power to execute contracts, our contract terms with these subsidiaries vary and are determined on a case-by-case basis. During the past two years, we have entered into 35 agreements with 35 subsidiaries of China Telecom or China Unicom. We generally refer to this type of data centers as our partnered data centers. As of December 31, 2010, we leased 3,105 cabinets from China Telecom and China Unicom that are housed in our 44 partnered data centers, accounting for 54.0% of the total number of our cabinets under management. We also rely on China Telecom and China Unicom for a significant portion of our bandwidth needs and lease optical fibers from them to connect our data centers with each other and with the telecommunications backbones and other ISPs. Our agreements with affiliates of China Telecom or China Unicom usually have a one-year term with automatic renewal option. In addition, China Telecom and China Unicom also provide data center services and directly compete with us for customers. See We may not be able to compete effectively against our current and future competitors. We believe that we have good business

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relationships with China Telecom and China Unicom, and we have access to adequate hosting facilities, bandwidth and optical fibers to provide our services. However, there can be no assurance that we will be able to secure hosting facilities and bandwidth from China Telecom and China Unicom on commercially acceptable terms, or at all. As a result, our business and results of operations would be materially and adversely affected.

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

We lease buildings with suitable power supplies and safe structures meeting our data center requirements and convert them into data centers by installing power generators, air conditioning systems, cables, cabinets and other equipment. We generally refer to this type of data centers as self-built data centers. Our operating leases generally have three to ten year lease terms with renewal options. As of December 31, 2010, our self-built data centers have 2,645 cabinets, or 46.0% of the total number of our cabinets under our management. We plan to renew our existing leases upon expiration. However, we may not be able to renew these leases on commercially reasonable terms, if at all. We may experience an increase in our rent payments. If any such event happens, we may have to relocate our data center equipment and the servers and equipments of our customers to a new building and incur significant expenses related to relocation. Any relocation could also affect our ability to provide services and harm our reputation. As a result, our business and results of operations could be materially and adversely affected.

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

As part of our growth strategy, we have acquired, and may in the future acquire, companies that are complementary to our business. For instance, in September 2010, we acquired 51% equity interests in two companies that provide managed network services in China, Beijing Chengyishidai Network Technology Co., Ltd. and Zhiboxintong (Beijing) Network Technology Co., Ltd., which we collectively refer to as Managed Network Entities, with the option to acquire the remaining 49% equity interests in the Managed Network Entities before December 31, 2011. Past and future acquisitions may expose us to potential risks, including risks associated with:

- the integration of new operations and the retention of customers and personnel;
- unforeseen or hidden liabilities;
- the diversion of resources from our existing business and technology;
- failure to achieve synergies with our existing business as anticipated;
- failure of the newly acquired businesses, technologies, services and products to perform as anticipated;
- inability to generate sufficient revenue to offset additional costs;
- the costs of acquisitions; or

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

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

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

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

Our growth depends on our ability to continue to expand our service offerings to existing customers and attract new customers. We may be unable to sustain our growth for a number of reasons, such as:

- capacity constraints;
- inability to identify new locations to build new data centers;
- inability to secure reliable data centers for cooperation or lease;
- reduction in the demand for our services due to economic downturn or our customers decision to develop data center services in-house;
- inability to effectively and efficiently market our services to new customers;
- inability to expand our sales to existing customers; and
- reliability, quality or compatibility problems with our services.

A substantial amount of our past revenues were derived from service upgrades by existing customers. Our costs associated with increasing revenues from existing customers are generally lower than costs associated with generating revenues from new customers. Therefore, slowing revenue growth or declining revenues from our existing customers, even if offset by an increase in revenues from new customers, could reduce our operating margins. Any failure by us to continue attracting new customers or grow our revenues from existing customers for a prolonged period of time could have a material adverse effect on our operating results.

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

We face competition from various industry players, including carriers such as China Telecom and China Unicom, carrier-neutral service providers in China such as ChinaNetCenter and Dnion Technology, and the in-house data centers of major corporations, as well as new market entrants in the future. Competition is primarily centered on the quality of service and technical expertise, security reliability and functionality, reputation and brand recognition, financial strength, the breadth and depth of services offered, and price. Some of our current and future competitors have substantially greater financial, technical and marketing resources, greater brand recognition, and more established relationships in the industry than we do. As a result, some of these competitors may be able to:

- adapt to new or emerging technologies and changes in customer requirements more quickly;
- bundle and provide services at reduced prices;
- respond more quickly to acquisition and investment opportunities;

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adopt more aggressive pricing policies and devote greater resources to the promotion, marketing and sales of their services; and

devote greater resources to research and development.

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

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

To provide high performance connectivity services to our customers through our network access points, we purchase connections from several network service providers, primarily China Telecom and China Unicom. We can offer no assurances that these service providers will continue to provide service to us on a cost-effective basis or on otherwise competitive terms, if at all, or that these providers will provide us with additional capacity to adequately meet customer demand or to expand our business. Any of these could limit our growth prospects and materially and adversely affect our business.

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

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

We may be vulnerable to security breaches to both our self-built and partnered data centers, which could disrupt our operations and have a material adverse effect on our business, financial performance and operating results.

A party who is able to compromise the security measures of our data centers and networks or the security of our infrastructure could misappropriate either our proprietary information or the information of our customers, or cause interruptions or malfunctions in our operations. In addition, we have less control over our partnered data centers, which are operated by China Telecom or China Unicom. We may be required to expend significant capital and resources to protect against such threats or to alleviate problems caused by breaches in security. As techniques used to breach security change frequently, and are generally not recognized until launched against a target, we may not be able to implement security measures in a timely manner or, if and when implemented, we may not be certain whether these measures could be circumvented. Any breaches that may occur could expose us to increased risk of lawsuits, regulatory penalties, loss of existing or potential customers, harm to our reputation and increases in our security costs, which could have a material adverse effect on our financial performance and operating results.

Increased telecommunication costs may adversely affect our operating results.

Our success depends in part upon the capacity, reliability, and performance of our network infrastructure, including the capacity leased from our Internet bandwidth suppliers, which are primarily China Telecom and China Unicom. We depend on these companies to provide us with uninterrupted and error-free services through their telecommunications networks. However, some of these providers are also our competitors and we exercise little control over our bandwidth suppliers. In addition, we have experienced and expect to continue to experience interruptions or delays in network services. Any failure on our part or the part of our third-party suppliers to achieve or maintain high data transmission capacity, reliability or performance could significantly reduce customer demand for our services and damage our business and reputation.

As our customer base grows and their usage of telecommunications capacity increases, we may be required to make additional investments in our capacity to maintain adequate data transmission speeds. The availability of such capacity may be limited or the cost may be on terms unacceptable to us. If adequate capacity is not available to us as our customers usage increases, our network may be unable to achieve or maintain sufficiently high data transmission capacity, reliability or performance. In addition, our operating margins will suffer if our bandwidth suppliers increase the prices for their services and we are unable to pass along the increased costs to our customers.

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

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

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

We derived approximately 70% of our revenues in 2010 from customers in China s Internet sector, including portals, search engines, online media, e-commerce and online game companies. The business models of these Internet companies are relatively new and have not been well proven. Many Internet companies base their business prospects on the continued growth of China s Internet market, which may not happen as expected. In addition, our business would suffer if companies in China s Internet sector reduce the outsourcing of their data center services. If any of these events happen, we may lose customers or have difficulties in selling our services, which would materially and adversely affect our business and results of operations.

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

We will require significant capital expenditures to fund our future growth. We may need to raise additional funds through equity or debt financings in the future in order to meet our operating and capital needs. If we raise additional funds through further issuances of equity or equity-linked securities, our existing shareholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences, and privileges senior to those of holders of our ordinary shares. In addition, any debt financing that we may obtain in the future could have restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions.

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

Costs of power account for a significant portion of our costs for both our self-built data centers and partnered data centers. We may not be able to pass on increased power costs to our customers, which could harm our results of operations. Power and cooling requirements at our data centers are also increasing as a result of the increasing power demands of today s servers. Since we rely on third parties to provide our data centers with power sufficient to meet our customers power needs, our data centers could have a limited or inadequate access to electricity. Our customers demand for power may also exceed the power capacity in our older data centers, which may limit our ability to fully utilize these data centers. This could adversely affect our relationships with our customers, which could harm our business and have an adverse effect on our results of operations.

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

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

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

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

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

We have enjoyed a strong brand name in Chinese, , among our customers. As our business grows, we plan to continue to focus our efforts to establish a wider recognition of our brand to attract potential customers. We cannot assure you that we will effectively allocate our resources for these activities or succeed in maintaining and broadening our brand recognition among the customers. Our major brand names and logos are registered trademarks in China. However, preventing trademark and trade name infringement or misuse could be difficult, costly and time-consuming, particularly in China. There had been incidents in the past where third parties used our brand without our authorization and we had to resort to litigation to protect our intellectual

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property rights. We may continue to experience similar disputes in the future or otherwise fail to fully protect our brand name, which may have an adverse effect on our business and financial results.

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

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

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

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

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

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

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

The uncertain economic environment could have an adverse effect on our liquidity. While we believe we have a strong customer base, if the current market conditions were to worsen, some of our customers may have difficulty paying us and we may experience increased churn in our customer base and reductions in their commitments to us. We may also be required to further increase our allowance for doubtful accounts and our

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results would be negatively impacted. Our sales cycle could also be lengthened if customers slow spending, or delay decision-making, on our products and services, which could adversely affect our revenues growth and our ability to recognize revenue. Finally, we could also experience pricing pressure as a result of economic conditions if our competitors lower prices and attempt to lure away our customers with lower cost solutions. Finally, our ability to access the capital markets may be severely restricted at a time when we would like, or need, to do so which could have an impact on our flexibility to pursue additional expansion opportunities and maintain our desired level of revenue growth in the future.

Our operating results may fluctuate, which could make our future results difficult to predict and could cause our operating results to fall below investor or analyst expectations.

Our operating results may fluctuate due to a variety of factors, including many of the risks described in this section, which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our operating results for any prior periods as an indication of our future operating performance. Fluctuations in our revenue can lead to even greater fluctuations in our operating results. Our budgeted expense levels depend in part on our expectations of long-term future revenue. Given relatively fixed operating costs related to our personnel and facilities, any substantial adjustment to our expenses to account for lower than expected levels of revenue will be difficult and time consuming. Consequently, if our revenue does not meet projected levels, our operating performance will be negatively affected. If our revenue or operating results do not meet or exceed the expectations of investors or securities analysts, the price of our ADSs may decline.

In preparing our consolidated financial statements, we have identified a material weakness and other control deficiencies in our internal control over financial reporting. If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud, and investor confidence in our company and the market price of our ADSs may be adversely affected.

We will be subject to reporting obligations under the U.S. securities laws after this offering. Our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future. Prior to this offering, we have been a private company with limited accounting personnel and other resources for addressing our internal controls over financial reporting. In connection with the audit of our consolidated financial statements included in this prospectus, we and our independent registered public accounting firm identified one material weakness and certain other deficiencies in our internal controls over financial reporting. As defined in the standards established by the Public Company Accounting Oversight Board of the United States, a material weakness is a deficiency, or a combination of deficiencies, in internal controls over financial reporting such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness identified related to our lack of adequate resources with the requisite U.S. GAAP and SEC financial accounting and reporting expertise to support the accurate and timely assembly and presentation of our consolidated financial statements and related disclosures.

Following the identification of the material weakness and other control deficiencies, we have taken the following remedial measures to improve our internal control over financial reporting: (1) hired an AICPA designated chief financial officer with publicly listed company SEC reporting and U.S. GAAP experience and who also has audit committee member expertise in June 2010; (2) commenced the preparation of a comprehensive set of written accounting policies and procedures manual to guide our financial personnel in addressing significant accounting and financial statement close issues in preparation of our financial statements so that they are in compliance with U.S. GAAP and SEC requirements; (3) adopting formal policies to accommodate our planned accelerated financial reporting close-process that accelerates the timely reconciliations of the amounts recorded by us against the amounts recorded by our customers and suppliers; (4) implementing formal information technology approval and authorization policies and procedures for user account management

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to regulate user account creation, modification and deletion; and (5) formalizing our transfer pricing policy to ensure the timely preparation and maintenance of sufficient supportable documentation that adequately supports the Group s transfer pricing policy.

We plan to take additional measures to improve our internal controls over financial reporting in 2011, including (1) hiring additional accounting personnel with extensive experience in U.S. GAAP and SEC reporting requirements; (2) hiring a director of internal audit with requisite experience in Section 404 of the Sarbanes-Oxley Act and U.S. GAAP; (3) establishing an audit committee and pursuing plans to build up an internal audit function; and (4) continuing to develop and improve our internal policies relating to internal controls over financial reporting. However, we cannot assure you that we will be able to remediate our material weakness and other control deficiencies in a timely manner. We are not able to estimate with reasonable certainty the costs that we will need to incur to implement these and other measures designed to improve our internal controls over financial reporting.

Upon completion of this offering, we are subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act, or Section 404, requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F beginning with our annual report for the fiscal year ending December 31, 2012. In addition, beginning at the same time, our independent registered public accounting firm must report on the effectiveness of our internal control over financial reporting. If we fail to remedy the material weakness identified above, our management and our independent registered public accounting firm may conclude that our internal control over financial reporting is not effective. This could adversely impact the market price of our ADSs due to a loss of investor confidence in the reliability of our reporting processes. We will need to incur costs and use management and other resources in order to comply with Section 404.

We are subject to China s anti-corruption laws and upon the completion of this offering, will be subject to the U.S. Foreign Corrupt Practices Act. Our failure to comply with these laws could result in penalties, which could harm our reputation and have an adverse effect on our business, results of operations and financial condition.

Upon the completion of this offering, we will be subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, which generally prohibits companies and anyone acting on their behalf from offering or making improper payments or providing benefits to foreign officials for the purpose of obtaining or keeping business, along with various other anti-corruption laws, including China s. Our existing policies prohibit any such conduct and we are in the process of implementing additional policies and procedures designed to ensure that we, our employees and intermediaries comply with the FCPA and other anti-corruption laws to which we are subject. There is, however, no assurance that such policies or procedures will work effectively all the time or protect us against liability under the FCPA or other anti-corruption laws for actions taken by our employees and intermediaries with respect to our business or any businesses that we may acquire. We operate in the data center services industry in China and generally purchase our hosting facilities and telecommunications resources from state or government-owned enterprises and sell our services domestically to customers that include state or government-owned enterprises or government ministries, departments and agencies. This puts us in frequent contact with persons who may be considered foreign officials under the FCPA, resulting in an elevated risk of potential FCPA violations. If we are not in compliance with the FCPA and other applicable anti-corruption laws governing the conduct of business with government entities or officials, we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, financial condition, results of operations. Any investigation of any potential violations of the FCPA or other anti-corruption laws by U.S. or foreign authorities, including Chinese authorities, could adversely impact our reputation, cause us to lose customer sales and access to hosting facilities and telecommunications resources, and lead to other adverse impacts on our business, financial condition and results of operations.

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

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

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

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

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

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

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

As of the date of this prospectus, options to purchase a total of 25,639,510 ordinary shares of our company are outstanding under our 2010 share incentive plan. See Management Share Incentive Plan. For the year ended December 31, 2010, we recorded RMB277.9 million (US$42.1 million) in share-based compensation expenses, including RMB71.8 million (US$10.9 million) in connection with options granted under our 2010

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share incentive plan and RMB206.1 million (US$31.2 million) based on the fair value of our ordinary share of US$1.234 at the grant date in connection with fully-vested ordinary shares issued at par value to Sunrise Corporation Holding Ltd., or Sunrise, a company solely owned by Mr. Sheng Chen, our chairman and chief executive officer, in recognition of Mr. Chen s past services to our company. We believe share-based incentive awards enhance our ability to attract and retain key personnel and employees, and we will continue to grant stock options and other share-based awards to employees in the future. If our share-based compensation expenses continue to be significant, our results of operations would be materially and adversely affected.

Furthermore, although we have recorded RMB206.1 million (US$31.2 million) of share-based compensation expenses in connection with 24,826,090 fully-vested ordinary shares issued to Sunrise, a company solely owned by our chairman and chief executive officer, we may record share-based compensation expense for a portion or all of these 24,826,090 shares again at significantly different values if our chairman and chief executive officer at a future date, transfer a portion of these shares to existing and former employees of our company. Any share-based shareholder contribution, if and when made by our chairman and chief executive officer for the benefit of our company, would be required to be recognized as share-based compensation expenses within our results of operations, which would be derived from the estimated fair value of the ordinary share award on the transfer date. Our future results of operations may be materially and adversely affected if a significant amount of share-based compensation is recorded in connection with such future transfers of ordinary shares.

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

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

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

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

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

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Risks Related to Our Corporate Structure

If the PRC government finds that the arrangements that establish the structure for operating our business do not comply with PRC government restrictions on foreign investment in the telecommunications business, we could be subject to severe penalties.

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

Because we are a Cayman Islands company, we are classified as a foreign enterprise under PRC laws and regulations, and our wholly-owned PRC subsidiary, 21Vianet China, is a foreign-invested enterprise. To comply with PRC laws and regulations, we conduct our business in China through contractual arrangements with 21Vianet Technology and its shareholders. These contractual arrangements provide 21Vianet China with effective control over 21Vianet Technology. For a description of these contractual arrangements, see Our Corporate History and Structure Contractual Arrangements with Our Consolidated VIE.

The Ministry of Industry and Information Technology, or MIIT, issued a circular in July 2006 requiring foreign investors to set up a foreign-invested enterprise and obtain a value-added telecommunications business operating license, or VAT license, in order to conduct any value-added telecommunications business in China. Pursuant to this circular, a domestic VAT license holder is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including resources, sites or facilities, to foreign investors that conduct value-added telecommunications business in China illegally. Furthermore, the relevant trademarks and domain names that are used in the value-added telecommunications business must be owned by the local VAT license holder or its shareholder. The circular further requires each VAT license holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunications service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. Due to a lack of interpretations from MIIT, it is unclear what impact this circular will have on us or other similarly situated companies.

Based on its understanding of the relevant laws and regulations, King & Wood, our PRC legal counsel, is of the opinion that each of the contracts among 21Vianet China, 21Vianet Technology and the shareholders of 21Vianet Technology governed by PRC law is valid and legally binding upon each party of such agreements under PRC laws and regulations, and will not result in any violation of PRC laws or regulations currently in effect. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, the telecommunications circular described above and the Telecommunications Regulations and the relevant regulatory measures concerning the telecommunications industry. Accordingly, there can be no assurance that the PRC regulatory authorities that regulate providers of data center service and other participants in the telecommunications industry, in particular, the Ministry of Industry and Information Technology, will ultimately take a view that is consistent with the opinion of our PRC legal counsel.

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

revoking our business and operating licenses;

levying fines on us;

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- confiscating any of our income that they deem to have been obtained through illegal operations;
- shutting down all or a portion of our networks and servers;
- discontinuing or restricting our operations in China;
- imposing conditions or requirements with which we may not be able to comply;
- requiring us to modify our corporate and contractual structure;
- restricting or prohibiting our use of the proceeds from this offering to finance our PRC affiliated entities business and operations; and
- taking other regulatory or enforcement actions that could be harmful to our business.

Furthermore, in connection with litigation, arbitration or other judicial or dispute resolution proceedings, assets under the name of any of record holder of equity interest in our VIE, including such equity interest, may be put under court custody. As the consequence, we cannot be certain that the equity interest will be disposed pursuant to the contractual arrangement or ownership by the record holder of the equity interest. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and contractual arrangements. Occurrence of any of these events could materially and adversely affect our business, financial condition and results of operations.

Our contractual arrangements with 21Vianet Technology may result in adverse tax consequences to us.

We could face material and adverse tax consequences if the PRC tax authorities determine that our contractual arrangements with 21Vianet Technology, our consolidated variable interest entity, were not made on an arm s length basis and may adjust our income and expenses for PRC tax purposes by requiring a transfer pricing adjustment. A transfer pricing adjustment could adversely affect us by (i) increasing the tax liabilities of 21Vianet Technology without reducing 21Vianet China s tax liability, which could further result in late payment fees and other penalties to 21Vianet Technology for underpaid taxes; or (ii) limiting the ability of 21Vianet Technology to obtain or maintain preferential tax treatments and other financial incentives.

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

We rely on contractual arrangements with our consolidated variable interest entity, 21Vianet Technology, and its shareholders, to operate our business in China. For a description of these contractual arrangements, see Our Corporate History and Structure Contractual Arrangements with Our Consolidated VIE. These contractual arrangements may not be as effective as direct ownership in providing us with control over our consolidated variable interest entity. As a legal matter, if our consolidated variable interest entity or its shareholders fail to perform their respective obligations under these contractual arrangements, we may have to incur substantial costs and expend significant resources to enforce such arrangements in reliance on legal remedies under PRC law. These remedies may not always be effective, particularly in light of uncertainties in the PRC legal system.

All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing these contractual arrangements, it would be very difficult to exert effective control over 21Vianet Technology, and our ability to conduct our business and our financial conditions and results of operation may be materially and adversely affected. See Risks Related to Doing Business in China Uncertainties with respect to the PRC legal system could limit legal protections available to you and us.

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

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

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

As part of our contractual arrangements with our consolidated variable interest entity, 21Vianet Technology, and its shareholders, 21Vianet Technology holds certain assets that are important to our business operations. If 21Vianet Technology goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition and results of operations. If 21Vianet Technology undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and result of operations.

Risks Related to Doing Business in China

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

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

The PRC government exercises significant control over China s economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. From late 2003 to mid-2008, the PRC government implemented a number of measures, such as increasing the People s Bank of China s statutory deposit reserve ratio and imposing commercial bank lending guidelines that had the effect of slowing the growth of credit, which in turn may have slowed the growth of the PRC economy. In response to the global and Chinese economic downturn in 2008, the PRC government promulgated several measures aimed at expanding credit and stimulating economic growth including decreasing the People s Bank of China s statutory deposit reserve ratio and lowering benchmark interest rates several times. Since January 2010, however, the People s Bank of China

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has increased the statutory deposit reserve ratio in response to rapid growth of credit in 2009. It is unclear whether PRC economic policies will be effective in maintaining stable economic growth in the future. Any slowdown in China s economic growth could lead to reduced demand for our solutions, which could materially and adversely affect our business, financial condition and results of operations.

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

We conduct our business primarily through our subsidiary, our VIE and its subsidiaries in China. Our operations in China are governed by PRC laws and regulations. 21Vianet China is a foreign-invested enterprise and is subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but are not binding.

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past several decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules, some of which may not be published on a timely basis or at all, and some of which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may also impede our ability to enforce the contracts we have entered into. As a result, these uncertainties could materially and adversely affect our business and results of operations.

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

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

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If we fail to acquire, obtain or maintain applicable telecommunications licenses, or are deemed by relevant governmental authorities to be operating outside the terms of our existing license, our business would be materially and adversely affected.

Pursuant to the Telecommunications Regulations promulgated by the PRC State Council in September 2000, telecommunications businesses are divided into two categories, namely, (i) basic telecommunications businesses, which refers to businesses that provide public network infrastructure, public data transmission and basic voice communications services, and (ii) value-added telecommunications businesses, which refer to businesses that provide telecommunications and information services through the public network infrastructure. If the value-added telecommunications service covers two or more provinces, autonomous regions or municipalities, such service shall be approved by Ministry of Industry and Information Technology and the service provider shall obtain a Cross-Regional Valued Added Telecommunications License. Pursuant to the Cross-Regional Valued Added Technology License issued to 21Vianet Beijing by the Ministry of Industry and Information Technology in July 7, 2009, 21Vianet Beijing is permitted to carry out its data center business under the first category of value-added telecommunications business across nine cities in PRC. Pursuant to the Valued Added Technology License issued to CYSD by the Beijing Communications Administration in June 18, 2009, CYSD is permitted to carry out its Internet access service business under the second category of value-added telecommunications business in Beijing.

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