

21Vianet Group, Inc.
Form 20-F
April 12, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2016.

OR

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

OR

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

Date of event requiring this shell company report

For the transition period from to

Commission file number: 001-35126

21Vianet Group, Inc.

(Exact Name of Registrant as Specified in Its Charter)

N/A

(Translation of Registrant's Name into English)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

M5, 1 Jiuxianqiao East Road,

Chaoyang District

Beijing, 100016

The People's Republic of China

(Address of Principal Executive Offices)

Mr. Terry Wang, Chief Financial Officer

21Vianet Group, Inc.

M5, 1 Jiuxianqiao East Road,

Chaoyang District

Beijing, 100016

The People's Republic of China

Phone: (86) 10 8456-2121

Facsimile: (86) 10 8456-2619

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

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

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

*Not for trading, but only in connection with the listing on the NASDAQ Global Select Market of the American depositary shares

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

None

(Title of Class)

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report: 505,207,968 Class A ordinary shares issued and outstanding and excluding treasury shares, and 174,649,638 Class B ordinary shares, par value US\$0.00001 per share, as of December 31, 2016.

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

US GAAP

International Financial Reporting
Standards as issued by the
International Accounting Standards
Board

Other

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

Item 17

Item 18

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

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

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

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INTRODUCTION

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

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

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

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

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

variable interest entities, or VIEs, refer to Beijing Yiyun Network Technology Co., Ltd. (previously known as Beijing aBitCool Network Technology Co., Ltd.), or 21Vianet Technology, Beijing iJoy Information Technology Co., Ltd., or BJ iJoy, and WiFire Network Technology (Beijing) Co., Ltd. (previously known as aBitcool Small Micro Network Technology (BJ) Co., Ltd.), or WiFire Network, three domestic PRC companies in which we do not have equity interests but whose financial results have been consolidated into our consolidated financial statements in accordance with U.S. GAAP due to our having effective control over, and our being the primary beneficiary of, the three companies;

consolidated affiliated entities refer to our variable interest entities and their direct and indirect subsidiaries; and

RMB and Renminbi refer to the legal currency of China.

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These forward-looking statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Known and unknown risks, uncertainties and other factors, including those listed under Risk Factors, may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify some of these forward-looking statements by words or phrases such as may, will, expect, anticipate, aim, estimate, intend, plan, believe, is/are likely to, potential, continue or other similar expressions. We base these forward-looking statements largely on our current expectations and projections about future events and financial

trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include:

our goals and strategies and our expansion plans;

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

the expected growth of the data center services market;

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

our expectations regarding keeping and strengthening our relationships with customers;

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

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

Selected Consolidated Financial Data

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

Our selected consolidated financial data presented below for the years ended December 31, 2014, 2015 and 2016 and our balance sheet data as of December 31, 2015 and 2016 have been derived from our audited consolidated financial statements included elsewhere in this annual report. Our audited consolidated financial statements are prepared in accordance with U.S. GAAP.

Our selected consolidated financial data presented below for the year ended December 31, 2012 and 2013 and our balance sheet data as of December 31, 2012, 2013 and 2014 have been derived from our audited financial statements not included in this annual report.

Starting in 2016, we began reporting our operating results in two operating segments, namely hosting and related services and managed network services. Content delivery network services, or CDN services, which were previously offered as part of our hosting and related services business segment, were moved to our managed network services business segment in the fourth quarter of 2016. The primary reason for such restructuring is to provide management, shareholders, and investors with a clearer picture of our operations, one that makes sense intuitively, so that they can make more accurate valuations of our different business lines as well as properly benchmark us against industry best practices. Our consolidated statements of operations for the years ended December 31, 2014, 2015 and 2016 as presented in this annual report were modified to reflect this change in segment reporting for consistency purposes. Our consolidated states of operation for the years ended December 31, 2012 and 2013 were not modified to reflect such change.

For the Year Ended December 31,				
2012	2013	2014	2015	2016

	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except share and per share data)					
Consolidated Statement of Operations Data:						
Net revenues:						
Hosting and related services	866,882	1,259,260	1,505,233	2,369,223	2,668,655	384,366
Managed network services	657,276	707,457	1,371,214	1,265,149	973,119	140,159
Total net revenues	1,524,158	1,966,717	2,876,447	3,634,372	3,641,774	524,525
Cost of revenues ⁽¹⁾	(1,098,477)	(1,449,845)	(2,066,304)	(2,780,614)	(2,929,638)	(421,956)
Gross profit	425,681	516,872	810,143	853,758	712,136	102,569
Operating (expenses) income:						
Sales and marketing expenses ⁽¹⁾	(109,871)	(154,479)	(287,229)	(359,460)	(352,926)	(50,832)
Research and development expenses ⁽¹⁾	(63,929)	(77,831)	(121,676)	(142,835)	(149,337)	(21,509)
General and administrative expenses ⁽¹⁾	(152,974)	(186,357)	(483,396)	(568,741)	(639,648)	(92,128)
Allowance for doubtful debt	(538)	(550)	(9,913)	(32,199)	(117,564)	(16,933)
Changes in the fair value of contingent purchase consideration payable	(17,430)	(55,882)	(22,629)	(43,325)	93,307	13,439
Impairment of long-lived assets					(392,947)	(56,596)
Operating income				8,569	6,783	977

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	For the Year Ended December 31,					
	2012	2013	2014	2015	2016	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except share and per share data)					
Operating profit (loss)	80,939	41,773	(114,700)	(284,233)	(840,196)	(121,013)
Net profit (loss)	57,656	(47,003)	(328,477)	(401,275)	(931,922)	(134,224)
Net (income) loss attributable to non-controlling interest	(1,332)	(1,223)	(20,003)	(26,824)	298,324	42,968
Net profit (loss) attributable to Company's ordinary shareholders	56,324	(48,226)	(348,480)	(428,099)	(633,598)	(91,256)
Earnings (loss) per share:						
Basic	0.16	(0.13)	(0.89)	(0.85)	(1.37)	(0.20)
Diluted	0.16	(0.13)	(0.89)	(0.85)	(1.37)	(0.20)
Earnings (loss) per ADS:						
Basic	0.96	(0.78)	(5.34)	(5.10)	(8.22)	(1.18)
Diluted	0.96	(0.78)	(5.34)	(5.10)	(8.22)	(1.18)
Shares used in earnings (loss) per share computation:						
Basic	342,533,167	364,353,974	401,335,788	492,065,239	617,169,833	617,169,833
Diluted	356,784,209	364,353,974	401,335,788	492,065,239	617,169,833	617,169,833
Non-GAAP Financial Data: ⁽²⁾						
Adjusted gross profit	457,381	568,670	924,228	1,023,299	859,063	123,731
Adjusted net profit (loss)	167,287	120,466	79,374	(10,804)	(332,857)	(47,940)
Adjusted EBITDA	294,165	365,613	558,938	540,411	243,936	35,134

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

For the Year Ended December 31,

	2012	2013	2014	2015	2016	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Allocation of share-based compensation expenses:						
Cost of revenues	4,517	8,054	7,163	12,422	(4,110)	(592)
Sales and marketing expenses	10,508	13,405	13,482	13,488	2,490	359
Research and development expenses	4,858	5,599	4,176	10,303	(2,924)	(421)
General and administrative expenses	47,749	40,711	208,914	153,814	123,273	17,755
Total share-based compensation expenses	67,632	67,769	233,735	190,027	118,729	17,101

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

The following table presents a summary of our consolidated balance sheet data as of December 31, 2012, 2013, 2014, 2015 and 2016.

	As of December 31,				
	2012	2013	2014	2015	2016