

ChinaCache International Holdings Ltd.  
Form 20-F  
April 30, 2018

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  
X 1934**

**For the fiscal year ended December 31, 2017.**

**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: 001-34873

ChinaCache International Holdings Ltd.

(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)

Section A, Building 3

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No.7 Jiuxianqiao North Road, Chaoyang District

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(Address of principal executive offices)

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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American depository shares, each representing 16 ordinary shares	Nasdaq Global Select Market
Ordinary shares, par value US\$0.0001 per share*	Nasdaq Global Select Market*

\* Not for trading, but only in connection with the listing on The Nasdaq Global Select Market of American depository 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.

426,267,345 ordinary shares, par value US\$0.0001 per share, as of December 31, 2017

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 corporate 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 for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act.

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

U.S. 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

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## INTRODUCTION

In this annual report, except where the context otherwise requires and for purpose of this annual report only:

“ADSs” refers to American depositary shares, each of which represents 16 ordinary shares;

“Beijing Blue I.T.” means Beijing Blue I.T. Technologies Co., Ltd.

“Beijing Jingtian” means Beijing Jingtian Technologies Co., Ltd.

“ChinaCache,” “we,” “us,” “our company,” and “our” refer to ChinaCache International Holdings Ltd., its subsidiaries and its consolidated variable interest entities;

“China” or “PRC” refers to the People’s Republic of China, excluding, for purposes of this annual report only, Taiwan, Hong Kong and Macau;

“ChinaCache Beijing” means ChinaCache Network Technology (Beijing) Co., Limited;

“ChinaCache Hong Kong” means ChinaCache Networks (Hong Kong) Limited

“Renminbi” or “RMB” refers to the legal currency of China;

“U.S.” refers to the United States of America;

“U.S. GAAP” refers to generally accepted accounting principles in the U.S.;

“US\$,” “dollars” or “U.S. dollars” refers to the legal currency of the U.S.;

“Xin Run” means ChinaCache Xin Run Technology (Beijing) Co., Limited; and

all discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that relate to our current expectations and views of future events. The forward-looking statements are contained principally in the items entitled “Information on the Company,” “Risk Factors,” “Operating and Financial Review and Prospects,” “Financial Information” and “Quantitative and Qualitative Disclosures About Market Risk.” Our forward-looking statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under “Risk Factors,” which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigations Reform Act of 1995. You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “i to,” “potential,” “continue” or other similar expressions, although not all forward-looking statement contain these words. Forward-looking statements include, but are not limited to, statements relating to:

our goals and strategies;

our expansion plans;

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

- the expected growth of the content and application delivery 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 our solution and service offerings; and
- general economic and business conditions in the regions where we provide our solutions and services.

We would like to caution you not to place undue reliance on forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in “Item 3 Key Information —D. Risk Factors.” Those risks are not exhaustive. We operate in an emerging and evolving environment. New risk factors emerge from time to time and it is impossible for our management to predict all risk factors, 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 statement. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law. You should read this annual report and the documents that we reference in this annual report completely and with the understanding that our actual future results may be materially different from what we expect.



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

The following table presents the selected consolidated financial information of our company. Our selected consolidated financial data presented below for the years ended December 31, 2015, 2016 and 2017 and our balance sheet data as of December 31, 2016 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this annual report. Our selected consolidated financial data presented below for the year ended December 31, 2013 and 2014 and our balance sheet data as of December 31, 2013, 2014 and 2015 have been derived from our audited consolidated financial statements which are not included in this annual report. Our audited consolidated financial statements are prepared in accordance with U.S. GAAP.

You should read the summary consolidated financial information in conjunction with our consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report. Our historical results are not necessarily indicative of our results expected for future periods.

For the Year Ended December 31,					
2013	2014	2015	2016	2017	
RMB	RMB	RMB	RMB	RMB	US\$
(in thousands, except for shares, per share and per ADS data)					

Consolidated Statement of  
Comprehensive Loss Data:  
Net Revenues:

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Third party customers	1,103,243	1,384,273	1,353,627	1,054,235	852,568	131,037
A related party customer	—	—	—	—	—	—
Total Net Revenues:	1,103,243	1,384,273	1,353,627	1,054,235	852,568	131,037
Cost of revenues <sup>(1)(3)</sup>	(756,617 )	(966,558 )	(1,041,412)	(1,077,810)	(781,822)	(120,164)
Gross profit (loss)	346,626	417,715	312,215	(23,575 )	70,746	10,873
Other operating income (loss)	—	—	13,911	(19,044 )	(19,483 )	(2,994 )
Operating expenses: <sup>(1)</sup>						
Sales and marketing expenses <sup>(1)</sup>	(124,578 )	(127,843 )	(115,621 )	(93,603 )	(61,770 )	(9,494 )
General and administrative expenses <sup>(1)</sup>	(129,846 )	(144,003 )	(202,518 )	(256,007 )	(142,721)	(21,936 )
Provision (recovery of provision) for doubtful accounts receivable	(23,722 )	(46,977 )	3,892	(9,010 )	(17,514 )	(2,692 )
Transaction tax on assets transfer	—	—	(27,733 )	—	—	—
Research and development expenses <sup>(1)</sup>	(102,704 )	(116,381 )	(103,110 )	(104,018 )	(81,748 )	(12,564 )

	For the Year Ended December 31,					
	2013	2014	2015	2016	2017	US\$
	RMB	RMB	RMB	RMB	RMB	
	(in thousands, except for shares, per share and per ADS data)					
Consolidated Statement of Comprehensive Loss Data:						
Impairment of long-lived assets	—	—	—	(399,094	) (21,757	) (3,344
Impairment of long-term investment	(1,217	)	—	(18,240	) (3,690	) (567
Operating loss	(35,441	) (17,489	) (118,964	) (922,591	) (277,937	) (42,717
Interest income	2,513	5,529	4,618	4,669	1,430	220
Interest expense	(3,584	) (8,220	) (13,158	) (11,647	) (18,665	) (2,869
Other (expense) income	6,886	6,298	2,991	5,336	(5,303	) (815
Foreign exchange (loss) gain	(3,308	) 3,944	13,164	14,209	(11,043	) (1,697
Loss from continuing operations before income taxes	(32,934	) (9,938	) (111,349	) (910,024	) (311,518	) (47,880
Income tax (expense) benefit	(1,295	) 3,097	22,614	(4,229	) (59,648	) (9,168
Net loss	(34,229	) (6,841	) (88,735	) (914,253	) (371,166	) (57,048
Net loss attributable to the non-controlling interest	—	—	(44	) (776	) (2,005	) (308
Net loss attributable to the Company's shareholders	(34,229	) (6,841	) (88,691	) (913,477	) (369,161	) (56,740
Loss per ordinary share:						
Basic	(0.09	) (0.02	) (0.22	) (2.24	) (0.87	) (0.13
Diluted	(0.09	) (0.02	) (0.22	) (2.24	) (0.87	) (0.13
Loss per ADS <sup>(2)</sup>						
Basic	(1.51	) (0.27	) (3.49	) (35.84	) (13.92	) (2.08
Diluted	(1.51	) (0.27	) (3.49	) (35.84	) (13.92	) (2.08
Shares used in basic loss per share computation	362,916,540	403,401,928	407,149,509	408,189,722	425,589,746	425,589,746
Shares used in diluted loss per share computation	362,916,540	403,401,928	407,149,509	408,189,722	425,589,746	425,589,746

(1)

Includes share-based compensation expenses as follows:

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	For the year ended December 31,					US\$
	2013	2014	2015	2016	2017	
	RMB	RMB	RMB	RMB	RMB	
	(in thousands)					
Allocation of share-based compensation expenses:						
Cost of revenues	1,665	951	3,670	5,961	490	75
Sales and marketing expenses	3,853	2,167	2,882	2,753	254	39
General and administrative expenses	3,833	10,612	38,796	72,483	9,631	1,480
Research and development expenses	2,501	3,307	3,258	3,828	562	86
Total share-based compensation expenses included in cost of revenues and operating expenses	11,852	17,037	48,606	85,025	10,937	1,680

(2) Each ADS represents 16 ordinary shares.

(3) Includes amount to a related party of nil, nil and nil for the years ended December 31, 2015, 2016 and 2017, respectively.

A summary of our selected consolidated balance sheet data is as follows:

	For the year ended December 31,					US\$
	2013	2014	2015	2016	2017	
	RMB	RMB	RMB	RMB	RMB	
	(in thousands)					
<b>Consolidated Balance Sheet Data:</b>						
Cash and cash equivalents	338,092	375,879	606,796	134,924	106,709	16,401
Accounts receivable, net	306,237	319,494	243,431	190,587	161,043	24,752
Assets held for sale	—	—	1,060,543	1,285,961	581,731	89,410
Total current assets	786,751	864,815	1,986,857	1,735,143	1,064,491	163,608
Property, plant and equipment, net	240,650	418,886	499,946	—	53,326	8,196
Cloud infrastructure construction in progress	12,236	283,475	—	—	416,352	63,992
Intangible assets, net	5,563	10,321	10,898	—	165	25
Total assets	1,167,168	1,731,208	2,618,616	1,805,827	1,606,035	246,842
Liabilities held for sale	—	—	1,014,449	1,318,136	3,888	597
Total current liabilities	511,908	864,105	1,779,700	1,893,188	1,887,363	290,082
Total liabilities	514,035	896,261	1,896,929	1,948,347	2,106,942	323,831
Total shareholders' equity	653,133	834,947	721,687	(142,520 )	(500,907 )	(76,989 )

#### Exchange Rate Information

A majority of our operations are conducted in China and our revenues are mainly denominated in RMB. This annual report contains translations of RMB amounts into U.S. dollars at specific rates solely for the convenience of the reader. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.5063 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System on December 29, 2017. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On April 20, 2018, the certified exchange rate was RMB 6.2945 to US\$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of any other periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Statistical Release.

Period	Exchange rate			
	Period End	Average <sup>(1)</sup>	Low	High
	(RMB Per US\$1.00)			
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
October	6.6328	6.6254	6.6533	6.5712
November	6.6090	6.6200	6.6385	6.5967
December	6.5063	6.5932	6.6210	6.5063
2018				
January	6.2841	6.3952	6.2841	6.5263
February	6.3280	6.3061	6.2649	6.3471
March	6.2726	6.3003	6.2685	6.3565
April (through April 20)	6.2945	6.2858	6.2655	6.3045

*Source: Federal Reserve Statistical Release*

Annual averages were calculated by using the average of the exchange rates on the last day of each month during (1) the relevant year. Monthly averages are calculated by using the average of the daily rates during the relevant month.

#### B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Business and Industry

We have incurred losses in the past and may incur losses in the future. There is substantial doubt about our ability to continue as a going concern.

We had net losses in recent years. For the three years ended December 31, 2015, 2016, and 2017, our net loss was RMB88.7 million, RMB914.3 million, and RMB371.2 million (US\$57.0 million), respectively. As of December 31, 2017, we had an accumulated deficit of RMB2,076.2 million (US\$319.1 million) and a deficit in working capital of RMB822.9 million (US\$126.5 million). In 2017, we had net cash used in operating activities of RMB99.0 million (US\$15.2million), net cash used in investing activities of RMB89.3 million (US\$13.7 million) and net cash provided by financing activities of RMB149.0 million (US\$22.9 million). We cannot anticipate when, if ever, we will become profitable. Although we have improved the efficiency of our networks and operations and adopted related cost reduction measures, we cannot assure you that we will continue to achieve such efficiency or sustain such cost reductions. If we are unable to generate revenues that significantly exceed our costs and expenses, we will continue to incur losses in the future.

Our ability to continue as a going concern is dependent upon our continued operations, which in turn is dependent upon our ability to meet our financial requirements. Our ability to meet the working capital requirements is subject to the risks relating to the demand for and prices of our services in the market, the economic conditions in our target markets, the construction and successful operation of our cloud infrastructure projects, the timely collection of payment from our customers and the availability of additional funding. In the next twelve months, we will use the cash inflows to be funded by a combination of sources, including a) the advance of RMB368,000,000 (US\$56,561,000) to be received from a third party buyer pursuant to a sales and lease back framework contract signed for a cloud infrastructure building under construction, b) the credit facilities of RMB20,000,000 (US\$3,074,000) provided by a bank in PRC, c) a letter of intention signed with a third party for a facility of RMB300,000,000 (US\$46,109,000) for the construction payment of the Company's cloud infrastructure, and d) improvement in the net cash inflow from the CDN operations as the Company controls its operating costs and negotiates with vendors for more favorable payment terms. Together with our existing cash and cash equivalents, bank borrowing and the anticipated improvement in the cash inflow from the operations, we expect to have sufficient capital to meet our anticipated working capital requirements and capital expenditure for at least the next 12 months.

The audited consolidated financial statements included in this annual report on Form 20-F were prepared on the basis of our continuing as a going concern. Facts and circumstances including recurring losses, negative working capital and net cash outflows raise substantial doubt about our ability to continue as a going concern. In particular, there can be no assurance that the credit facilities can be drawn down in a timely manner, the cash flows from CDN operations can be improved as planned or the afore-mentioned financing measures can be achieved as expected. If we become unable to continue as a going concern, we may have to liquidate our assets, and the value we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our audited consolidated financial statements. Our lack of cash resources and our potential inability to continue as a going concern may materially and adversely affect the price of our ADSs and our ability to raise new capital or to continue our operations.



We generate substantially all of our revenues from sales of content and application delivery total solutions, and the failure of the market for these services to expand as we expect or the reduction in spending on these services by our current or potential customers would seriously harm our business.

We have generated substantially all of our revenues from sales of content and application delivery total solutions. We expect such services to continue to be the primary source of our revenues in the foreseeable future. Our success, therefore, depends on our customers' continued and increasing reliance on the internet for delivery of services and applications and our ability to deliver these services and applications cost-effectively. Factors that may have a general tendency to limit or reduce the number of users relying on the internet for services and applications or the number of providers making services and applications available online would harm our business. As the content and application delivery services industry is still emerging, our success also depends on our ability to convince potential customers to entrust their services and applications to an external service provider, that content and application delivery technologies and services are valuable and that it is more cost-effective for them to utilize external services than for them to develop similar services in-house. A decline in the demand for content and application delivery services in general would negatively affect demand for our services. Even if demand for our services continues to grow, this demand may not grow as quickly as we anticipate. The influence of any of these factors may cause our current or potential customers to reduce their spending on our services, which would have a material adverse impact on our business, results of operations and financial condition.

Our costs and expenses may increase, and our results of operations may be adversely affected if we cannot pass on the increased costs to our customers.

We invest heavily in capital equipment and infrastructure to increase our network capacity. For example, we had capital expenditures of RMB417.8 million, RMB356.0 million and RMB162.8 million (US\$25.0 million) in 2015, 2016 and 2017, respectively, which relate to our additions of intangible assets and property and equipment. In 2018 and beyond, we may increase our costs and expenses, including investments in cloud infrastructure and additional bandwidth, servers and other equipment. In particular, we plan to continue the development of our internet data centers(IDC), High Performance Cloud Cache, or HPCC, and Bandwidth Schedule Platform to optimize bandwidth usage and improve network efficiency in order to meet the needs of new product development and our evolving businesses. We expect these projects, upon completion, to result in substantial increase in IDC related sales revenues and reduction in our future operation expenses and capital expenditures on equipment. However, since the aforementioned technologies are relatively new, we cannot assure you that their implementation will benefit us with the cost and expense reduction as expected, or at all. Furthermore, our capital expenditures are based upon our assumptions regarding the potential future demand. If we overestimate future demand for our services, we may not be able to achieve acceptable rates of return on our capital expenditures and our results of operations may suffer dramatically. In addition, if our bandwidth and other third-party providers raise the prices of their services and products, we will incur increased costs in order to provide our services. If we cannot pass on the increased costs and expenses to our customers, or if our costs to deliver our services do not decline commensurate with any future declines in the prices we charge our customers, we may fail to achieve profitability.

If we are unable to attract new customers or to retain existing customers, our revenues may decline.

To increase our revenues, we plan to sell additional services to existing customers, encourage existing customers to increase their purchase volume and attract new customers. If our existing and prospective customers do not perceive our services to be of sufficiently high value and quality, we may not be able to sell additional services to our current customers, retain our current customers or attract new customers. We typically sell our services pursuant to service agreements that are generally one year in duration. Although most of our service agreements contain renewal provisions, our customers have no obligation to renew the contracts after the expiration of their initial commitment period, and these service agreements may not be renewed at the same or higher level of service, if at all. Moreover, some of our service agreements provide that customers have the right to cancel their service agreements prior to the expiration of the terms of their agreements under certain circumstances. This, in addition to the changing competitive landscape in our market, means that we may not accurately predict future customer renewal rates. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction or dissatisfaction with our services, the prices of our services, the prices of services offered by our competitors and reductions in our customers' spending levels. In 2015, 2016 and 2017, 24.7%, 32.7% and 36.4%, respectively, of our total number of customers decided not to renew their contracts with us. If we cannot attract a sufficient number of new customers, control our existing customer attrition rate, or increase the purchase volume of our existing customers to cover the loss of existing customers, our revenues may decline and our business will suffer. In addition, we plan to attract additional customers for our cloud infrastructure and charge fees for facilities development and/or on-going management and operation. If we cannot attract enough customers for our cloud infrastructure project, we may not be able to recoup our investments and our profitability in connection with this business line will suffer adverse impact, which will in turn affect our overall results of operation.

We may lose customers if they elect to develop solutions internally for the delivery of their own content and applications.

Our customers and potential customers may decide to develop their own content and applications delivery service solutions rather than outsource these solutions to service providers like us. This is particularly true as our customers expand their operations and begin expending greater resources on delivering their internet services and applications using their own resources. If we fail to offer services that are competitive to in-house developed solutions, we may continue to lose customers or fail to attract customers that develop their own solutions in-house, and our business and financial results would suffer.

The decline in the price of our services could negatively impact our gross margins.

The average prices we can charge for our content and application delivery total solutions have declined, and are expected to decline over time, as a result of, among other things, the increasing number of new entrants into the CDN market and continued competition of pricing in the marketplace. Also, we may be forced to reduce the price of our services due to reduced bargaining power with our customers. If the price that we are able to charge customers falls to a greater extent than we anticipate and we are not able to offset this decline with reduction in our cost of revenues, our results of operations would be adversely affected.

Rapidly evolving technologies or new business models could cause demand for our services to decline or become obsolete.

Third parties may develop technological or business model innovations that address internet services and applications delivery requirements in a manner that is, or is perceived to be, the equivalent or superior to our services. For instance, companies are looking to offer internet-related solutions, such as peer-to-peer file sharing networks, to address certain content and application delivery needs. Our existing and future competitors may introduce new products or services that compete with or surpass the quality, price or performance of our services. We may not anticipate such developments and our services may be unable to adequately compete with these potential solutions. In addition, our customers' business models may change in ways that we do not anticipate and these changes could reduce or eliminate our customers' demand for our services. If this occurred, we could lose customers or potential customers, and our business and financial results would suffer. As a result of these or similar potential developments, it is possible that competitive dynamics in our market may require us to reduce our prices, which could harm our revenue, gross margin and results of operations.

If we are unable to successfully develop new services and enhancements to existing services or fail to predict and respond to emerging technological trends and customers' changing needs, our results of operations may suffer.

The market for content and application delivery services is characterized by rapidly changing technology, evolving customer needs and requirements, and frequent new product and service introductions. Our results of operations depend on our ability to develop and introduce new services into existing and emerging markets. The process of developing new technologies is complex and uncertain. We must commit significant resources to developing new services or enhancements to our existing services before we are able to develop services that are widely accepted by the market. For example, individuals are increasingly using mobile devices to access internet content. Our ability to provide new and innovative solutions to address challenges posed by mobile device users is important to our future growth potential. Furthermore, we may not successfully execute our technology initiatives or our new services initiatives, such as the internet exchange and data center business, because of unexpected complexities in planning or timing, technical hurdles that we fail to overcome in a timely manner, misunderstandings about market demand or a lack of appropriate resources. In 2015 and 2016, we experienced an interruption in our services to our clients as a result of technical difficulties we encountered when migrating our services from our existing platform to our high capacity platform. Due to the resulting decrease in user traffic, our revenue from this line of business was adversely affected in 2015, 2016 and 2017. In 2016 and 2017, we continued improving the performance of the HPCC platform for a number of products including downloading, VOD and webpage services and in these areas the capacity of the platform reached its designed level. We also improved the performance of the platform's certain technical specifications such as the response time and achieved progresses into 2017. However, because the technology underlying our HPCC platform is relatively new, we may face new technical issues in the future. If we fail to timely and effectively address those issues as they arise, our system performance may be affected, resulting in further decrease in customer traffic and loss in our number of customers. This may in turn materially and adversely affect our results of operations. Failures in execution or market acceptance of new services we introduce could also result in competitors providing those solutions before we do, which could lead to loss of market share, revenues and earnings.

We may continue to record impairments charges in the future.

If our business conditions deteriorate, our long-lived assets need to be reviewed for possible impairment. An impairment loss needs to be recognized to the extent that the carrying amount exceeds the fair value. In the year ended December 31, 2017, we recorded impairment of long-lived assets in the total amount of RMB21.8 million (US\$3.3million), consisting of impairment loss of intangible assets of RMB3.9 million (US\$0.6 million) and impairment loss of property, plant and equipment of RMB17.9 million (US\$2.8million). We cannot guarantee that we will not incur increased impairment loss in the future, for various reasons including, but not limited to, a sustained decline in the price of our securities, strategic decisions made in response to changes in economic and competitive conditions, any material adverse change in our relationship with significant customers or the impact of the economic environment on our customer base. If we record significant impairment charges, our results of operations may be materially and adversely affected.

The internet and internet-based services in China may fail to grow as quickly as expected.

Our future success depends on the growth of the internet in China. In particular, our business strategy and growth depends on the continued development and utilization of internet-based services such as online games, rich media content, online advertising, e-commerce and mobile internet. Online games, rich media content, e-commerce and mobile internet are relatively new developments in China and may be impacted by regulatory changes in China. Our business prospects and future growth could suffer if the internet or the markets for these internet-based services in China fail to grow as quickly as anticipated. Furthermore, even if the internet and internet-based services in China grow as expected, we may fail to successfully implement our growth strategies, which could have a material adverse impact over our business prospects, results of operations and financial condition.

Many of our existing and potential customers are pursuing emerging or unproven business models which, if unsuccessful, could lead to a substantial decline in demand for our services.

Because the proliferation of broadband internet connections and the subsequent monetization of internet services and applications are relatively recent phenomena in China, the business models of many of our existing and potential customers primarily focus on the delivery of internet content and applications to users and remain unproven. For example, user-generated content websites, media companies and online game operators have been among our customers and are pursuing emerging strategies for monetizing their internet services and applications or traffic on their websites. These companies will not continue to purchase our content and application delivery total solutions if their internet services or applications fail to generate a sufficient return on their investment or if their own business models fail to succeed. Moreover, some of our existing and potential customers are pursuing business in areas which have undefined regulatory parameters in China, and such companies face a risk of having their activities restricted or shut down for regulatory reasons. A reduction in spending on our services by our existing and potential customers or

our customers' inability or refusal to pay us due to their own financial condition or other reasons would harm our results of operations, financial condition and liquidity, and our growth and prospects may be materially and adversely affected.

We depend on a limited number of customers for a substantial portion of our revenues, and the loss of, or a significant shortfall in demand from, these customers could significantly harm our results of operations.

During any given fiscal period, a relatively small number of customers typically account for a significant percentage of our revenue. Our five largest customers contributed 37.5%, 48.2% and 57.2 % of our total net revenues for the years ended December 31, 2015, 2016 and 2017, respectively. In the past, our top five customers have continually changed, and we also have experienced significant fluctuations in our individual customers' usage of our services. Our large customers may decrease the amount of services they purchase from us, ask for price reduction or may stop purchasing our services altogether as a result of a number of factors, including their level of satisfaction or dissatisfaction with our services, the prices of our services, the prices of services offered by our competitors and reductions in our customers' spending levels.

Our operating costs, although with a forecast of downward tendency in the mid- to long term, are relatively fixed in the near term. As a consequence, we may not be able to adjust our expenses in the short term to address the unanticipated loss of a large customer during any particular period. As such, we may experience significant and unanticipated fluctuations in our results of operations which may cause us to not meet our expectations or those of stock market analysts, which could cause our stock price to decline.

Our business substantially depends on telecommunications carriers and other third-party providers for communications and storage capacity. Any change that adversely affects our communications and storage capacity could result in interruptions in our services.

Our business and operations are dependent upon telecommunications carriers and other third-party providers for communications and storage capacity, including bandwidth, servers and other equipment. We obtain all of our bandwidth from telecommunications carriers who are compliant with Chinese laws and regulations. We purchase servers and other equipment from suppliers and deploy our servers in numerous third-party co-location facilities. In addition, we need access to end-user access networks operated by telecommunications carriers and internet service providers, or ISPs, in order to complete the delivery of internet content and applications to end-users.

We believe that we currently have good business relationships with telecommunications carriers and major third-party providers, and we have access to adequate communications and storage capacity to provide our services. However, there can be no assurance that we will always be able to secure communications and storage capacity on commercially acceptable terms, and that we are adequately prepared for unexpected increases in bandwidth demands or unplanned network interruptions. Furthermore, the changes in regulatory environment and the operating policies of the telecommunications carriers could also adversely affect our business relationships with telecommunications carriers and third-party service providers. If we are unable to obtain transmission capacity on terms commercially acceptable to us or at all, our business and financial results could suffer.

In the past, system disruptions in the networks of certain regional telecommunications carriers and ISPs have affected our ability to provide our services. Some telecommunications carriers or ISPs may also take measures, such as the deployment of filters, that could degrade, disrupt or increase the cost of our or our customers' access to networks operated by them. Telecommunications carriers and ISPs could also decide to limit or prohibit the use of their networks to support or facilitate our services, or charge additional fees to us, our customers or end-users in connection with our services. Third-party suppliers may not be able to meet our demand for servers or other equipment in a timely manner. In addition, as we deploy our servers in numerous third-party co-location facilities, any system outages or other disruptions in these third-party facilities could constrain our ability to deliver our services. Any of these interruptions, interferences or restrictions could result in a loss of existing customers, increased costs and impairment of our ability to attract new customers, thereby harming our revenues and growth.

A severe or prolonged downturn in the global or Chinese economy could materially and adversely affect our business and our financial condition.

The global macroeconomic environment is facing challenges, including the end of quantitative easing by the U.S. Federal Reserve and the economic slowdown in the Eurozone since 2014. The growth of the Chinese economy has slowed since 2012 and such slowdown may continue. According to the National Bureau of Statistics of China, China's gross domestic product (GDP) growth was 6.9% in 2017. There is considerable uncertainty over the long-term effects of the monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the U.S. and China. There have been concerns over unrest and terrorist threats in the Middle East and Africa, which have resulted in volatility in oil and other markets, and over the conflicts involving Ukraine and Syria. There have also been concerns on the relationship among China and other Asian countries, which may result in or intensify potential conflicts in relation to territorial disputes. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. As near as very recently in March 2018, there has been growing concerns over foreign trade conflicts between China and the United States and some European and Asian countries, and the United States government is seen as becoming more stringent on Chinese high-tech companies offering substitute technology, products and services in the U.S. If such trade frictions evolve unfortunately into a larger scale trade war, market access to these countries by Chinese companies will be severely impacted or completely stemmed, thus inflicting unexpected severe blow to Chinese high-tech companies including ChinaCache. ChinaCache has business presence in the United States and some European and Asian countries and some of the customers from the afore-mentioned countries contributed significant percentage of ChinaCache's total revenue. If such trade war breaks out and governments of these countries opt to adopt restrict measures against ChinaCache, among like Chinese high-tech companies, our global market share, number of international customers will decline, impacting our business, financial conditions and results of operations to an extent beyond our best estimate.



To the extent customers are unable to profitably monetize the content we deliver on their behalf due to an economic slowdown or otherwise, they may reduce or eliminate the traffic we deliver on their behalf. Such reductions in traffic would lead to a reduction in our revenues. Additionally, in economic downturns, we may experience the negative effects of increased competitive pricing pressure, customer loss, slowdown in commerce over the internet and corresponding decrease in traffic delivered over our network and failures by customers to pay amounts owed to us on a timely basis or at all. Suppliers on which we rely for servers, bandwidth, co-location and other services could also be negatively impacted by economic conditions which, in turn, could have a negative impact on our operations or expenses. Any prolonged slowdown in the global or Chinese economy may have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

We expect to continue to experience intense competition.

We compete in a market that is intensely competitive and rapidly changing. We have experienced and expect to continue to experience intense competition. In China, and in our existing CDN business, we primarily compete with domestic content and application delivery service providers, some of which boast abundance of financing and are industry leaders in the field of cloud hosting and electronic commerce. Although multinational companies currently do not have a significant presence in the content and application delivery services market in China, in part due to regulatory restrictions in China's telecommunications sector, we may face competition from multinational companies if regulatory restrictions in China are lifted in the future. Also, as a result of the growth of the content delivery services market, a number of companies are currently attempting to enter our market, either directly or indirectly, some of which may become significant competitors in the future. Some of our current or potential competitors may have greater financial, marketing and other resources than we do and may have stronger governmental support. Some of our competitors may offer lower prices on competing services in order to gain market share. Our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Furthermore, some of our current or potential competitors may bundle their offerings with other services, software or hardware in a manner that may discourage content providers from purchasing the services that we offer. Increased competition could result in price reductions and revenue decline, loss of customers and loss of market share, which could harm our business, financial condition and results of operations.

Any unplanned interruption in the functioning of our network or services could lead to significant costs and disruptions.

Our business is dependent on providing our customers with fast, efficient and reliable delivery of internet content and applications. Many of our customers depend on our services to operate their businesses. Consequently, any disruption of our services could have a material impact on our customers' businesses. Our network or services could be disrupted by numerous events, including natural disasters, power losses, changes in our service providers' practices and failure of our software or network. From time to time, we need to correct errors and defects in our platform software or in other aspects of our network. There may be errors and defects originating with third-party networks or software on which

we rely that harm our ability to deliver our services. We may also experience disruptions caused by software viruses or other attacks by unauthorized users. Despite our significant capital investments, we may have insufficient communications and server capacity to address these or other disruptions, which could result in interruptions in our services. Any widespread interruption of the functioning of our networks and related services for any reason would reduce our revenues and could harm our business and financial results. In 2016, the internet connection at one of our third-party co-location facilities was interrupted for several hours and as a result our services to certain customers were affected. This is a one-time incident and did not have any material impact on our business or results of operation, and in 2017 there's no recurring like incidents. If in the future similar incidents or a more widespread interruption occurred or if we failed to deliver internet services and applications to users as expected during a high-profile media event or well-publicized circumstance, our reputation could be severely damaged. Moreover, any disruptions could undermine confidence in our services and cause us to lose customers or make it more difficult to attract new ones, either of which could harm our business and results of operations.

The occurrence of cyber incidents, or a deficiency in our cybersecurity, could disrupt our services, cause damage to our brand and adversely affect our results of operations.

Our computer networks may be vulnerable to cyber incidents, including but not limited to unauthorized access, computer hacking, computer viruses and other security problems caused by unauthorized access to, or improper use of, systems by third parties or employees. A hacker who circumvents our cybersecurity measures could misappropriate proprietary information or cause interruptions, malfunctions or disruptions to our operations. Our electronic data may also be vulnerable to attacks, unauthorized access and misappropriation, which may corrupt our electronic data. We have not experienced a major cybersecurity breach to date. However, if a major cybersecurity breach were to occur, the losses or liabilities associated with such breach could have a material adverse effect on our business. We have implemented solutions, processes, and procedures to help mitigate our exposure to these types of cybersecurity risks, but these measures do not guarantee that we will not in the future experience a major cybersecurity breach. Actual or perceived concerns that our systems may be vulnerable to such cyber-attacks or disruptions may deter customers from using our solutions or services and could result in our customers making claims for damages. As a result, we may be required to devote significant incremental amounts of resources to protect against the threat or perceived threat of these cybersecurity risks or to alleviate problems caused by cyber incidents, if and when they were to occur.

We may have difficulty scaling and adapting our existing network to accommodate increased traffic and technology advances or changing business requirements.

Our services are complex and are designed to be deployed in and across numerous large and complex networks. Our network must perform well and be reliable in order for us to be successful. The greater the user traffic and the greater the complexity of our products and services, the more resources we will need to invest in additional network capacity and support. We have spent and expect to continue to spend on the purchase and lease of equipment and data centers and the upgrade of our technology and network to handle increased traffic over our network and to roll out new products and services. This expansion is expensive and complicated and could result in inefficiencies, operational failures or defects in our network and related software. If we do not expand successfully, or if we experience inefficiencies and operational failures, the quality of our products and services and user experience could decline. These occurrences could damage our reputation and lead to a loss of current and potential customers. We must continuously upgrade our network in order to keep pace with our customers' evolving demands. Cost increases or the failure to accommodate increased traffic or these evolving business demands without disruption could harm our results of operations and financial condition.

If we fail to manage future growth effectively, our business and results of operations could be adversely affected.

Starting from 2015, we have spent significantly on the continued development of internet data centers in order for the company to enhance its capability to offer CDN, IDC, cloud hosting, or a portfolio of service packages. The planned service capability enhancement initiatives have placed, and will continue to place, substantial demands on our managerial, operational, technological, financial and other resources. Our planned service enhancement requires us to rapidly build up a wealth of knowledge on the targeted service offering and at the same time offer consistent and high quality service to customers for existing business. Our future results of operations depend to a large extent on our ability to manage this technical enhancement successfully. Risks that we face in undertaking this expansion include:

- training new sales personnel to become productive and generate revenue;
- controlling expenses and investments in anticipation of expanded operations;

- implementing and enhancing our network;
- launching new products and services; and
- addressing new markets.

A failure to manage our growth effectively could materially and adversely affect our business, results of operations or financial condition.

Any difficulties identifying and consummating future acquisitions or integrating current and future acquisitions may have a material and adverse effect on our business, results of operations or financial condition.

Selective acquisitions and strategic investments form part of our strategy to further expand our business. However, acquisitions present challenges, including the difficulty of integrating the operations and personnel of the acquired companies, the potential disruption of our ongoing business, the potential distraction of management, expenses related to the acquisition, potential unknown liabilities or penalties associated with acquired businesses. Any inability to integrate operations or personnel in an efficient and timely manner could harm our results of operations.

We may be unsuccessful in identifying and consummating future acquisitions and strategic investments, which could impair our growth potential. In addition, future acquisitions and strategic investments will require the use of our available cash or dilutive issuances of securities. We may also experience significant turnover from the acquired operations or from our current operations as we integrate businesses. Such difficulties in identifying and consummating future acquisitions and strategic investments or any difficulties encountered in integrating current and future acquisitions may have a material and adverse effect on our business, results of operations or financial condition.

Our results of operations may fluctuate in the future. This may result in significant volatility in, and otherwise adversely affect, the market for our ADSs.

Our results of operations may fluctuate as a result of various factors, many of which are outside of our control. These fluctuations are often not seasonable but could result in significant volatility in, and otherwise adversely affect, the market price of our ordinary shares. Fluctuations in our results of operations may be due to a number of factors, including:

- our ability to increase sales to existing customers and attract new customers;
- the loss of major customers, or a significant variation in their use of our services;
- service outages or security breaches;

the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our business, operations and network;

the occurrence of significant events in a particular period that results in an increase in the use of our services, such as a major media event or a customer's online release of a new or updated video game;

- changes in our pricing policies or those of our competitors;
- share-based compensation expenses associated with attracting and retaining key personnel;
- limitations of the capacity of our platform and related systems;
- the timing of costs related to the development or acquisition of technologies, services or businesses;

general economic, industry, market and regulatory conditions and those conditions specific to internet usage and online businesses;

- reduced usage of our services by our customers. and

the results of the legal proceedings involving Xin Run and BFSMC and the equity transfer transactions between us and People.cn as described further below.

Our revenues and results of operations may vary significantly in the future and period-to-period comparisons of our results of operations may not be meaningful. You should not rely on the results of one period as an indication of future performance.

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 services.

Our technologies and business methods 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, due to being a public company, we may face a higher risk of being subject to intellectual property infringement claims from third parties. The global content and application delivery services industry is characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. 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. Any 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.

We have patents, patent applications and software copyright registrations in China and the U.S. relating to the technologies used in our business. Certain U.S.-based companies have been granted patents or have licensed patents in the U.S. relating to the content and application delivery business. In the past, we have conducted substantially all of our business operations in China. We primarily rely upon our local business partners in the U.S. to address our content and application delivery needs in those markets. However, the possibility of intellectual property rights infringement claims against us may still increase as we expand outside China.

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 services, which could have a material adverse effect on our results of operations and business prospects.

We may not be able to prevent others from unauthorized use of our intellectual property.

We rely on a combination of patent, copyright, trademark, software registration and trade secret laws, as well as nondisclosure agreements and other methods to protect our intellectual property rights. As of the date of this annual report, we have 55 PRC patents, two U.S. patents, three PRC patent applications and 23 software copyright registrations. To protect our trade secrets and other proprietary information, employees, consultants, advisors and collaborators are required to enter into confidentiality agreements. However, a patent filing may not result in an issued patent and an issued patent may not sufficiently protect our intellectual property rights and our current patent portfolio may not be broad enough to protect our technologies. In addition, implementation of intellectual property-related laws in China has historically been lacking, primarily because of ambiguities in the PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in the U.S. or other countries, and infringement of intellectual property rights continues to pose a serious risk of doing business in China. Policing unauthorized use of proprietary technology is difficult and expensive. The steps we have taken may be inadequate to prevent the misappropriation of our proprietary technology. Reverse engineering, unauthorized copying or other misappropriation of our proprietary technologies could enable third parties to benefit from our technologies without paying us for doing so, which could harm our business and competitive position. Although we are not currently involved in any litigation with respect to intellectual property, we may need to enforce our intellectual property rights through litigation. Litigation relating to our intellectual property may not prove successful and might result in substantial costs and diversion of resources and management attention.



If our ability to deliver services and applications in popular proprietary formats is restricted or becomes cost-prohibitive, demand for our services could decline, we could lose customers and our financial results could suffer.

Our business partially depends on our ability to deliver internet services and applications in all major formats. If our legal right or technical ability to store and deliver internet services and applications in one or more popular proprietary formats, such as Adobe Flash or Windows Media, is limited, our ability to serve our customers in these formats would be impaired and the demand for our content and application delivery total solutions by customers using these formats would decline. Owners of proprietary formats may be able to block, restrict, or impose fees or other costs on, our use of such formats, which could lead to additional expenses for us and for our customers, or which could prevent our delivery of this type of internet services and applications altogether. Such interference could result in a loss of existing customers, increased costs and impairment of our ability to attract new customers, which would harm our revenues, results of operations and growth.

If we are unable to retain our key employees and hire qualified sales and technical personnel, our ability to compete could be harmed.

Our future success depends upon the continued services of our executive officers and other key technology, sales, marketing and support personnel who have critical industry experience and relationships that they rely on in implementing our business plan. We do not have “key person” insurance policies covering any of our officers or other key employees, and we therefore have no way of mitigating our financial loss were we to lose their services. The loss of the services of any of our key employees could disrupt our operations, delay the development and introduction of our services, and negatively impact our ability to sell our services. There is increasing competition for qualified individuals with the specialized knowledge relevant to providing content and application network services and this competition affects both our ability to retain key employees and hire new ones. If we cannot identify and hire additional qualified employees, or if we fail to provide appropriate training, career opportunities or otherwise motivate and retain our quality employees, we may not be able to successfully execute our growth strategies and our business could suffer.

We may not be able to recoup our investment in international expansions.

As part of our growth strategy, we may continue to expand our international network. Such expansion could require us to make significant expenditures, including the purchase of additional network equipment and the hiring of local employees, in advance of generating any revenues. As a consequence, we may fail to achieve profitability or recoup our investment in international locations.

If we fail to maintain a strong brand identity, our business may not grow and our financial results may be adversely impacted.

Maintaining and enhancing the value of our “ChinaCache” and “Blue I.T.” brands is important to attracting customers. Our success in maintaining brand awareness and recognition in the content and application delivery services market in China will depend on our ability to consistently provide high-quality, value-added services and solutions. As our business grows, we plan to continue to focus our efforts to establish a wider recognition of our “ChinaCache” and “Blue I.T.” brands to attract potential customers, which may require additional marketing resources. We cannot assure you that we will effectively allocate our resources for these activities or succeed in maintaining and broadening our brand recognition and appeal. If we fail to maintain a strong brand identity, our business and financial results may be adversely impacted.

If we are required to seek additional funding, such funding may not be available on commercially acceptable terms, if at all.

We may need to obtain additional funding due to a number of factors beyond our control, including a shortfall in revenues, increased expenses, increased investment in capital equipment or the acquisition of significant businesses or technologies. In addition, although we have completed building constructions for our cloud infrastructure, we may need to incur substantial investments in the future to equip the buildings with hardware according to potential customers' specifications. Also, we utilized the funds prepaid by People.cn and Beijing Federation of Supply and Marketing Cooperatives, or BFSMC, for the construction of the buildings to be sold to People.cn and BFSMC, respectively. Under our agreement with BFSMC, we agreed to sell two buildings to a subsidiary of BFSMC through transferring the equity interest of our subsidiary Beijing Zhao Du, the owner of the buildings. In addition, we agreed to lease back the buildings from the subsidiary of BFSMC starting from an agreed earlier date. We also reached a supplemental company letter with BFSMC, pursuant to which we agreed that September 30, 2015 should be deemed as the date of delivery as long as we complete the actual delivery of the buildings as well as the equity transfer by December 31, 2016. If the equity transfer and other agreed procedures are completed on time, our liabilities shall be deemed fully discharged. However, BFSMC has not accepted the buildings by December 31, 2016 due to our disagreement with BFSMC on the standard of delivery and acceptance of the buildings. Therefore, we re-negotiated with BFSMC and reached a series of new agreements with BFSMC in July 2017. Pursuant to the new agreements, BFSMC agreed to make the payments of RMB105.6 million to us immediately upon the completion of equity transfer of Beijing Zhao Du. Although we have completed the transfer of the equity interest in Beijing Zhao Du and the ownership of the buildings in July 2017, BFSMC failed to make the payments of RMB105.6 million to us as agreed. We have filed a lawsuit with the court, claiming the payment of the outstanding amount of consideration and the interest accrued thereon in August 2017. In September 2017, BFSMC filed a counterclaim to sue for, among others, the late delivery penalties and other relating losses. Thereafter we filed a motion to dismiss BFSMC's counterclaim arguing that the court does not have the jurisdiction. In April 2018, we were notified by the court that our motion was rejected and Xin Run's bank deposits and other assets in a total amount of approximately RMB 50.5 million were sealed up, distrained or frozen by the court. On April 24, 2018, we amended our claim requesting, among other things, the defendant pay the additional purchase price of RMB96 million, damages for breach of contract in an amount of RMB14.4 million and the relating interest of RMB8.86 million. Management is of the view that these proceedings are at a preliminary stage, therefore it is impossible at this stage to properly evaluate the outcome. Therefore, no provision has been made for this case.

In addition, in October 2017, a subsidiary of BFSMC filed a lawsuit against Xin Run in the Shunyi District Court of Beijing requesting Xin Run pay overdue rent and the relating interest in a total amount of approximately RMB30 million. We filed a motion to dismiss for lack of jurisdiction. However, the motion was rejected by the court and as a result, this lawsuit is still pending. Management is of the view that these proceedings are at a preliminary stage, therefore it is impossible at this stage to properly evaluate the outcome. Therefore, no provision has been made for this case.

Please see "Item 8. Financial information — A. Consolidated Statements and Other Financial Information-Legal Proceedings-Litigation" for more information. With respect to the sale of data center building to People.cn, on

December 29, 2017, Xin Run entered into a framework agreement with People.cn, under which, among others, Xin Run will transfer 100% equity interest in Beijing Shuoge Technology Co., Ltd. to People.cn subject to terms and conditions to be set forth in a definitive equity transfer agreement. If we cannot successfully complete the sales and transfer, People.cn may demand their prepayment, which could have a material adverse impact on our cash position.

We believe that our cash and cash equivalents, and anticipated cash from operating and financing activities will be sufficient to fund our operations and proposed capital expenditures for at least the next 12 months. If for unforeseen circumstances we do need to obtain additional funding, it may not be available on commercially acceptable terms, if at all. If we are unable to obtain sufficient funding, our business would be harmed. Even if we are able to find outside funding sources, we may be required to issue securities in a transaction that could be highly dilutive to our investors or we may be required to issue securities with greater rights than the securities we have outstanding today. We may also be required to take other actions that could lessen the value of our ADSs, including borrowing money on terms that are not favorable to us. If we are unable to generate or raise capital that is sufficient to fund our operations, we may be required to curtail operations, reduce our capabilities or cease operations in certain jurisdictions or completely. Similarly, if we are unable to generate or raise capital that is sufficient to fund proposed investments in our cloud infrastructure hardware, we may not be able to provide our customers with cloud data centers that meet their requirements. We may, as a result, not be able to fully implement our cloud infrastructure strategy.

If our preferential tax treatment for ChinaCache Beijing and Beijing Blue I.T. becomes unavailable, our results of operations may be materially and adversely affected.

The Enterprise Income Tax Law, effective as of January 1, 2008, as recently amended on February 24, 2017, permits certain “high and new enterprises strongly supported by the state” which hold independent ownership of core intellectual property and simultaneously meet a list of other financial or non-financial criteria to enjoy a reduced 15% enterprise income tax rate subject to certain qualification criteria. In November 2013, ChinaCache Beijing obtained the certificate of “high and new- technology enterprise” jointly issued by the Beijing Science and Technology Commission, Beijing Finance Bureau, Beijing Administration of State Taxation and Beijing Administration of Local Taxation, and has since then continued to qualify as a “high and new- technology enterprise” and been entitled to a reduced income tax rate of 15%. In December 2016, ChinaCache Beijing was recognized as a “high and new- technology enterprise” again and became eligible for a preferential tax rate of 15% effective from 2016 to 2018.

In November 2012, Beijing Blue I.T. was recognized as a “high and new- technology enterprise” and was eligible for a preferential tax rate of 15% effective retrospectively from 2012 to 2014. In July 2015, Beijing Blue I.T. was recognized as a “high and new- technology enterprise” again and became eligible for a preferential tax rate of 15% effective from 2015 to 2017. Beijing Blue I.T. is currently in the process of applying for the renewal of such certification. We cannot assure you that Beijing Blue I.T. will continue to be recognized as a “high and new- technology enterprise” and enjoy the tax benefits from 2018 and forward.

In December 2013, Beijing Blue I.T. was recognized as a key software enterprise covered by the national planning layout scheme, or Key Software Enterprise, jointly by the National Development and Reform Commission, the Ministry of Industry and Information Technology, or the MIIT, Ministry of Commerce and State Administration of Taxation, or the SAT, which entitled it to enjoy a preferential income tax rate of 10% for 2013 and 2014. According to a Circular issued by the MIIT and the SAT on Matters relating to Preferential Corporate Income Tax Policies for Software Enterprises in May 27, 2015, the recognition of “Key Software Enterprise” was stopped since May 2015. In May 2016, Ministry of Finance, SAT, National Development and Reform Commission and MIIT jointly issued a circular to restart the recognition of Key Software Enterprise. Companies may be entitled to the preferential tax rate of 10%, at time of tax return filing, by filing application with the local tax authority with supporting documentation proving its qualifications to be a “Key Software Enterprise” during its annual income tax settlement process. Beijing Blue I.T. plans to file application for the preferential tax benefit of 10% rate in due time and when such tax benefits policy is still effective.

In addition, our PRC subsidiaries would be entitled to exempt fifty percent (50%) of their income from tax and enjoy a reduced enterprise income tax rate of 20% if their financial data are determined to meet the standard of “small scale and low profit” enterprise when filing with the tax bureau. See “Item 5. Operating and Financial Review and Prospects—A. Operating Results —Taxation — PRC.”

If our preferential tax treatment of ChinaCache Beijing and Beijing Blue I.T. becomes unavailable, their enterprise income tax rate would increase to 25% and thus our income tax expenses would increase, which may have a material adverse effect on our net income and results of operations.

***Failure to maintain effective internal control over financial reporting could have a material and adverse effect on the trading price of our ADSs.***

We are subject to the reporting obligations under the U.S. securities laws. Although our management concluded that we maintained effective internal control over financial reporting as of December 31, 2017, we cannot assure you that we will maintain effective internal control over financial reporting on an ongoing basis. If we fail to maintain effective internal control over financial reporting, we will not be able to conclude that we have effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act of 2002 in our future annual report on Form 20-F

covering the fiscal year in which this failure occurs. Effective internal control over financial reporting is necessary for us to produce reliable financial reports. Any failure to maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could have a material and adverse effect on the trading price of our ADSs. Furthermore, we may need to incur additional costs and use additional management and other resources as our business and operations further expand or in an effort to remediate any material control weakness that may be identified in the future.

***We have granted, and may continue to grant, stock options and restricted share units under our stock incentive plans, resulting in increased share based compensation expenses and, therefore, adversely affecting our results of operations.***

We have adopted a total of four stock incentive plans, in the years 2007, 2008, 2010 and 2011. As of December 31, 2017, there were outstanding options to purchase 25,986,816 of our ordinary shares and 49,477,040 vested restricted share units granted in accordance with these plans. See “Item 6 Directors, Senior Management and Employees — B. Compensation — Stock Incentive Plans.” For the years ended December 31, 2015, 2016 and 2017, we recorded RMB48.6 million, RMB85.0 million and RMB9.9 million (US\$1.5 million), respectively, in share-based compensation expenses for employees. If we grant more stock options or restricted share units to attract and retain key personnel, the expenses associated with share based compensation may adversely affect our results of operations. However, if we do not grant stock options or restricted share units or reduce the number of stock options or restricted share units that we grant, we may not be able to attract and retain key personnel.

We may incur losses due to business interruptions resulting from occurrence of natural catastrophes, acts of terrorism or fires, and we have limited insurance coverage.

The occurrence of natural catastrophes such as earthquakes, floods, typhoons or any acts of terrorism may result in significant property damages as well as loss of revenues due to interruptions in our business operations. In addition, the provision of our services depends on the continuing operation of our information technology and communications systems, which are also vulnerable to damage or interruption from natural catastrophes and acts of terrorism. Some of our data centers are located in areas with a high risk of typhoons or earthquakes. Our disaster recovery planning cannot account for every conceivable possibility. Any damage to or failure of our systems could result in interruptions in our services, which could reduce our revenues and profits, and our brand could be damaged if people believe our systems are unreliable.

The insurance industry in China is not fully developed. Insurance companies in China offer limited business insurance products. While business disruption insurance may be available to a limited extent in China, we have determined that the risks of disruption and the difficulties and costs associated with acquiring such insurance render it commercially impractical for us to have such insurance. As a result, we do not have any business liability, disruption or litigation insurance coverage for our operations in China. Any business disruption or litigation might result in our incurring substantial costs and the diversion of resources.

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 the outbreak of health epidemic. Any such occurrences could cause severe disruption to our daily operations, and may even require a temporary closure of our facilities. In May 2008, a severe earthquake hit part of Sichuan province in southwestern China, and in April 2010, another severe earthquake hit part of Qinghai province in western China, and in August 2014, another strong earthquake hit part of Yunnan province in southern China, each of which resulted 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 affecting Beijing or another city where we have major operations in China, our operations could be materially and adversely affected due to loss of personnel and damages to property. In addition, any outbreak of avian flu, severe acute respiratory syndrome (SARS), influenza A (H1N1), H7N9, Ebola, 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.



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

We are subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, which generally prohibits companies and anyone acting on their behalf from offering or making improper payments or providing benefits to foreign officials for the purpose of obtaining or keeping business, along with various other anti-corruption laws, including China's anti-corruption laws. Our company policies strictly prohibit any such conduct and require that we the Company, 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 content and application delivery services industry in China and generally purchase bandwidth from state or government-owned telecommunications carriers and provide a portfolio of services and solutions to government agencies. This puts us in frequent contact with persons who may be considered "foreign officials" under the FCPA, resulting in an elevated risk of potential FCPA violations. If we are found to be not in compliance with the FCPA and other applicable anti-corruption laws governing the conduct of business with government entities or officials, we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, financial condition and results of operations. Any investigation of any potential violations of the FCPA or other anti-corruption laws by U.S. or foreign authorities, including Chinese authorities, could adversely impact our reputation, cause us to lose customer sales and access to end-user access networks, and lead to other adverse impacts on our business, financial condition and results of operations.

#### 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 business. Specifically, foreign investors are not allowed to own more than a 50% equity interest in any PRC company engaging in value-added telecommunications business (except e-commerce) and any such foreign investor must have experience in providing value-added telecommunications services overseas and maintain a good track record in accordance with the Guidance Catalog of Industries for Foreign Investment promulgated in 2007, as amended in 2011, 2015 and 2017 respectively, and other applicable laws and regulations.

Because we are a Cayman Islands company, we are classified as a foreign enterprise under PRC laws and regulations, and our PRC subsidiaries, ChinaCache Beijing and Xin Run, are foreign-invested enterprises. To comply with PRC laws and regulations, we conduct our content and application delivery total solution business in China through a set of contractual arrangements with each of Beijing Blue I.T. and Beijing Jingtian and their respective shareholders. These contractual arrangements provide us with effective control over Beijing Blue I.T. and Beijing Jingtian. For a description of these contractual arrangements, see “Item 4. Information on the Company —C. Organizational Structure — Contractual Arrangements with Our Consolidated Variable Interest Entities.”

The MIIT issued a circular in July 2006 requiring a foreign investor 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 providing resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in China. Furthermore, the relevant trademarks and domain names that are used in the value-added telecommunications business 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 the regulator, it is unclear what impact this circular will have on us or other similarly situated companies.

In the opinion of Han Kun Law Offices, our PRC legal counsel, except as otherwise disclosed herein (i) the ownership structure of our PRC subsidiary, our PRC consolidated variable interest entities and their branches and subsidiaries comply with all existing PRC laws and regulations; (ii) each of the documents currently effective under the contractual arrangements among us, our PRC subsidiary, PRC consolidated variable interest entities and their shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect and (iii) the business operations of our PRC subsidiary, our PRC consolidated variable interest entities and their branches and subsidiaries are in all material respects in compliance with existing PRC laws and regulations and the terms of their licenses and permits. 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, and the above circular. Accordingly, there can be no assurance that the PRC regulatory authorities that regulate providers of content and application delivery services and other participants in the telecommunications industry, in particular, the MIIT, 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 is in violation of PRC laws and regulations. If our corporate and contractual structure is deemed by the relevant PRC regulatory authorities to be illegal, either in whole or in part, we may have to modify such structure to comply with regulatory requirements. However, we cannot assure you that we can achieve this without material disruption to our business. Further, if our corporate and contractual structure is found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking our business and operating licenses;
- levying fines on us;
- confiscating any of our income that they deem to be obtained through illegal operations;
- shutting down a portion or all of our networks and servers;
- discontinuing or restricting our operations in China;
- imposing conditions or requirements with which we may not be able to comply;
- requiring us to restructure our corporate and contractual structure;
- restricting or prohibiting our use of the proceeds from a public offering to finance our PRC consolidated variable interest entities' business and operations; and
- taking other regulatory or enforcement actions that could be harmful to our business.

Occurrence of any of these events could materially and adversely affect our business, financial condition and results of operations.

ChinaCache Beijing's contractual arrangements with Beijing Blue I.T. and Beijing Jingtian may result in adverse tax consequences to us.

We could face material and adverse tax consequences if the PRC tax authorities determine that ChinaCache Beijing's contractual arrangements with Beijing Blue I.T. and Beijing Jingtian were not made on an arm's length basis and adjust our income and expenses for PRC tax purposes in the form of a transfer pricing adjustment. A transfer pricing adjustment could adversely affect us by (i) increasing the respective tax liabilities of Beijing Blue I.T. and Beijing Jingtian without reducing ChinaCache Beijing's tax liability, which could further result in late payment fees and other penalties to Beijing Blue I.T. and Beijing Jingtian for underpaid taxes; or (ii) limiting the ability of ChinaCache Beijing, Beijing Blue I.T. or Beijing Jingtian to obtain or maintain preferential tax treatments and other financial incentives.

We rely on contractual arrangements with Beijing Blue I.T. and Beijing Jingtian and their respective 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 entities, Beijing Blue I.T. and Beijing Jingtian, and their respective shareholders, to operate our business in China. For a description of these contractual arrangements, see "Item 7. Major Shareholders and Related Party Transactions — B. Related Party Transactions — Contractual Arrangements with Our Consolidated Variable Interest Entities." These contractual arrangements may not be as effective as direct ownership in providing us with control over our consolidated variable interest entities. Under the current contractual arrangements, as a legal matter, if our consolidated variable interest entities or their 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 and we may incur substantial costs and expend significant resources in pursuing such enforcement actions.

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 U.S. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements, which may make it difficult to exert effective control over our consolidated variable interest entities, and our ability to conduct our business may be negatively 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 entities 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 entities, Beijing Blue I.T. and Beijing Jingtian, are also the founders, directors, executive officers, employees or shareholders of our company. Conflicts of interests between their roles may arise. We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or that conflicts of interest will be resolved in our favor. In addition, these individuals may breach or cause our consolidated variable interest entities 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 two consolidated variable interest entities, 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.

Our ability to enforce the share pledge agreements between us and the shareholders of Beijing Blue I.T. and Beijing Jingtian may be subject to limitations based on PRC laws and regulations.

Pursuant to the share pledge agreements which our wholly-owned subsidiary, ChinaCache Beijing, has entered into with Beijing Blue I.T. and Beijing Jingtian and their respective shareholders, the shareholders of Beijing Blue I.T. and Beijing Jingtian have agreed to pledge their respective equity interests in Beijing Blue I.T. and Beijing Jingtian to ChinaCache Beijing to secure Beijing Blue I.T.’s and Beijing Jingtian’s performance of their obligations under the relevant contractual arrangements. The share pledges of Beijing Blue I.T. and Beijing Jingtian under these share pledge agreements have been registered with the relevant local branch of the State Administration for Industry and Commerce, now the State Administration for Market Regulation, or SAIC.

In addition, when registering the pledges over the equity interests under the share pledge agreements with the local branch of SAIC, the amount of secured liabilities as stated on the application forms was RMB40.0 million for Beijing Blue I.T. and RMB10.0 million for Beijing Jingtian, corresponding to the pledged equity interests. The share pledge

agreements with the shareholders of Beijing Blue I.T. provide that the pledged equity interest constitutes continuing security for any and all of the payment obligations under all of the principal service agreements. The share pledge agreements with the shareholders of Beijing Jingtian provide that the pledged equity interest constitutes continuing security for any and all of payment obligations, including payment of consulting and service fees, under the business cooperation agreement. However, it is possible that a PRC court may take the position that RMB10.0 million or RMB40.0 million, as applicable, represents the full amount of the collateral that has been registered and perfected. If this is the case, the obligations that are supposed to be secured in the share pledge agreements and are in excess of RMB10.0 million or RMB40.0 million, as applicable, could be determined by the PRC court as unsecured debt, which takes secondary priority comparing with other creditors of secured debts.

## Risks Related to Doing Business in China

Our business may be adversely affected by government policies and regulations in China.

Laws and regulations that apply to communications and commerce conducted over the internet are becoming more prevalent in China, and may impose additional burdens on companies conducting business online or providing internet-related services such as us and many of our customers. Increased regulation could negatively affect our business directly, as well as the businesses of our customers, which could reduce their demand for our services.

The PRC government has adopted regulations governing internet access and the distribution of news and other information over the internet. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying over the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is reactionary, obscene, superstitious, fraudulent or defamatory. Failure to comply with these requirements may result in the revocation of licenses to provide internet content and other licenses and the closure of the concerned websites. In the past, failure to comply with such requirements has resulted in the closure of certain websites. In addition, the MIIT has published regulations that subject website operators to potential liability for content displayed on their websites and the actions of users and others using their systems, including liability for violations of PRC laws and regulations prohibiting the dissemination of content deemed to be socially destabilizing. The Ministry of Public Security has the authority to order any local internet service provider to block any internet website at its sole discretion. From time to time, the Ministry of Public Security has stopped the dissemination over the internet of information which it believes to be socially destabilizing. The State Secrecy Bureau is also authorized to block any website it deems to be leaking state secrets or failing to comply with the relevant regulations relating to the protection of state secrets in the dissemination of online information. Our business may be adversely affected if any of our customers' websites are restricted, blocked or closed or if we face liability for content distributed over our network. If we need to take costly measures to reduce our exposure to these risks, or are required to defend ourselves against such claims, our financial results could be negatively affected.

In April 2007, the General Administration of Press and Publication of China, now the State Administration of Radio and Television of China, or SAPPRFT, and several other governmental authorities issued a circular requiring the implementation of an "anti-fatigue system" and a real-name registration system by all PRC online game operators in an effort to curb addictive game play behaviors of minors under the age of eighteen. In addition, it is also possible that the PRC government authorities may decide to adopt more stringent policies to monitor the online game industry as a result of adverse public reaction or otherwise. The implementation of these regulations may discourage or otherwise prevent or restrict minors from playing online games, which could limit the growth of online game operators, one of our key customer groups, thus adversely affecting our business and results of operations.

The SAPPRFT and the MIIT issued the Administrative Measures Regarding Internet Audio-Video Program Services, or the Internet Audio-Video Program Measures, which became effective on January 31, 2008. Among other things, the Internet Audio-Video Program Measures stipulate that only entities wholly owned or controlled by state-owned enterprises may apply for the “Internet Audio-Video Program Operating License” to engage in the production, editing, integration or consolidation, and transfer to the public through the internet, of audio-video programs, and the provision of audio-video program uploading and transmission services. In addition, the Internet Audio-Video Program Measures require that, when providing signal transmission for internet Audio-Video programs, network operators are obligated to examine the licenses or permits of the internet Audio-Video Programs service providers and must provide internet access services within the scope of such licenses or registration documents. The Internet Audio-Video Program Measures further provide that no entity may provide signal transmission, internet data center services, fee collection or other financial or technical services to internet Audio-Video Programs service providers that do not have applicable licenses or permits. Although we do not provide audio-video programs on our own, our content and application delivery total solutions include provision of technical assistance to customers, social networking operators in particular, in the uploading and transmission of user-generated content, including audio-video programs. There are significant uncertainties relating to the interpretation and implementation of the internet Audio-Video Program Measures. Accordingly, if we are required to verify our customers’ internet Audio-Video Program Operating Licenses, such requirements may impose additional obligations on us, which may increase our expenses and adversely affect our business and results of operations. Any of these factors could cause significant disruption to our operations and may materially and adversely affect our business, financial condition and results of operations.



In February 2018, MIIT issued an internal notice, or the MIIT Internal Notice, pursuant to which telecommunication authorities will carry out a special enforcement campaign to inspect the operations of certain licensed telecommunications operators according to applicable regulations and rules, including without limitation, the Circular on Clearing Up and Regulating the Internet Access Service Market issued by the MIIT in January 2017. In particular, the authorities will pay special attention to any improper operational activities, such as unauthorized establishment of transmission network, unlicensed operation of cross-border business and improper sublease of broadband resources. If the enterprise is found to be engaged in non-compliant operations, it may be subject to various penalties, including suspension of network access, suspension of approving its application for new operation permit until rectification being completed, being publicized as an operator with discredit record or non-compliance record, enhanced oversight of the authority and limitation on new telecommunication business, depending on the seriousness of the violations and the rectification result. The MIIT Internal Notice mandates that the foregoing inspection and scrutiny to be completed by September 30, 2018. According to the MIIT Internal Notice, 47 industry players are subject to the special inspection, including one of our VIEs, Beijing Blue I.T. As of the date of this annual report, we have not received any investigation notice or rectification order from the government authorities. We are closely communicating with the in-charge authority to clarify the above. Nevertheless, although we believe the Company has been conducting its business in compliance with Chinese law and government regulations and been partnering with all telecommunication carriers for their legally compliant network resources we cannot assure you that the governmental authorities will determine that we have been in full compliance with the regulatory requirements. If we are found to violate any operation requirements, we may be imposed any of the administrative penalties mentioned in the MIIT Internal Notice, which may result in a material and adverse effect on our ability to conduct our operations and our financial conditions.

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 effective from September 2000 and amended in July 2014 and February 2016, respectively, telecommunications businesses are divided into two categories, namely, (i) “basic telecommunications business,” which refers to a business that provides public network infrastructure, public data transmission and basic voice communications services, and (ii) “value-added telecommunications business,” which refers to a business that provides telecommunications and information services through the public network infrastructure. Pursuant to the VAT license issued to Beijing Blue I.T. by the MIIT on February 7, 2018, Beijing Blue I.T. is permitted to carry out its internet data center business (excluding internet resource coordination service), content delivery network business, its domestic internet virtual private networks business and internet access service business under the first category of “value-added telecommunications business”.

On January 17, 2017, the MIIT issued a Circular on Clearing up and Regulating the Internet Access Service Market, or MIIT Circular No. 32, aiming to regulate illegal operations in the field of internet data center (IDC) service, internet access (ISP) service and content delivery network (CDN) service business. In particular, the MIIT Circular No. 32 reiterates that an entity is prohibited from operating any of the IDC, ISP or CDN services without proper telecommunication business operation permit, or engaging in activities beyond the permitted business scope or

permitted geographical scope specified on its operation permit, nor shall a qualified telecommunication business operator lease or transfer its qualification or resources to an unauthorized entity in the form of technology cooperation or in other disguised form. In addition, pursuant to the MIIT Circular No. 32, if an entity had obtained a VAT License for IDC service business prior to the implementation of the Catalog of Telecommunications Business (2015 Version) and has actually engaged in CDN service or internet resource coordination business, it must undertake in a written commitment to the issuing authority of its VAT License by March 31, 2017 that it will satisfy relevant requirements for CDN service or internet resource coordination service, as applicable, and obtain the corresponding VAT License by the end of 2017. If it fails to obtain the VAT License by the deadline, it must cease to operate the CDN service and internet resource coordination service business from January 1, 2018. If an entity fails to submit the above commitment by March 31, 2017, it shall be refrained from engaging in CDN service and internet resource coordination service since April 1, 2017. Beijing Blue I.T. had submitted the written commitment on March 30, 2017 in compliance with the relevant requirement and has obtained the relevant VAT License for CDN services issued by MIIT on September 18, 2017, which was subsequently amended on February 7, 2018.

However, since China's content and application delivery services market is at an early stage of development, the scope of content and application delivery businesses has been expanding constantly and the concept of content and application delivery services is evolving. We have been continuously developing our content and application delivery business 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. We cannot assure you that PRC governmental authorities will continue to deem of our newly developed technologies, network and services used in our business as a type of value-added telecommunications business covered under the VAT license of Beijing Blue I.T. As we expand our networks across China, it is also possible that the MIIT, in the future, may deem our operations to have exceeded the terms of our existing license. Further, we cannot assure you that Beijing Blue I.T. will be able to successfully renew its VAT license upon its expiration, or that its VAT license will continue to cover all aspects of our content and application delivery business and operations upon its renewal. In addition, new laws, regulations or government interpretations may also be promulgated from time to time to regulate the content and application delivery business or any of our related technology or services, which may require us to obtain additional, or expand existing, operating licenses or permits. Any of these factors could result in Beijing Blue I.T. being disqualified from carrying out its current business, causing significant disruption to our business operations which may materially and adversely affect our business, financial condition and results of operations.

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.

A large portion of our operations are conducted in China and a significant part 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, and the rate of growth has been slowing. We cannot assure you that the Chinese 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. It is unclear whether PRC economic policies will be effective in maintaining stable economic growth in the future. Any slowdown in the economic growth of China could lead to reduced demand for our solutions, which could materially and adversely affect our business, as well as our 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 subsidiaries and consolidated variable interest entities in China. Our operations in China are governed by PRC laws and regulations. ChinaCache Beijing 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 are not published on a timely basis or at all, 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.

Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

The Ministry of Commerce published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. The Ministry of Commerce is currently soliciting comments on this draft and substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company is considered a foreign-invested enterprise, or an FIE. The draft Foreign Investment Law specifically provides that entities established in China but “controlled” by foreign investors will be treated as FIEs. The draft Foreign Investment Law further provides that if a foreign entity is controlled by PRC investors, when it invests in the restricted industry as indicated in the “negative list” and upon market entry clearance by the Ministry of Commerce, its investments would be treated as investment made by PRC domestic investors. In this connection, “control” is broadly defined in the draft law to cover the following summarized categories: (i) holding 50% of more of the voting rights of the subject entity; (ii) holding less than 50% of the voting rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to exert material influence on the board, the shareholders’ meeting or other

equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial matters or other key aspects of business operations. Once an entity is determined to be a foreign invested enterprise, or FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a "negative list," to be separately approved by the State Council later. Unless the underlying business of the FIE falls within the negative list, which calls for market entry clearance by the Ministry of Commerce or its local branches, prior approval from the government authorities as mandated by the existing foreign investment legal regime would no longer be required for establishment of the FIE.

The "variable interest entity" structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See "— Risks Related to Our Corporate Structure" and "Item 4. Information on the Company — C. Organizational Structure." Under the draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is included in the "negative list" as restricted industry, the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC companies or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the "negative list" without market entry clearance may be considered as illegal.

Beijing Blue I.T. and Beijing Jingtian might be found as controlled by foreign investors if the draft Foreign Investment Law is enacted as proposed. However, the draft Foreign Investment Law has not taken a position on what actions shall be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by Chinese parties, while it is soliciting comments from the public on this point. In addition, it is uncertain whether the business that Beijing Blue I.T. and Beijing Jingtian operates will be subject to the foreign investment restrictions or prohibitions set forth in the “negative list” to be issued. If the enacted version of the Foreign Investment Law and the final “negative list” mandate further actions, such as MOC market entry clearance, to be completed by companies with existing VIE structure like us, we face uncertainties as to whether such clearance can be timely obtained, or at all.

The draft Foreign Investment Law, if enacted as proposed, may also materially impact our corporate governance practice and increase our compliance costs. For instance, the draft Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from investment implementation report and investment amendment report that are required at each investment and alteration of investment specifics, an annual report is mandatory, and large foreign investors meeting certain criteria are required to report on a quarterly basis. Any company found to be non-compliant with these information reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities.

We rely principally on dividends paid by our operating subsidiaries 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 a significant part of our business through our operating subsidiaries and consolidated variable interest entities, which are limited liability companies established in China. We rely principally on dividends paid by our subsidiaries for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses, if any. The payment of dividends by entities organized in China is subject to certain limitations. In particular, regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries, ChinaCache Beijing and Xin Run, are also required to set aside at least 10% of their 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, it 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 ChinaCache Beijing or Xin Run incurs 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 ChinaCache Beijing or Xin Run 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.

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

Pursuant to the Enterprise Income Tax Law, an enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise," meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The term "de facto management body" is defined as the management body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. The SAT issued SAT Circular 82 in April 2009, which provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled overseas-incorporated enterprise is located in China. In July 2011, the SAT issued additional rules to provide more guidance on the implementation of SAT Circular 82. The additional rules specify that when provided with a copy of Chinese tax resident determination certificate from a resident Chinese controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the Chinese-sourced dividends, interest, royalties, etc. to the Chinese controlled offshore incorporated enterprise. Although SAT Circular 82 and the additional guidance apply only to overseas registered enterprises controlled by PRC enterprises, not to those controlled by PRC individuals or foreigners, the criteria set forth in SAT Circular 82 may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals.



If the PRC tax authorities determine that we are a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow: (i) we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations, and (ii) a 10% withholding tax may be imposed on dividends we pay to our non-PRC resident shareholders and a 10% PRC tax may apply to gains derived by our non-PRC resident shareholders from transferring our shares or ADSs, if such income is considered PRC-sourced income. Similarly, such unfavorable tax consequences could apply to our subsidiaries outside China, including ChinaCache North America Inc. and ChinaCache Network (Hong Kong) Limited or their overseas subsidiaries if they are deemed to be “resident enterprises” by the PRC tax authorities. Notwithstanding the foregoing provisions, the Enterprise Income Tax Law also provides that the dividends paid between “qualified resident enterprises” are exempt from enterprise income tax. If our Cayman Islands holding company is deemed a “resident enterprise” for PRC enterprise income tax purposes, the dividends it receives from its PRC subsidiaries, ChinaCache Beijing and Xin Run, may constitute dividends between “qualified resident enterprises” and therefore qualify for tax exemption. However, the definition of qualified resident enterprises is unclear and the relevant PRC government authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Even if such dividends qualify as “tax-exempt income,” we cannot guarantee that such dividends will not be subject to any withholding tax.

Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

In connection with the EIT Law, the Ministry of Finance and the SAT jointly issued a SAT Circular 59 in April 2009, and the SAT issued a SAT Circular 698 in December 2009. Both SAT Circular 59 and Circular 698 became effective retroactively on January 1, 2008, and a Public Notice 7 in replacement of some of the existing rules in Circular 698, which became effective in February 2015.

According to SAT Circular 698, where a non-resident enterprise transfers the equity interests of a PRC “resident enterprise” indirectly by disposition of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, may be subject to PRC enterprise income tax, if the indirect transfer is considered to be an abusive use of company structure without reasonable commercial purposes. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. In addition, the PRC “resident enterprise” is supposed to provide necessary assistance to support the enforcement of SAT Circular 698.

On February 3, 2015, the SAT issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or Public Notice 7. Public Notice 7 has introduced a new tax regime that is significantly different from that under Circular 698. Public Notice 7 extends its tax jurisdiction to not only indirect transfers set forth under Circular 698 but also transactions involving transfer of other taxable assets, through the offshore transfer of a foreign intermediate holding company. Public Notice 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-tax resident enterprise conducts an “indirect transfer” by transferring the taxable assets indirectly by

disposing of the equity interests of an overseas holding company, the non-tax resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may re-characterize such indirect transfer as a direct transfer of the equity interests in the PRC tax resident enterprise and other properties in China. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of up to 10% for the transfer of equity interests in a PRC resident enterprise. Nevertheless, Circular 7 has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market.

On October 17, 2017, the State Administration of Tax issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Bulletin 37, which came into effect on December 1, 2017 and concurrently abolished Circular 698. The SAT Bulletin 37 further clarifies the practice and procedure of the withholding of non-tax resident enterprise income tax. Pursuant to Circular 7 and SAT Bulletin 37, both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties on the reporting and consequences on private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our company and other non-resident enterprises in our group may be subject to filing obligations or being taxed if our company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our company and other non-resident enterprises in our group are transferees in such transactions, under Public Notice 7 and/or SAT Bulletin 37. For the transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under Public Notice 7 and/or SAT Bulletin 37. As a result, we may be required to expend valuable resources to comply with Public Notice 7 and/or SAT Bulletin 37 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company and other non-resident enterprises in our group should not be taxed under these rules and notice, which may have a material adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under Public Notice 7 and/or SAT Bulletin 37 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If the PRC tax authorities make adjustments to the taxable income of the transactions under Public Notice 7 and/or SAT Bulletin 37, our income tax costs associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations.

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

The M&A Rules include provisions that purport to require approval of the Ministry of Commerce for acquisitions by offshore entities established or controlled by domestic companies, enterprises or natural persons of onshore entities that are related to such domestic companies, enterprises or natural persons, and prohibit offshore entities from using their foreign-invested subsidiaries in China, or through “other means,” to circumvent such requirement. As part of our growth strategy, we obtained control over Beijing Jingtian in July 2008 by entering into contractual arrangements with Beijing Jingtian and its shareholders. We did not seek the approval of the Ministry of Commerce for this transaction based on the legal advice we obtained from our PRC legal counsel in those transactions that such approval was unnecessary. However, the M&A Rules also prohibit companies from using any “other means” to circumvent the approval requirement set forth therein and there is no clear interpretation as to what constitutes “other means” of circumvention of the requirement under the M&A Rules. The Ministry of Commerce and other applicable government

authorities would therefore have broad discretion in determining whether an acquisition is in violation of the M&A Rules. If PRC regulatory authorities take a view that is contrary to ours, we could be subject to severe penalties. In addition, we may in the future grow our business in part by acquiring complementary businesses in China. If we are required to obtain the approval from the Ministry of Commerce, completion of such transaction may be delayed or even inhibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

In addition, in August 2011 the Ministry of Commerce issued the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the MOFCOM Security Review Rules. The MOFCOM Security Review Rules, effective from September 1, 2011, require certain merger and acquisition transactions to be subject to merger control review or security review. The MOFCOM Security Review Rules further provide that, when deciding whether a specific merger or acquisition of a PRC enterprise by foreign investors is subject to the security review by the Ministry of Commerce, the principle of substance over form should be applied and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. There is no explicit provision in the MOFCOM Security Review Rules stating that our content and application delivery business fall into the scope subject to the security review. However, there is a lack of clear statutory interpretation on the implementation of these new rules, there can be no assurance that the Ministry of Commerce will not apply these rules to our contractual arrangements with Beijing Blue I.T. and Beijing Jingtian. If we are found to be in violation of the MOFCOM Security Review Rules, or fail to obtain any required approvals, the relevant regulatory authorities would have broad discretion in dealing with such violation, including levying fines, confiscating income, revoking our PRC affiliates' business or operating licenses or requiring us to restructure or unwind the relevant ownership structure or operations. Any of these actions could cause significant disruption to our business operations and may materially and adversely affect our business, financial condition and results of operations. Further, if the business of any target company that we would like to acquire in the future falls into the ambit of security review, complying with the requirements of the relevant rules could be prohibitively time consuming or we may be legally prohibited from acquiring such company either by equity or asset acquisition, capital contribution or through any contractual arrangement, which could have a material and adverse impact on our ability to expand our business or maintain our market share.

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

As an offshore holding company, we may make loans to our PRC subsidiaries, ChinaCache Beijing and Xin Run, or consolidated variable interest entities, or we may make additional capital contributions to ChinaCache Beijing or Xin Run. Any loans to ChinaCache Beijing or Xin Run or consolidated variable interest entities are subject to PRC regulations. For example, loans by us to ChinaCache Beijing or Xin Run, each of which is a foreign-invested enterprise, to finance its activities cannot exceed statutory upper limit and must be filed with the State Administration of Foreign Exchange through the online filing system of SAFE after the loan agreement is signed and at least three business days prior to the borrower withdraws any amount from the foreign loan.

We may also decide to finance our operations in China by means of capital contributions. These capital contributions must be approved by or subsequently filed with the Ministry of Commerce or its local counterpart. We cannot assure you that we will be able to obtain these government approvals on a timely basis, if at all, with respect to future capital contributions by us to our PRC subsidiaries. If we fail to receive such approvals, our ability to use the proceeds from a public offering and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

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

A significant part of our revenues and expenses are denominated in Renminbi. Under PRC laws, the Renminbi is currently convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment and loans, without the prior approval of the State Administration of Foreign Exchange. Currently, our PRC subsidiaries, ChinaCache Beijing and Xin Run, may purchase foreign currencies for settlement of current account transactions, including payments of dividends to us, without the approval of the State Administration of Foreign Exchange. However, foreign exchange transactions by ChinaCache Beijing or Xin Run under the capital account continue to be subject to significant foreign exchange controls and require the approval of or need to register or file with PRC governmental authorities, including the State Administration of Foreign Exchange. In particular, if ChinaCache Beijing or Xin Run borrows foreign currency loans from us or other foreign lenders, these loans must be filed with the State Administration of Foreign Exchange after the loan agreement is signed and at least three business days before the borrower draws any amount from the foreign loan, and the accumulative amount of its foreign currency loans borrowed by ChinaCache Beijing or Xin Run may not exceed a statutory upper limit. If we finance ChinaCache Beijing by means of additional capital contributions, these capital contributions must be approved by or made post-contribution filing with certain government authorities. Any existing and future restrictions on currency exchange may affect the ability of our PRC subsidiaries or consolidated variable interest entities to obtain foreign currencies, limit our ability to meet our foreign currency obligations or otherwise materially and adversely affect our business.



In March 2015, SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises, or SAFE Circular No. 19, which came into effect as of June 1, 2015. SAFE Circular No. 19 provides that, among other things, a foreign-invested company may convert foreign currency capital in its capital account into RMB on a “at will” basis. On June 9, 2016, SAFE promulgated the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular No. 16, to further expand and strengthen such “at will” conversion reform under SAFE Circular No. 19. SAFE Circular No. 16 provides an integrated standard for conversion of foreign exchange under capital account items on an “at will” basis which applies to all enterprises registered in the PRC. Pursuant to SAFE Circular No. 16, in addition to foreign currency capital, enterprises registered in the PRC may also convert their foreign debts, as well as repatriated funds raised through overseas listing, from foreign currency to RMB on an “at will” basis. SAFE Circular No. 16 reiterates that the RMB funds so converted shall not be used for the purpose of, whether directly or indirectly, (i) paying expenditures out of the ordinary course of business or prohibited by laws or regulations; (ii) making securities investment or other investments (except for banks’ principal-secured products); (iii) extending loans to non-affiliated enterprises (except as expressly permitted in the business license); and (iv) purchasing non-self-used real properties (except for real estate enterprises).

The audit report included in this Annual Report is prepared by auditors who are not inspected fully by the Public Company Accounting Oversight Board, or the PCAOB, and, as such, our shareholders are deprived of the benefits of such inspection.

As an auditor of companies that are publicly traded in the U.S. and a firm registered with the Public Company Accounting Oversight Board (U.S.), or PCAOB, Ernst & Young Hua Ming LLP is required under the laws of the U.S. to undergo regular inspections by the PCAOB. However, because we have substantial operations within the PRC, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese government authorities, our auditor and its audit work is not currently inspected fully by the PCAOB.

Inspections of other auditors conducted by the PCAOB outside China have at times identified deficiencies in those auditors’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections of audit work undertaken in China prevents the PCAOB from regularly evaluating our auditor’s audits and its quality control procedures. As a result, shareholders may be deprived of the benefits of PCAOB inspections, and may lose confidence in our reported financial information and procedures and the quality of our financial statements.

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

In December 2012, the SEC brought administrative proceedings against the Big 4 accounting firms in China, including our independent registered public accounting firm, alleging that these accounting firms had violated U.S. securities laws and the SEC's rules and regulations thereunder by failing to provide to the SEC the firms' audit papers and other documents related to certain PRC-based companies that are publicly traded in the U.S.

On January 22, 2014, the Administrative Law Judge presiding over the matter reached an initial decision that the firms had each violated the SEC's rules of practice by failing to produce the audit work papers and related documents directly to the SEC. The initial decision further determined that each of the firms should be censured and barred from practicing before the SEC for a period of six months. On February 12, 2014, the Big 4 accounting firms in China appealed to the SEC against this decision. In February 2015, each of the Big 4 accounting firms in China agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via the CSRC. If the firms do not follow these procedures, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings.

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



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

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

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation was halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably, and in recent years the RMB has depreciated significantly against the U.S. dollar. Since October 1, 2016, Renminbi has joined the International Monetary Fund (IMF)'s basket of currencies that make up the Special Drawing Right (SDR), along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, Renminbi has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and there is no guarantee that Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into RMB for capital expenditures and working capital and other business purposes, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, strategic acquisitions or investments or other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by Chinese exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

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

The SAFE promulgated the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions.

SAFE Circular 37 is issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular 75.

We are aware that our PRC resident beneficial owners subject to these SAFE registration requirements have registered with the Beijing SAFE branch and will amend the registration to reflect the recent changes to our corporate structure. However, we cannot assure you that our current and future beneficial owners who are PRC residents will continue to comply with Circular 37; nor can we assure you that there will not be further filing or registration requirements imposed by the PRC government concerning ownership in foreign companies of PRC residents. The failure or inability of our PRC resident beneficial owners to make any required registrations or comply with these requirements may subject such beneficial owners to fines and legal sanctions and may also limit our ability to contribute additional capital into or provide loans to ChinaCache Beijing and Xin Run, and consolidated variable interest entities, limit ChinaCache Beijing's and Xin Run's ability to pay dividends or otherwise distribute profits to us, or otherwise materially and adversely affect us.

Failure to comply with PRC regulations regarding the registration requirements for stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Under the SAFE regulations, PRC residents who participate in an employee stock ownership plan or stock option plan in an overseas publicly-listed company are required to register with SAFE or its local branch and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly listed company, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise or sale of stock options. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes.

We and our PRC resident employees who participate in our stock incentive plan are subject to these regulations. We have registered our 2007 Stock Incentive Plan, 2008 Stock Incentive Plan, 2010 Stock Incentive Plan and 2011 Share Incentive Plan with Beijing branch of SAFE. If we or our PRC resident option grantees fail to comply with these regulations, we or our PRC resident option grantees may be subject to fines and other legal or administrative sanctions. See "Item 4. Information on the Company— B. Business Overview — Regulation—Regulations on Employee Stock Options Granted by Listed Companies."

Our ability to transfer ownership of the buildings of our cloud infrastructure may be restricted if we fail to obtain requisite governmental approvals.

In March 2013, we acquired land use right in Tianzhu Comprehensive Bonded Zone in Beijing, upon which we plan to partner with our clients to construct cloud infrastructure. We have entered into agreements with two clients, pursuant to which they agreed to purchase part of the cloud infrastructure from us. The final equity transfer agreement with one of the two clients, People.cn, will be effective when the requisite governmental approvals are obtained. The land we acquired for the development of our cloud infrastructure is categorized as land for industrial use and hence if we need to sell other buildings in the future, the transfer of ownership of the buildings constructed on such land, along with relevant land use rights, is subject to the prior approval by multiple administrative authorities. If we fail to obtain such approvals, our ability to transfer ownership of the buildings in our cloud infrastructure to potential investors or clients will be restricted and our financial condition may thereby be adversely affected. See “Item 4. Information on the Company — B. Business Overview — Regulation — Regulations on Transfer of Real Estate Properties”.

## Risks Related to Our ADSs

The market price for our ADSs has fluctuated and may continue to be volatile.

The market price for our ADSs has fluctuated significantly since we first listed our ADSs. The market prices of our ADSs have ranged from US\$0.72 to US\$3.16 per ADS in 2017.

The market price for our ADSs may be highly volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly results of operations;
- changes in financial estimates by securities research analysts;
- announcements by us or our competitors of acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the operating performance or market valuations of other internet content and application delivery service businesses or other internet-related businesses;
- addition or departure of key personnel;
- fluctuations of exchange rates between the RMB and U.S. dollar;
- intellectual property litigation;
- general economic or political conditions in China and the U.S.;
- changes in governmental regulations; and

· detrimental negative publicity about us, our products and services, our financial results or our compliance with applicable law.

In addition, the stock market in general, and the market prices for internet-related companies and companies with operations in China in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. The securities of some China-based companies that have listed their securities in the U.S. have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of these Chinese companies' securities after their offerings may affect the attitudes of investors toward Chinese companies listed in the U.S., which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Further, the global financial crisis and the ensuing economic recessions in many countries have contributed and may continue to contribute to extreme volatility in the global stock markets. These broad market and industry fluctuations may adversely affect operating performance. Volatility or a lack of positive performance in our ADS price may also adversely affect our ability to retain key employees, most of whom have been granted options or other

equity incentives.

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

Additional sales of our ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. All of our shares are freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. If any existing shareholder or shareholders sell a substantial amount of ADSs, the prevailing market price for our ADSs could be adversely affected. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

We have been named as a defendant in a putative shareholder class action lawsuit that could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.

We will have to defend against the putative shareholder class action lawsuit described in “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Litigation,” including any appeals of such lawsuit should our initial defense be unsuccessful. We may become subject to similar lawsuits from time to time. On March 28, 2018, the lead plaintiff of the putative class action filed an unopposed motion for preliminary approval of class action settlement, requesting that, among others, the Court preliminarily approve a settlement agreement that the parties reached to settle the case for USD 990,000. In the event that the proposed settlement is not approved by the Court and/or is not consummated for any other reason, we will not be able estimate the possible loss or possible range of loss, if any, associated with the resolution of this lawsuit. In the event that our initial defense of these lawsuits is unsuccessful, there can be no assurance that we will prevail in any appeal. Any adverse outcome of these cases, including any plaintiff’s appeal of a judgment in these lawsuits, could have a material adverse effect on our business, financial condition, results of operation, cash flows and reputation. In addition, there can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. The litigation process may utilize a significant portion of our cash resources and divert management’s attention from the day-to-day operations of our company, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results.

We are a “foreign private issuer,” and have disclosure obligations that are different from those of U.S. domestic reporting companies; as a result, you should not expect to receive the same information about us at the same time when a U.S. domestic reporting company provides the information required to be disclosed.

We are a foreign private issuer and, as a result, we are not subject to the same requirements that are imposed upon U.S. domestic issuers by the U.S. Securities and Exchange Commission, or SEC. Under the Securities Exchange Act of 1934, or the Exchange Act, we are subject to reporting obligations that, to some extent, are more lenient and less frequent than those of U.S. domestic reporting companies. For example, we are not required to issue quarterly reports or proxy statements. We must file our annual report within four months after the end of our fiscal year, which is December 31 of each year. We are not required to disclose detailed individual executive compensation information that is required to be disclosed by U.S. domestic issuers. Further, our directors and executive officers are not required to report equity holdings under Section 16 of the Securities Act and are not subject to the insider short-swing profit disclosure and recovery regime. As a foreign private issuer, we are also exempt from the requirements of Regulation FD (Fair Disclosure) which, generally, are meant to ensure that select groups of investors are not privy to specific information about an issuer before other investors. We are, however, still subject to the anti-fraud and anti-manipulation rules of the SEC, such as Rule 10b-5 under the Exchange Act. Since many of the disclosure obligations imposed on us as a foreign private issuer are different than those imposed on U.S. domestic reporting companies, our shareholders should not expect to receive the same information about us and at the same time as the information received from, or provided by, U.S. domestic reporting companies.

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

Depending upon the value of our assets, the market value of our ADSs and ordinary shares and the nature of our assets and income over time, we could be classified as a passive foreign investment company (a "PFIC"), for U.S. federal income tax purposes. Based on our income and assets and the value of our ADSs and ordinary shares, we do not believe that we were a PFIC for the taxable year ended December 31, 2017 and we do not expect to be a PFIC for the current taxable year. However, we can give no assurances with respect to our PFIC status for past or future taxable years as the PFIC determination is inherently factual and the application of the PFIC rules is subject to ambiguity in several aspects.

A non-U.S. corporation, such as our company, will be classified as a PFIC for any taxable year if either (i) at least 75% of its gross income for the taxable year is passive income or (ii) at least 50% of the value of its assets (based on the average quarterly value of its assets during the taxable year) is attributable to assets that produce or are held for the production of passive income.

Although the law in this regard is not entirely clear, we treat Beijing Blue I.T. and Beijing Jingtian as being owned by us for U.S. federal income tax purposes because we control their management decisions and we are entitled to substantially all of their economic benefits, and, as a result, we consolidate these entities' results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of Beijing Blue I.T. and Beijing Jingtian for U.S. federal income tax purposes, we would likely be treated as a PFIC for our current taxable year and any subsequent taxable year.



Because of the uncertainties in the application of the relevant rules and because PFIC status is a factual determination made annually after the close of each taxable year on the basis of the composition of our income and the value of our active versus passive assets, there can be no assurance that we will not be a PFIC for the current year or any subsequent taxable year. The overall level of our passive assets will be affected by how, and how quickly, we spend our liquid assets and the cash raised in any transaction. Under circumstances where revenues from activities that produce royalty income significantly increase relative to our revenues from activities that produce non-passive income or where we determine not to deploy significant amounts of cash in our operations or for other active purposes, our risk of becoming classified as a PFIC may substantially increase.

If we were to be or become classified as a PFIC, a U.S. Holder (as defined in “Item 10.. Additional Information— E. Taxation—U.S. Federal Income Tax Considerations—General”) may incur significantly increased U.S. income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the U.S. federal income tax rules. Further, a U.S. Holder will generally be treated as holding an equity interest in a PFIC in the first taxable year of the U.S. Holder’s holding period in which we become a PFIC and subsequent taxable years even if, we, in fact, cease to be a PFIC in subsequent taxable years. You are urged to consult your tax advisor concerning the U.S. federal income tax consequences of acquiring, holding and disposing of ADSs or ordinary shares if we are or become classified as a PFIC. For more information, see “Item 10.. Additional Information— E. Taxation—U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Considerations.”

Holders of our ADSs may not be able to participate in rights offerings and may experience dilution of their holdings and may not receive cash dividends if it is impractical to make them available.

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

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

our ADSs will not receive such distribution.

Holders of our ADSs may be subject to limitations on transfer of their ADSs.

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

***Holders of our ADSs may face difficulties in protecting their interests, and their ability to protect their rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law, conduct a significant part of our operations in China and a majority of our officers and directors reside outside the U.S.***

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

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

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

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

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

We incur increased costs as a result of being a public company.

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

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

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

#### ITEM 4. INFORMATION ON THE COMPANY

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

We commenced operations through Beijing Blue I.T., a company incorporated in China in June 1998. In June 2005, we incorporated ChinaCache International Holdings Ltd., or ChinaCache Holdings, under the laws of the Cayman Islands to become our offshore holding company through a series of corporate restructuring transactions.

In August 2005, we established our wholly-owned PRC subsidiary, ChinaCache Network Technology (Beijing) Limited, or ChinaCache Beijing.

In August 2007, we incorporated ChinaCache North America, Inc., or ChinaCache U.S., a wholly-owned subsidiary of ChinaCache Holdings, in California, the U.S.

In July 2008, we obtained control over Beijing Jingtian, through contractual arrangements.

In October 2010, we completed our initial public offering and our ADSs commenced trading on the Nasdaq Global Market under the symbol “CCIH”.

In July 2011, we established Xin Run, a PRC-incorporated company, primarily for the purpose of cloud infrastructure business.

In November 2012, we transferred our equity interests in ChinaCache Beijing and Xin Run to ChinaCache Networks (Hong Kong) Limited, or ChinaCache Hong Kong, a wholly owned subsidiary of ours.

In November 2013, we established ChinaCache Ireland Limited, or ChinaCache Ireland, a wholly owned subsidiary of ChinaCache Hong Kong.

In January 2014, our ADSs were transferred to and listed on the Nasdaq Global Select Market.

In March 2014, we issued and sold an aggregate of 53,855,569 ordinary shares, represented by 3,365,973 ADSs, to a group of institutional investors affiliated with Wellington Management Company, LLP for an aggregate purchase price of approximately US\$55.0 million.

In March 2014, we repurchased an aggregate of 28,960,922 ordinary shares of us from certain of our existing shareholders for an aggregate purchase price of approximately US\$29.6 million.

In August 2014, we established (i) Beijing Shouming Technology Co., Limited, or Beijing Shouming, (ii) Beijing Zhao Du Technology Co., Limited, or Beijing Zhao Du and (iii) Beijing Shuoge Technology Co., Limited, or Beijing Shuoge, each a 100% subsidiary of Xin Run. In July 2017, Xin Run transferred all of its equity interests in Beijing Zhao Du to a subsidiary of BFSMC.

In January 2015, ChinaCache Ireland established a branch office in London. In March 2016, we incorporated ChinaCache Networks (UK) Limited, or ChinaCache UK, in the United Kingdom and are in the process of transferring our Ireland operations to ChinaCache UK.

In September 2015, Xin Run increased its registered capital by US\$0.2 million, which was subscribed by Tianjin Shuishan Technology Co., Ltd, or Tianjin Shuishan, a PRC company owned by Mr. Song Wang and Ms. Jean Xiaohong Kou. As a result, Xin Run was converted from a wholly foreign-owned enterprise to a sino-foreign joint venture.

In August 2016, we incorporated ChinaCache Assets LLC, or CCAL, a wholly owned subsidiary of ChinaCache U.S., in California, the U.S.

Our headquarters are located at Section A, Building 3, Dian Tong Creative Square, No. 7 Jiuixianqiao North Road, Chaoyang District, Beijing, PRC. Our telephone number at this address is +86 10 6408 5088. Beijing Blue I.T. currently has 13 branch offices in 13 cities in China, namely, Beijing, Tianjin, Shenyang, Harbin, Shanghai, Nanjing, Guangzhou, Shenzhen, Wuhan, Chongqing, Chengdu, Xi'an and Taiyuan. ChinaCache Beijing currently has two branch offices in Tianjin, and Xin Run currently has one branch office in Tianjin. In addition to ChinaCache U.S., ChinaCache Ireland, ChinaCache UK and CCAL, we have three other subsidiaries outside of mainland China, namely ChinaCache Hong Kong Limited, established in Hong Kong in April 2008, Metasequoia Investment Limited, established in the British Virgin Islands in March 2012, and JNet Holdings Limited, established in the British Virgin Islands in September 2007. Our agent for service of process in the U.S. in connection with our registration statement on Form F-1 for our initial public offering is Law Debenture Corporate Services Inc., located at 400 Madison Avenue, 4th Floor, New York, New York 10017.

## B.

## Business Overview

We provide a portfolio of services and solutions to businesses, government agencies and other enterprises to enhance the reliability and scalability of their online services and applications and improve end-user experience. Our nationwide service platform, which consists of our network, servers and proprietary intelligent software, is designed to handle planned and unplanned peaks without significant upfront and ongoing capital outlay and other investments on the part of our customers.

We began providing content and application delivery services in China in 2000 and were the first non-carrier company to be licensed by MIIT to provide content and application delivery services throughout China. As an early mover, we expanded our business along with the internet market growth in China and have acquired extensive knowledge about the internet infrastructure and telecommunications environment in China. We conduct our businesses internationally, covering mainland China, other Asian countries, U.S and Europe and our revenues are derived from all across the above regions. . Building on our knowledge and experience, we have developed a portfolio of services and solutions designed to address complex and unique issues arising from internet infrastructure and to meet the specific needs of the company's customers.

As a carrier-neutral service provider, our network in China is interconnected with those operated by all major telecommunications carriers and local internet service providers in mainland China. We deploy servers and nodes across networks covering most regions in China and we use a transmission backbone that connects our nodes and data centers, thereby optimizing our content and applications delivery performance and reliability. Our wide range of services makes us a top choice for customers requiring content and application delivery total solutions in different regions in China. We believe that our robust nationwide service platform, which is the result of our significant investments of capital, time and human resources, is not easy to replicate and provides us with a competitive advantage.



## Our Services and Solutions

We provide a portfolio of content and application delivery total solutions and solutions tailored to our customers' needs to improve the performance and reliability of their online services and applications, without significant upfront and ongoing capital outlay and other investments on the part of our customers. In 2012, we further enhanced the technical sophistication of our content and application delivery total solutions and rebranded our content delivery network services into "content-aware network service", which integrates telecommunications network with internet applications. Our content-aware network service is device-aware, network-aware and application-aware. Our content-aware network service is device-aware in the sense that we are able to identify each end user device and optimize data for consumption on such user's iOS or Android mobile device. Our content-aware network service is network-aware in that its capabilities enable us to determine what kind of network online content is going through, whether it is a fixed or mobile network, and whether data is traveling on a 2G, 3G and 4G. Our content-aware network service is application-aware in that through this service we can provide network services tailored to specific applications such as e-commerce and online video, which require different capabilities and resources.

### Rich Media Streaming Services

The live streaming of media files to end-users has become an important web application. When media files are streamed to an end-user, the files are not stored on the end-user's computer, but are played by the end-user's media player software. We offer a portfolio of rich media streaming services to improve the transmission efficiency of media files, significantly offloading the pressure at the origin server and improving the quality of end-user experience. We combine peer-to-peer technology with streaming technology by facilitating data sharing during the transmission of live streaming content. Through our Rich Media Streaming services, we are able to provide nearly all types of streaming acceleration services comparing to major market players.

### Guaranteed Application Services

Our Guaranteed Application Services are designed for websites that incorporate applications that have dynamic features, such as on-line booking and ordering, real-time stock quotes and on-line surveys. Utilizing our widely deployed servers and reliable and legally compliant carrier network, our services enable interactions between end-users and the origin servers to bypass public network congestion. As a result, we ensure reliable and efficient application processing and significantly improve end-user experience.

### Managed Internet Data Services

Our Managed Internet Data Services are a "one-stop-shop" services designed to meet customers' needs for content and application delivery, network infrastructure and network security. Managed Internet Data Services are based on a combination of the traditional internet data center services and our high performance content and application delivery total solutions. The offerings allow us to expand the reach of our content and application delivery total solutions to customers who wish to take advantage of locating their content and applications in secure, high-performance facilities. To our best financial advantage, we primarily use third-party facilities for hosting customers' network and other equipment with redundant power, environmental controls and security protection. In addition, we distinguish ourselves from conventional internet data services providers by bundling our high performance content and application delivery total solutions and internet data management services. Customers using our Managed Internet Data Services include enterprises, internet companies, media and entertainment companies, government agencies and financial institution.

### ChinaCache Cloud Hosting Services

Our ChinaCache Cloud Hosting Services are designed to meet customer needs for cloud hosting. The services provide high performance computing environment and storage, supported by our established content and application delivery network. Customers using our ChinaCache Cloud Hosting Services include, but not limited to, companies that operate internet social networks, online games, e-commerce or internet media. In July 2014, we received a credible cloud hosting service certificate from Data Center Alliance, a non-profit organization founded by over 60 leading technology enterprises in the cloud hosting, data center, content delivery, and big data services industry and supervised by the Academy of Telecommunication Research of the Chinese Ministry of Industry and Information Technology, or the MIIT. Our cloud hosting service and block storage service satisfied all the 13 stringent accreditation criteria required by the MIIT such as durability, mobility, privacy protection, resource allocation and failure recovery.

#### Content Bridging Services

Our Content Bridging Services utilize our nationwide service platform interconnected with networks operated by all telecommunications carriers to “bridge” internet content exchanges amongst networks. Content Bridging Services effectively reduce cross traffic amongst carriers and significantly help improve end-user experience. Our primary target customers for Content Bridging Services are mobile telecommunications carriers.

### Internet Exchange and Data Center Services

We have formed a strategic cooperation with an industry leading independent internet exchange service provider to jointly develop internet exchange centers in China to be branded “CHN-IX”. Upon completion, CHN-IX is expected to provide interconnected data center platform and internet exchange related services for domestic Chinese and international ISPs, cloud and IT services providers, content providers, financial companies, enterprises and network, online games operators and mobile services providers to promote efficient exchanges of internet traffic and interconnections with lower operating cost and increased business opportunities.

### Mobile Internet Solutions

Aiming to provide mobile acceleration services to the projected growing mobile internet market, our mobile internet solutions try to help APP owners and mobile websites to achieve high quality content delivery regardless of the type of mobile access network used by the end users. Furthermore, our mobile internet solutions also feature effortless set-up and seamless integration with users’ traditional CDN deployment scheme, if any.

In early 2015, we introduced mobile internet intelligence aware solution — MPlus. MPlus extends more advantages to mobile e-commerce, mobile games, mobile social and other mobile Internet companies that generate heavy data traffic, allowing them to achieve transmission speeds that are substantially higher than average. MPlus is a network-aware, terminal-aware and application-aware intelligence solution. MPlus realizes intelligent acceleration through the implementation of file merge, deferred loading and HTML intelligent analysis.

In February 2017, we entered into an exclusive partnership with PacketZoom, a provider of in-app technology that boosts mobile app performance. We were granted exclusive right in China to build mobile-friendly infrastructure to deliver Packet Zoom Expresslane™ aimed to accelerate and improve reliability of mobile app content delivery in China. The term of partnership is initially three years, subject to renewal.

### Value-added Services

We also offer a wide variety of value-added services, which include the following:

*Geo-Content Acceleration service.* Geo-Content Acceleration service enables websites to automatically provide content to end-users corresponding to each end-user's specific geographic location.

*Performance Evaluation Module.* Performance Evaluation Module allows our customers to monitor their own websites on a real-time basis and to measure the effect of our services.

*Scalable Service Routing service.* Scalable Service Routing service provides domain name server resolution and global load balancing for multiple servers located across different regions to address the complex and often-unreliable network issues in China.

*Link Anti-Hijack service.* Link Anti-Hijack service helps to prevent unauthorized links to content on our customers' websites.

*NetStorage service.* NetStorage service provides high performance data storage over the internet, supported by our network infrastructure with multi-level back-ups and security measures.

*User Behavior Analysis service.* User Behavior Analysis service clusters and evaluates the targeted audiences' specific online behavior to assist our customers to better engage the visitors to their websites and improve the interactions between the websites and their visitors.

*Website Performance Evaluation service.* Website Performance Evaluation service assists customers to identify popular web content and products and determine the geographical locations of their targeted audiences so as to improve the effectiveness of their online marketing.

*All-around Application Acceleration Solution.* Our network service portfolio has expanded from external web site acceleration to the enterprise's intranet connection, especially for multi-national companies that have globally distributed data hubs. Our service offering provides both secure and accelerated connections between these data hubs.

*Cloud Extension Solution.* Cloud Extension is developed for cloud hosting service providers to improve their service quality and end user experience. Our Cloud Extension Solution can provide security for cloud applications, and we are able to protect our customers' data centers through our approximately 25,000 edge servers.

*CC Index.* CC Index is China's first analytics platform that provides internet users real-time data on traffic, bandwidth and usage habits, as well as other key statistics. We gather data on the internet landscape and usage patterns across the country, covering the fixed-line, Wi-Fi, 2G and 3G networks of various carriers. We believe that the analytics provided by CC Index are valuable to government agencies, major carriers and other ISPs as well as end-users looking to increase online speed and improve the overall web experience. CC Index also has 24-hour real-time data that provides additional analysis of internet speeds across China and is available at [www.ccindex.cn](http://www.ccindex.cn), which is a free service to the public.

*File Aware Download.* For game developers and enterprise portals who distribute software electronically, we have introduced "File Aware Download," or FAD. FAD is a one-stop solution, which not only offers CDN technology, end-user control ability and a fully customizable user interface, but also provides insight into download analytics and content usage information. It guarantees download performance and enhances user experience, which is crucial to game publishers.

### ***Cloud Infrastructure Development***

In early 2013, we acquired land use right in Tianzhu Comprehensive Bonded Zone in Beijing and intended to develop cloud infrastructure in collaboration with our clients. In December 2015, we entered into definitive agreements for Xin Run, which owns and operates ChinaCache's Atecsys Cloud Data Center, or Atecsys, for investors to acquire 60% of Xin Run's equity interest for a total consideration of RMB375 million. The transaction valued Xin Run's shareholders' equity (pre-money) at approximately RMB250 million. The agreements were later terminated. As an alternative to the proposed transaction, on March 6, 2017, the Company announced that it has entered into definitive agreements to sell 79.0% equity interest of Xin Run to Tianjin Shuishan, Shanghai Qiaoyong Equity Investment Fund Management Co., Ltd., or Shanghai Qiaoyong, and Tianjin Dingsheng Zhida Technology Co., Ltd., or Tianjin Dingsheng, for a total consideration of RMB221.2 million in cash before fees and expenses. The newly proposed transaction valued Xin Run's shareholders' equity by an independent third-party firm at approximately RMB280 million. Pursuant to the agreements, Tianjin Shuishan, Shanghai Qiaoyong and Tianjin Dingsheng agreed to purchase 47.67%, 26.33% and 5.0%, respectively, of the equity interest in Xin Run. The Company's strategic decision to terminate the Agreement was approved by board in December 2017 in recognition of the perceived value of the assets in light of increasing market demand for Internet data center services and the belief that Xin Run can effectively be leveraged as part of the Company's offering package to customers, thus better positioning the Company for long-term growth.

China is rapidly adopting a digital lifestyle and Cloud and new data-intensive technologies, such as AI and big data analytics, are fanning demand for increasing Internet data center capacity and related services. With ten internet data centers in Beijing hosting capacity for 12,400 racks, a catalyst for the Company to offer enhance packaged CDN/IDC product services, Xin Run is growing quickly and capturing wide-spread demand from government agencies and businesses, including several leading Internet and Cloud service enterprises. Against this backdrop, we see a compelling value proposition as we offer customers total solution services, comprised of our Internet data centers, Cloud hosting and Internet exchange centers and our extensive content delivery network. We believe this three-layered structured network will provide an integrated and broad-base of operations from which we can capitalize on our strengths and deliver sustained shareholder value.

In early 2015, we officially launched our next generation cloud-based CDN platform, HPCC. HPCC is designed to offer our customers enhanced stability and utilization through a unified distribution platform that dispatches available bandwidth across all customer verticals. The HPCC platform is expected to result in better traffic load balance, higher bandwidth reuse rates, lower maintenance costs, and greater efficiency through automated dispatching that maximizes bandwidth utilization, accelerates bandwidth allocation, and minimizes the potential for human error as compared with traditional CDN architectures.

Given the increasing demand for cloud hosting service in China and that more large enterprises in China desire to have their own cloud data centers, ChinaCache is well positioned to be a innovative cloud CDN provider in China, thanks to its work-in-progress cloud infrastructure and cloud platform.

### *Our Customer-tailored Integrated Solutions*

We divide our customer base into five industry groups, and, based on the needs and preferences of customers in each group, we have developed a wide range of integrated solutions that are tailored to the characteristics of each industry.

**Media and Entertainment.** As more and more advertising spending is being shifted to online media, our customers in the media industry are adapting to this trend and investing significant resources in online content delivery. To capitalize on this opportunity, we customize our services aimed at media companies, enabling them to carry online broadcasting of major events, such as the CCTV Spring Festival Gala, and other rich media content to audiences. We customize our Rich Media Streaming Services and File Transfer Services to specifically address media companies' rich media delivery needs. In addition, our services for media companies typically include our Link Anti-Hijack and certain other value-added services. Entertainment or online game operators seek to cost-effectively deliver large files to hundreds of thousands of game players simultaneously accessing the same online game through different networks. In addition, due to the unreliable interconnectivity among different telecommunications networks in China, players located in different regions often cannot simultaneously play in the same game zone. Our online game solution is designed to address these problems by enabling online game operators to bypass traditional server and bandwidth limitations to ensure reliable and efficient file downloading, handle peak traffic conditions and substantially increase the level of interconnectivity. Our online game solution typically includes our Guaranteed Application Services, Web Page Content Services and File Transfer Services and certain other value-added services.

**Enterprises.** Our enterprise customers place importance on having their website give visitors from around the world a uniform experience, thereby projecting a consistent brand image. They also want to minimize or avoid interruptions or delays when implementing major promotions or other major events on their websites. We tailor our content and application delivery total solutions to address these needs, ensuring the same satisfactory internet experience for end-users throughout different parts of the world. Our enterprise solution also includes our Web Page Content Services, Rich Media Streaming Services and additional value-added services.

**E-commerce.** Companies engaged in the fast-growing e-commerce sector in China face significant internet-related problems specific to China's internet infrastructure. Internet congestion may affect the performance of websites or otherwise reduce the operating efficiency, thereby frustrating consumers. In addition, e-commerce companies need to effectively control internet security risks. To address the needs of our e-commerce customers, we have designed our e-commerce solution to allow proactive monitoring and rapid response to security-related incidents and anomalies. Our server network is designed to reduce the possibility of a single point of failure and reduce the impact of security attacks. Our e-commerce solution typically includes our Guaranteed Application Services.

**Internet and Software Services.** Internet portals often provide geographic-specific advertisements or other information and contain rich media content and applications, which require Rich Media Streaming and Guaranteed



Application Services. Software providers typically have significant download traffic. Surges in traffic due to new software launches or the distribution of security updates can overwhelm traditional delivery system, impacting website performance and causing end-user downloads to be disrupted or fail. Our internet and software services solution helps these customers to address these needs. For instance, our Geo-Content Acceleration service enables customers' websites to automatically provide geographic-specific content to end-users corresponding to each end-user's specific geographic location. Our File Transfer Services can significantly increase the speed and reliability of software download.

**Mobile Internet.** Mobile internet refers to access to the internet from a mobile device, such as a smartphone. While mobile internet is a fast growing industry in China, mainstream mobile service providers in China are confronted with certain challenges in capitalizing on this development: Specifically, when accessing internet content from a mobile device, there are generally internet interconnection bottlenecks with other networks operated by fixed-line operators and general congestion within the mobile network. Leveraging our carrier-neutral network, our customized mobile internet solutions effectively address the interconnectivity bottleneck issues by facilitating the data exchanges between the networks operated by the mobile service providers and those operated by fix-line service providers.

## Customers and Customer Support

Our customer base has decreased from approximately 1,999 active customers as of December 31, 2016 to approximately 1789 active customers as of December 31, 2017 and includes some of China's and the world's leading companies in the areas of media, mobile internet, online game, e-commerce, internet and software, enterprises, financial institutions and government agencies.

In 2015, 2016 and 2017, our five largest customers contributed 37.5%, 48.2% and 57.2% of our total net revenues, respectively.

Our customer contracts typically provide for a one-year service term, with automatic renewal provisions. For the years ended December 31, 2015, 2016 and 2017, approximately 75.3%, 67.3% and 63.6%, respectively, of our existing customers chose to renew their contract or enter into new contract with us.

We devote significant resources to developing customers support and services. We have a dedicated customer service team. Our customers may directly contact the customer service team to seek assistance or enquire about the status of a reported issue. The team actively follows up with our operations team to ensure that the problem is addressed in an effective and timely manner. Each of our customer accounts is assigned a service manager who is responsible for ensuring that all our services are performed in a satisfactory manner. We offer a broad range of internet-based customer-care tools. We operate, for example, an e-mail service center where our customers can contact and receive responses from our customer service representatives by e-mail.

We also offer service level agreements on most of our services to our customers. Such agreements set the expectations on service level between us and our customers and drive our internal process to meet or exceed the customer's expectations.

## Our Network and Technologies

Inadequate interconnectivity within China's public internet infrastructure between different regions of China, among competing telecommunications networks and across different areas within the same operator network is a significant problem in China. There are several telecommunications carriers that operate internet backbone in China, including China Telecom, the predominant carrier in Southern China, and China Netcom, the predominant carrier in Northern China. Each of these companies runs its own independent network, which is constrained by respective networks'

coverage. Different networks must connect to one another in order to allow the users to communicate. Due to inadequate cooperation among telecommunications carriers, interconnectivity bottlenecks remain a major problem in China, contributing to a slow transmission speed across services and applications.

As a carrier-neutral service provider, we have developed an extensive network and a series of innovative technologies to effectively address network complexity issues with respect to content and applications delivery. Through our highly scalable and intelligent network platform, widely distributed edge servers and advanced operating support system, among others, we increase the level of interconnectivity and ensure the quality and reliability of our services.

Our network has the following key elements:

#### Architecture

Our network architecture consists of three layers: the data center layer, the edge server layer and the peer-assistance layer. The following diagram illustrates our network architecture:

The first layer of our network architecture is the data center layer, which is composed of super nodes, clusters of specially-configured servers and storage systems, interconnected with public networks and other legally compliant transmission backbones. This layer ensures the delivery quality from origin servers to the super nodes residing at strategic locations throughout China and effectively addresses the issue of inadequate interconnectivity across different telecommunications carriers in China.

The second layer of our network architecture is the edge server layer, which is composed of clusters of edge nodes connected to different telecommunications carriers and ISPs. Each edge node consists of edge servers programmed to answer domain name inquiries, replicate and refresh content, receive and forward uploads from end-users, record usage information for billing purposes and provide network performance data. The edge server layer allows end-users to connect to the appropriate ChinaCache edge servers to optimize the performance of the delivery process.

The last layer of our network architecture is the peer-assistance layer, which is composed of multiple public internet access networks belonging to different service providers. We do not own or operate any of these internet access networks. Instead, we deploy our peer-assistance technology over this layer by installing our proprietary software on the operating systems of end-users. As a result, we are able to facilitate data sharing among network end-users, which significantly improves the user experience and enhances the scalability of our services.

### ***Widely Deployed Servers***

As of December 31, 2017, we deployed approximately 17120 servers in China and over 340 servers overseas.

As a carrier-neutral service provider, our networks in China are interconnected with: (i) networks operated by all three telecommunications carriers in China, namely China Telecom, China Unicom and China Mobile; (ii) non-carrier networks operated by China Education and Research Network and China Science and Technology Network; and (iii) networks operated by major local ISPs, including Beijing Gehua CATV Networks and Shanghai Oriental Network.

We purchase bandwidth usage, co-location services and data storage from telecommunications carriers or ISPs. For the years ended December 31, 2015, 2016 and 2017, 95%, 91% and 86%, respectively, of our bandwidth, co-location and data storage fees were paid for services purchased from the three major PRC telecommunications carriers, China Telecom, China Mobile and China Unicom, through their respective subsidiaries and sales agents. Our agreements with the telecommunication carriers typically use a standard form provided by the carriers, with pricing terms individually negotiated with the carriers' local subsidiaries or sales agents. The agreements are typically of a one-year term with renewal options. We pay monthly service fees based on the number of internet gateways, bandwidth usage and the number of server clusters.

We have also deployed service nodes in 120 cities worldwide covering Asia, North America, Western Europe, the Middle East and North Africa to allow our customers in China to distribute internet services and applications to end-users in those regions and vice versa. We have also obtained access to networks operated by international ISPs through contractual arrangements to further extend the geographic coverage of our services for the benefit of our customers.

## Technologies

Our content-aware network service, is an enhanced next-generation of CDN technology that improved our capabilities of delivering content and application delivery total solutions. Our content-aware network service is device-aware, network-aware and application-aware. Our content-aware network service is device-aware in the sense that we are able to identify each end user device and optimize data for consumption on such user's iOS or Android mobile device. Our content-aware network service is network-aware in that its capabilities enable us to determine what kind of network online content is going through, whether it is a fixed or mobile network, and whether data is traveling on a 2G, 3G or 4G mobile network. Our content-aware network service is application-aware in that through this service we can provide network services tailored to specific applications such as e-commerce and online video, which require different capabilities and resources.

Our key technologies include the following:

***Request routing technology.*** Our request routing technology routes client requests to an appropriate server for the delivery of content. Utilizing our proprietary Scalable Service Routing technology, we are able to use a set of metrics, such as network proximity, client perceived latency, distance and replica server load, to direct users to the most suitable servers that can best serve the request. We have developed a system that can assess the link quality between users and our servers/nodes, so we can collect the quality topology of China internet and Global internet.

***Content distribution and management technology.*** Our content distribution and management technology includes content storage, content outsourcing, content delivery, and content management technologies. We have developed and deployed various software tools on our platform, such as Flexible Cache (FC), Purging, Configurations, and Log Configurations, to deliver caching, streaming and dynamic services. We have also developed a system that meets the demand of governmental administration.

***System management technology.*** Our system management technology includes our Operational Support Systems, or OSS, and Business Support Systems, or BSS. OSS primarily deals with supporting processes such as maintaining inventory, providing services, configuring components, security, monitoring service quality and managing faults. BSS typically deals with customer supporting processes, such as taking orders, processing bills and collecting payments.

**Intelligent Traffic Reduction Technology.** Our Intelligent traffic reduction technology, known as ITR, can deliver the same content over a mobile network with significantly less data transmitted than the same content delivered to a PC.

**Mobile Internet Technology.** In mid-2013, we started pilot testing to extend our caching solution from the core network level into radio base stations, and for some content, we aim to eventually be able to deliver directly to mobile devices. We call this solution “mobile Content-aware Network”, or mCaN. It is a multi-layer caching solution, through which we can cache different content in different network layers, and best utilize network resources. In July 2013, we signed a frame work agreement with Altobridge, to deliver multi-layered technology solutions for mobile internet content delivery. Traditionally, content delivery network, or CDN, provides caching for a single network layer, but the technology we developed in joint efforts with Altobridge enables caching of data on all three layers of the network. In 2015, our mobile acceleration solutions evolved to MPlus, a smart system conglomerating abilities of network awareness, terminal awareness and application awareness.

**Multiple purpose cloud hosting.** Stemmed from cache system’s underlying storage module, we gradually rebuilt the storage components into a KV schemed multiple hosts clusters with flexible deployment choices: either with dedicated storage server or cohabitated with our cache systems. This storage becomes a vital building block for our customer source solutions, caching systems, and big data solutions.

## Research and Development

We believe that the continual development of our technology will be vital to maintaining our long-term competitiveness. Therefore, we intend to continue to devote a significant amount of time and resources to carrying out our market-oriented research and development efforts.

Our internal research and development team consisted of 271 engineers as of December 31, 2017, representing approximately 44% of our staff. Our senior management team leads our research and development efforts and sets strategic initiatives to improve our services and products, focusing on efforts to sustain our technology leadership, raise our productivity and enhance the competitiveness of our services. We send selected engineers in China to our research and development center in Silicon Valley for training purposes. Our North America research and development center in Silicon Valley focuses on developing our next-generation content-aware network services and provide additional resources for our North American customers. It allows us to maintain close communications with international clients and also strengthens our ability to provide services overseas while also supporting the international business development goals of Chinese companies. This research and development center’s research works mainly focus on technological developments in mobile internet, cloud hosting service and network safety and reliance.

We instituted our ChinaCache Engineering Process to increase productivity and ensure a well-managed product lifecycle. Our ChinaCache Engineering Process is comprised of policies and procedures that facilitate the exchange of information, the collaboration of research and development activities and joint development of new services and solutions among our different divisions. With the implementation of these policies and procedures, we increase the marketability of new services and solutions, and lower the costs of developing new technologies by reducing duplicated research efforts.

#### Intellectual Property

As of December 31, 2017, we have 55 patents issued by, and three PRC patent applications the State Intellectual Property Offices of China, and two U.S. patents issued by the U.S. Patent and Trademark Office, all relating to different aspects of content and application delivery service technologies. In addition, we have 23 PRC software copyright registrations relating to media streaming services, operation support systems, caching services and dynamic content services. We also have 56 trademark registrations issued by the Trademark Bureau of the State Administration for Industry and Commerce, now the State Intellectual Property Office under the State Administration for Market Regulation, covering our company name, logo and service.



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

## Sales and Marketing

We have both domestic and international sales and marketing teams. Our domestic sales and marketing team is primarily based in four regions in China, namely, Beijing, Shanghai and Guangzhou and Shenzhen. We also have overseas sales offices in Hong Kong, U.S. and Europe for international business. We sell our services and solutions through our direct sales force and, to a lesser extent, sale agencies. We up-sell and cross-sell our broad portfolio of services and solutions to our existing customer base. We actively market our portfolio of services and solutions through our sales personnel. In addition, in an effort to better anticipate and respond to our customers' needs, we require and foster the collaborations among our sales teams, product development teams and research and development teams to develop additional services and solutions that meet the needs of our customers.

Up to December 31, 2017, we have nine sales units, with each of these sales units providing our services to a particular type of customers. These ten sales units are (1) North China sales unit, (2) East China sales unit, (3) South China sales unit, (4) government sales unit, (5) key account sales unit, (6) key account development unit, (7) Asia sales unit, (8) North America sales unit and (9) Europe sales unit.

We also utilize a variety of other methods to raise awareness of our company, our services and our brand. We promote our technologies and solutions to different types of customers, especially mobile internet and enterprise customers, in various ways, such as customer activities, media publicity and online coverage. For example, we host and sponsor seminars, conferences and special events, such as our China CDN Summit and US-China Internet Strategy Summit, to raise our profile with potential customers. We also participate in events, such as Global and CDN Summit, Mobile World Congress and Global Internet Technology Conference, which are organized by third parties. Additionally, we collaborate with equipment vendors, software developers, internet solution providers and other companies to market our services. We release to the public various industry data and the China internet Report on a regular basis by collecting data from our CCIndex. We also market our company through social media, such as Weibo, WeChat and other mobile APPs. We have a special marketing team responsible for generating demand for our services and solutions and work with our other teams to secure new customers.

We also have a designated product marketing team, which mainly focuses on product definition and product analysis. It is also responsible for establishing and maintaining product quality monitoring system as well as leading the long term product strategy planning. Internally, this team supports and collaborates with sales, marketing and research and development teams to ensure seamless communication. Externally, it participates in promotion activities to enhance communications with customers.

## Competition

In China, we primarily compete with domestic content and application delivery service providers. Our primary domestic competitors include ChinaNetCenter, Dnion Technology, and 21Vianet, which acquired FastWeb in 2012, and Alibaba, which launched its Ali Cloud CDN commercial services in 2014 to offer third-party CDN services. In March 2015, Tencent also announced its launch of TencentCloud CDN. In addition, a number of small cloud hosting service companies also began to offer CDN services. We believe that the principal competitive factors affecting the content and application delivery services market include:

performance, as measured by response time and end-user experience;  
quality and reliability of services;  
network coverage and scale;  
technologies and network capabilities;  
price;  
industry knowledge;  
scope and range of service offering; and  
scalability and flexibility of platforms.

We believe that, rather than competing head-on with companies such as Tencent and Alibaba on pricing, we need to promote to customers our technical capability, quality of customer service, and flexibility of our product offering built on 3-tier internet infrastructure

We believe that there will be no foreign competitors with a significant presence in the content and application delivery services market in China in the near future, partly due to the regulatory barriers in China's telecommunications sector. However, as China represents a potentially lucrative market for foreign competitors, some foreign providers may seek to enter the China market by way of collaboration with local CDN and IDC players. We believe that we are one strong candidate for such partnership with potential international new entrants into the China market. We have accumulated a deep understanding of the requirements of China's content and application delivery services market through our extensive operational experience and have developed a comprehensive suite of services and solutions tailored to the unique characteristics of the internet market in China.

## Regulation

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

As the content and application delivery industry is at an early stage of development in China, new laws and regulations may be adopted from time to time that will require us to obtain additional licenses and permits in addition to those that we currently have, and address new issues that arise from time to time. As a result, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to the content and application delivery services industry. See "Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China."

### *Regulations on Value-Added Telecommunications Business and Content and Application Delivery Business*

Our content and application delivery business is regarded as telecommunications services, which are primarily regulated by the MIIT, the Ministry of Commerce, and SAIC. Pursuant to the applicable PRC laws and regulations, telecommunications businesses are defined as the activities of delivering, transmitting or receiving voice, text, data, graphics and other form of information via wired or wireless electromagnetic systems or optoelectronic systems. Telecommunications businesses are divided into two categories under the Telecommunications Regulations, namely (i) the “basic telecommunications business,” which refers to the business of providing public network infrastructure, public data transmission and basic voice communications services, and (ii) “value-added telecommunications business,” which refers to the telecommunications and information services provided through the public network infrastructure.

In the Telecommunications Services Classification Catalogue 2015 version promulgated by MIIT in December 2015, the internet data service business and content and application delivery business is listed under the first category of the value-added telecommunications business. Pursuant to the Value-Added Telecommunications Business Operating License, or the VAT license, issued to Beijing Blue I.T. by the MIIT on February 7, 2018, Beijing Blue I.T. is permitted to carry out internet data center business (excluding internet resource coordination service), content delivery network business, domestic internet virtual private networks business and internet access service business under the first category of “value-added telecommunications business”.

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

Currently, Beijing Blue I.T. holds a Cross-Regional VAT license, issued by the MIIT with an effective term until September 18, 2022 under the first category of the “value-added telecommunications services.” As specified in this Cross-Regional VAT license, Beijing Blue I.T. is permitted to carry out (i) the internet data center business (excluding internet resource coordination service) across 16 cities in China; (ii) the content distribution network business throughout China; (iii) the domestic internet virtual private networks business across 20 cities in China; and (iv) the internet access business across 17 provinces in China. Beijing Blue I.T. also holds an ICP License with an effective term until January 3, 2023. Beijing Jingtian holds an ICP License with an effective term until July 9, 2019.

On January 17, 2017, the MIIT issued a Circular on Clearing up and Regulating the Internet Access Service Market, or Circular No. 32, aiming to regulate illegal operations in the field of internet data center (IDC) service, internet access (ISP) service and content delivery network (CDN) service businesses. In particular, the MIIT Circular No. 32 reiterates that an entity is prohibited from operating any of the IDC, ISP or CDN services without proper telecommunication business operation permit, or engaging in activities beyond the permitted business scope or permitted geographical scope specified on its operation permit, nor shall a qualified telecommunication business operator lease or transfer its qualification or resources to an unauthorized entity in the form of technology cooperation or in other disguised form. In addition, pursuant to the MIIT Circular No. 32, if an entity had obtained a VAT License for IDC service business prior to the implementation of the Catalog of Telecommunications Business (2015 Version) and has actually engaged in CDN service or internet resource coordination business, it must undertake in a written commitment to the issuing authority of its VAT License by March 31, 2017 that it will satisfy relevant requirements for CDN service or internet resource coordination service, as applicable, and obtain the corresponding VAT License by the end of 2017. If it fails to obtain the VAT License by the deadline, it must cease to operate the CDN service and internet resource coordination service business from January 1, 2018. If an entity fails to submit the aforesaid commitment by March 31, 2017, it shall be refrained from engaging in CDN service and internet resource coordination service since April 1, 2017. Beijing Blue I.T. had submitted the written commitment on March 30, 2017 in compliance with the relevant requirement and has obtained the relevant VAT License issued by the MIIT on September 18, 2017, subsequently as amended on February 7, 2018.

In February 2018, MIIT issued an internal notice, or the MIIT Internal Notice, pursuant to which telecommunication authorities will carry out a special enforcement campaign to inspect the operations of certain licensed telecommunications operators according to applicable regulations and rules, including without limitation, the Circular on Clearing Up and Regulatory the Internet Access Service Market issued by the MIIT in January 2017. In particular,

the authorities will pay special attention to any improper operational activities, such as unauthorized establishment of transmission network, unlicensed operation of cross-border business and improper sublease of broadband resources. If the enterprise is found to be engaged in non-compliant operations, it may be subject to various penalties, including suspension of network access, suspension of approving its application for new operation permit until rectification being completed, being publicized as an operator with discredit record or non-compliance record, enhanced oversight of the authority and limitation on new telecommunication business, depending on the seriousness of the violations and the rectification result. The MIIT Internal Notice mandates that the foregoing inspection and scrutiny to be completed by September 30, 2018. According to the MIIT Internal Notice, 47 industry players are subject to the special inspection, including one of our VIEs, Beijing Blue I.T. As of the date of this annual report, we have not received any investigation notice or rectification order from the government authorities. We are closely communicating with the in-charge authority to clarify the above.

## Regulations on Internet Information Services

Beijing Blue I.T. operates one website, [www.chinacache.com](http://www.chinacache.com), to provide information related to its business. Internet information services in China are primarily regulated by the MIIT. Pursuant to the applicable regulations, to engage in commercial internet information services, the service providers shall obtain a VAT license for internet information services, or an “ICP License.” Beijing Blue I.T. holds an ICP License, issued by the Beijing Telecommunications Administration Department, with an effective term until January 3, 2023. Beijing Blue I.T.’s ICP License permits it to carry out commercial internet information services. Beijing Jingtian also has an ICP License issued by Beijing Telecommunications Administration Department, effective until July 9, 2019.

The PRC government regulates and restricts internet content in China to protect state security and ensure the legality of the internet content. The National People’s Congress has enacted legislation that may subject to criminal punishment in China any person who: (i) gains improper entry into a computer or system of strategic importance; (ii) disseminates politically disruptive information; (iii) leaks state secrets; (iv) spreads false commercial information; or (v) infringes intellectual property rights. The Ministry of Public Security has also promulgated measures that prohibit use of the internet in ways that, among other things, result in a leakage of state secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection rights in this regard.

## Regulation on Internet Security

On November 7, 2016, the Standing Committee of the National People’s Congress promulgated the Cyber Security Law, which became effective on June 1, 2017. In accordance with the Cyber Security Law, internet operators must set up internal security management systems and take technical and other necessary measures as required by applicable laws and regulations to safeguard the operation of networks, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data. In addition, the Cyber Security Law requires internet operators to make emergency response plans for cyber security incidents and report to the competent governmental departments once any incident endangering cyber security occurs.

In September 2016, the General Office of MIIT issued the Trial Administration Measures on the Use and Operation Maintenance of Internet Information Security Management System. According to these measures, internet operators that are engaged in the internet data center, internet access and content and application delivery businesses must set up and maintain an internet information security management system. By using the internet information security management system, such internet operators are obligated to monitor the information they transmit and take timely measures in relation to any illicit content. Furthermore, such internet operators are also obligated to report security incidents to the authorities and accept their inspection.

Beijing Blue I.T. has already established an internet information security management system pursuant to applicable laws and regulations.

On May 2, 2017, the Cyberspace Administration of China issued the Measures on Security Review of Network Products and Services (for Trial Implementation) which went into effect on June 1, 2017. According to these Measures, important network products and services purchased by networks and information system concerning national security and network products and services purchased by operators in certain key industries and sectors relating to public services and infrastructure or critical information infrastructure in connection with national security are subject to cybersecurity review. The detailed scope of network products and services subject to security review will be determined by the relevant critical information infrastructure protection authority.

In November 2017, MIIT promulgated the Circular on Regulating the Use of Domain Names for Internet Information Services, which became effective on January 1, 2018. Pursuant to this circular, the ISP service provider shall verify the identity of each internet information service provider. If the internet information service provider fails to provide its true and accurate identity information, the ISP service provider shall not provide ISP services to it. In addition, the ISP service provider shall regularly check the status of domain names used by the internet information service providers, and if relevant domain name is invalid and the real identity information of the user is absent, it shall cease providing ISP services.



## Regulations on Foreign Investment in Telecommunications Enterprises

The PRC government imposes limitations on foreign ownership of PRC companies that engage in telecommunications-related business. Under the Administrative Rules for Foreign Investments in Telecommunications Enterprises, a foreign investor is currently prohibited from owning more than 50% of the equity interest in a PRC company that engages in value-added telecommunications business. The Guidance Catalog of Industries for Foreign Investment amended in 2017 and Circular of the Ministry of Industry and Information Technology on Removing the Restrictions on Shareholding Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operating E-commerce) Business, or Circular 196 promulgated by MIIT in June 2015 allows a foreign investor to own more than 50% of the total equity interest in an E-Commerce business.

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

We conduct our businesses in China primarily through two sets of contractual arrangements. In this regard, we have contractual arrangements with Beijing Blue I.T. and Beijing Jingtian and their respective shareholders. Beijing Blue I.T. holds a Cross-Regional VAT license and currently owns all necessary trademarks and domain names in connection with our business covered by its VAT license. In the opinion of Han Kun Law Offices, our PRC legal counsel, each of the currently effective documents under the VIE arrangements among us, our PRC subsidiary, PRC consolidated variable interest entities and their shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities may not in the future take a view that is contrary to the above opinion of our PRC legal counsel. If the PRC government finds that the arrangements that establish the structure for operating our business do not comply with PRC law and regulations restricting foreign investment in the telecommunications business, we could be subject to severe penalties.

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

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

SAFE issued SAFE Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, that became effective in July 2014, replacing the previous SAFE Circular 75. SAFE Circular 37 regulates foreign exchange matters in relation to the use of special purpose vehicles, or SPVs, by PRC residents or entities to seek offshore investment and financing or conduct round trip investment in China. Under SAFE Circular 37, a SPV refers to an offshore entity established or controlled, directly or indirectly, by PRC residents or entities for the purpose of seeking offshore financing or making offshore investment, using legitimate onshore or offshore assets or interests, while "round trip investment" refers to direct investment in China by PRC residents or entities through SPVs, namely, establishing foreign-invested enterprises to obtain the ownership, control rights and management rights. SAFE Circular 37 provides that, before making contribution into an SPV, PRC residents or entities are required to complete foreign exchange registration with SAFE or its local branch. In addition, SAFE issued Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies, or SAFE Circular 13, which became effective on June 1, 2015. SAFE Circular 13 provides that the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment will be directly reviewed and handled by banks, cancelling the administrative examination and approval procedure.

PRC residents or entities who had contributed legitimate onshore or offshore interests or assets to SPVs but had not obtained SAFE registration before the implementation of the SAFE Circular 37 must register their ownership interests or control in the SPVs with SAFE or its local branch. An amendment to the registration is required if there is a material change with respect to the SPV registered, such as any change of basic information (including change of the PRC residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, and mergers or divisions. Failure to comply with the registration procedures set forth in SAFE Circular 37, or making misrepresentation on or failure to disclose controllers of the foreign-invested enterprise that is established through round-trip investment, may result in restrictions being imposed on the foreign exchange activities of the relevant foreign-invested enterprise, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate, and the capital inflow from the offshore parent, and may also subject relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations.

We are aware that our PRC resident beneficial owners subject to these SAFE registration requirements have registered with the Beijing SAFE branch and will amend the registration to reflect the recent changes to our corporate structure. However, we cannot assure you that our current and future beneficial owners who are PRC residents will continue to comply with Circular 37; nor can we assure you that there will not be further filing or registration requirements imposed by the PRC government concerning ownership in foreign companies of PRC residents. See “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China— PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners to personal liability and limit our ability to acquire PRC companies or to inject capital into our PRC subsidiary, limit our PRC subsidiary’s ability to distribute profits to us, or otherwise materially and adversely affect us.”

#### Regulations on Employee Stock Options Granted by Listed Companies

Pursuant to the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or the Stock Option Rules, which was promulgated by SAFE in February 2012, PRC individuals who are granted shares or share options under a share incentive plan of a company listed on an overseas stock exchange are required to register with the SAFE or its local counterparts. Pursuant to the Stock Option Rules, PRC residents participating in the employee stock option plans of the overseas listed companies shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plans on behalf of these participants. Such participant must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests and fund transfer. In addition, the PRC agents are required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent, the overseas entrusted institution or other material change. The PRC agents or the employers shall, on behalf of the PRC residents who have the right to exercise the employee stock options, apply annually to SAFE or its local offices for a quota for the conversion and/or payment of foreign currencies in connection with the domestic individuals’ exercise of the employee stock options. The foreign exchange proceeds received by the PRC residents from sale of shares under the stock option plans granted by the overseas listed companies must be

remitted into the bank accounts in China opened by the PRC agents. In addition, the PRC agents shall file with SAFE or its local branches each quarter a form in relation to the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies.

On October 16, 2008, May 22, 2009, May 28, 2010 and June 20, 2011, we adopted our 2007, 2008 and 2010 Stock Incentive Plans and our 2011 Share Incentive Plan, respectively. Pursuant to these four plans, we issue employee stock options to our qualified employees and directors on a regular basis. In the application documents filed with the Beijing office of the State Administration of Foreign Exchange in connection with the registration of Mr. Song Wang's and Ms. Jean Xiaohong Kou's overseas investment in ChinaCache Holdings, it was indicated that approximately 7% of the share capital of ChinaCache Holdings are reserved for the employee stock options and service incentive shares. As of the date of this annual report, we have granted employee stock options and incentive shares within the scope noted in the application documents which were filed with the Beijing office of the State Administration of Foreign Exchange. After our initial public offering, we have advised our employees and directors participating in the Stock Incentive Plan to handle foreign exchange matters in accordance with the relevant SAFE rules. We have registered our 2007 Stock Incentive Plan, 2008 Stock Incentive Plan, 2010 Stock Incentive Plan and 2011 Share Incentive Plan with Beijing branch of SAFE. The failure of our PRC stock options holders to complete their registration pursuant to Stock Option Rules and other foreign exchange requirements may subject us or our PRC stock options holders to fines and legal sanctions.

Further, a notice concerning the individual income tax on earnings from employee stock options, jointly issued by the Ministry of Finance and the SAT, provides that domestic companies that implement employee share option programs shall (1) file the employee share option plans and other relevant documents to the local tax authorities having jurisdiction over them before implementing such employee share option plans; and (2) file share option exercise notices and other relevant documents to the local tax authorities having jurisdiction over them before exercise by the employees of the share options, and clarify whether the shares issuable under the employee share options mentioned in the notice are the shares of publicly listed companies.

#### M&A Regulations and Overseas Listings

The M&A Rules, effective on September 8, 2006 and as amended subsequently, include provisions that purport to require an offshore "special purpose vehicle" to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. Under the M&A Rules, "special purpose vehicle" is defined as an offshore company directly or indirectly controlled by PRC domestic companies or individuals for the purposes of listing the equity interest in PRC companies on overseas stock exchanges. On September 21, 2006, the CSRC published on its official website the procedures regarding its approval of overseas listings by special purpose vehicles. The approval procedures require the filing of a number of documents and would take several months. However, it remains unclear whether the M&A Rules and the requirement of the CSRC approval apply. Up to the date of this annual report, the CSRC has not issued any rules or written interpretation clarifying whether offerings like our initial public offering are subject to this new procedure.

Our PRC legal counsel, Han Kun Law Offices, has advised us that the M&A Rules do not require an application to be submitted to the CSRC for its approval of the listing and trading of the ordinary shares on the Nasdaq Global Market, given that we have completed our restructuring in all material respects prior to the effective date of the M&A Rules,

and that ChinaCache Beijing was established in 2005 through new incorporation rather than acquisition of any equity or assets of a “PRC domestic company” as defined under the M&A Rules and no explicit provision in the M&A Rules classifies the contractual arrangements as a type of transaction falling under the M&A Rules.

#### Regulations on Foreign Currency Exchange

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

On February 28, 2015, the SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment, or SAFE Circular 13. After SAFE Circular 13 became effective on June 1, 2015, instead of applying for approvals regarding foreign exchange registrations of foreign direct investment and overseas direct investment from SAFE, entities and individuals will be required to apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of the SAFE, will directly examine the applications and conduct the registration.

In March 2015, SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises, or SAFE Circular No. 19, which effected as of June 1, 2015. SAFE Circular No. 19 provides that, among other things, a foreign-invested company may convert foreign currency capital in its capital account into RMB on a “at will” basis. On June 9, 2016, SAFE promulgated the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular No. 16, to further expand and strengthen such “at will” conversion reform under SAFE Circular No. 19. SAFE Circular No. 16 provides an integrated standard for conversion of foreign exchange under capital account items on an “at will” basis which applies to all enterprises registered in the PRC. Pursuant to SAFE Circular No. 16, in addition to foreign currency capital, enterprises registered in the PRC may also convert their foreign debts, as well as repatriated funds raised through overseas listing, from foreign currency to RMB on an “at will” basis. SAFE Circular No. 16 reiterates that the RMB funds so converted shall not be used for the purpose of, whether directly or indirectly, (i) paying expenditures out of the ordinary course of business or prohibited by laws or regulations; (ii) making securities investment or other investments (except for banks’ principal-secured products); (iii) extending loans to non-affiliated enterprises (except as expressly permitted in the business license); and (iv) purchasing non-self-used real properties (except for real estate enterprises).

#### Regulations on Dividend Distribution

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

#### Regulations on Transfer of Real Estate Properties

According to applicable PRC laws and regulations when a property owner transfers a building, the ownership of the building and the land use right associated with the site on which the building is situated are transferred simultaneously. Pursuant to the applicable regulations, with respect to the transfer of land use right and ownership of the above-ground buildings, the parties must enter into a transfer contract in writing and register the transfer with the

relevant property administration authority within 90 days of the execution of the transfer contract. If the land is divided into several parcels during the transfer and the transferee will obtain a separate land use right certificate for each parcel of the land so divided, the transfer of land use right and the relevant transfer of the above-ground building must be approved by the relevant land and housing administration departments of relevant municipal or county level governments.

On October 8, 2010, the Beijing Municipal Bureau of Land and Resources issued the Notice on Further Strengthening the Administration of Research and Development Projects and Industrial Projects. Pursuant to the notice, application for transfer of an industrial project must be submitted to Beijing Municipal Commission of Housing and Urban-Rural Development, which will, after preliminary review together with other relevant administrative departments, submit the application to the People's Government of Beijing Municipality for final approval.



## Regulations on Tax

For a discussion of applicable PRC tax regulations, see “Item 5. Operating and Financial Review and Prospects — A. Operating Results — Taxation — PRC.”

## C. Organizational Structure

The following diagram sets out details of our subsidiaries and consolidated variable interest entities as of the date of this annual report:

## Contractual Arrangements with Our Consolidated Variable Interest Entities

PRC laws and regulations currently restrict foreign ownership of telecommunications value-added services, including content and application delivery services. 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, ChinaCache Beijing, is a foreign-invested enterprise. To comply with PRC laws and regulations, we conduct our operations in China through a series of contractual arrangements with Beijing Blue I.T. and Beijing Jingtian, and their respective shareholders. Beijing Blue I.T. is currently 55% owned by Song Wang, our co-founder, chairman of our board of directors, our chief executive officer and our shareholder, and 45% owned by Jean Xiaohong Kou, our co-founder, director, senior vice president and our shareholder. Beijing Jingtian is 50% owned by Ms. Huiling Ying, and 50% owned by Mr. Lei Wang, who replaced the previous shareholder and became a shareholder of Beijing Jingtian in July 2013. All current shareholders of Beijing Blue I.T. and Beijing Jingtian are PRC citizens and accordingly these two entities are domestic companies under the PRC laws.

We have been and are expected to continue to rely on our consolidated variable interest entities to operate our content and application delivery business in China as long as PRC laws and regulations do not allow us to directly operate such business in China. Our contractual arrangements with Beijing Blue I.T. and Beijing Jingtian, and their respective shareholders enable us to:

- exercise effective control over Beijing Blue I.T. and Beijing Jingtian;
- receive substantially all of the economic benefits of Beijing Blue I.T. and Beijing Jingtian in consideration for the services provided by our subsidiaries in China, and incur substantially all the losses of Beijing Blue I.T. and Beijing Jingtian; and
- have an exclusive option to purchase all of the equity interest in Beijing Blue I.T. and Beijing Jingtian when and to the extent permitted under PRC law.

Accordingly, under U.S. GAAP, we consolidate Beijing Blue I.T. and Beijing Jingtian as our “variable interest entities” in our consolidated financial statements.

Our contractual arrangements with our consolidated variable interest entities and their shareholders are described in further detail as follows:

### Agreements that Provide Us Effective Control

**Share Pledge Agreements.** Pursuant to the share pledge agreements entered into on September 23, 2005 and supplemented on December 19, 2016 among ChinaCache Beijing, each shareholder of Beijing Blue I.T. and Beijing Blue I.T., each shareholder pledged his or her equity interest in Beijing Blue I.T. to ChinaCache Beijing to secure Beijing Blue I.T.'s obligations under the exclusive business cooperation agreement with ChinaCache Beijing. Each shareholder also agreed not to transfer or create any new encumbrance adverse to ChinaCache Beijing on his or her equity interest in Beijing Blue I.T. without the prior written consent of ChinaCache Beijing. During the term of the share pledge agreement, ChinaCache Beijing is entitled to all the dividends declared on the pledged equity interest. If Beijing Blue I.T. fails to perform its contractual obligations, ChinaCache Beijing, as pledgee, will be entitled to certain rights, including the right to take possession and to dispose of the pledged equity interest. The share pledge agreements shall terminate once Beijing Blue I.T. fulfilled its obligations under the principal agreements between ChinaCache Beijing and Beijing Blue I.T., including the full payment of consulting and service fees and license fees under the principal agreements.

Pursuant to the share pledge agreement entered into on December 3, 2012 among ChinaCache Beijing, Ms. Huiling Ying and Beijing Jingtian, which superseded the share pledge agreements entered into on July 31, 2008 and the share pledge agreement entered into on July 1, 2013 among ChinaCache Beijing, Mr. Lei Wang and Beijing Jingtian, each shareholder of Beijing Jingtian pledged his or her equity interest in Beijing Jingtian to ChinaCache Beijing to secure Beijing Jingtian's obligations under the exclusive business cooperation agreement with ChinaCache Beijing. The other terms of the share pledge agreements are substantially the same as those of the share pledge agreements between ChinaCache Beijing, each shareholder of Beijing Blue I.T. and Beijing Blue I.T.

We have registered the pledges of the equity interests in Beijing Blue I.T. and Beijing Jingtian with the local counterpart of SAIC.

***Irrevocable Power of Attorney.*** Each shareholder of Beijing Blue I.T. executed an irrevocable power of attorney on September 23, 2005, which was superseded by an irrevocable power of attorney executed by such shareholder of Beijing Blue I.T. on December 19, 2016 appointing ChinaCache Beijing or a person designated by ChinaCache Beijing as his or her attorney-in-fact to attend shareholders' meetings of Beijing Blue I.T. and to vote on his or her behalf on all matters requiring shareholder approval, including but not limited to, the sale, transfer, pledge, or disposition of his or her shareholding in Beijing Blue I.T. The power of attorney remains valid and irrevocable from the date of its execution, so long as he or she remains the shareholder of Beijing Blue I.T.

Pursuant to the irrevocable power of attorney entered into on July 31, 2008 by Ms. Huiling Ying and on July 1, 2013 by Mr. Lei Wang, each shareholder of Beijing Jingtian appointed ChinaCache Beijing or a person designated by ChinaCache Beijing as his or her attorney-in-fact to attend shareholders' meetings and to vote on his or her behalf on all matters requiring shareholder approval. These powers of attorneys are substantially the same as those granted by each of the shareholders of Beijing Blue I.T. to ChinaCache Beijing. On May 10, 2010, the board of directors and the shareholders of ChinaCache Beijing each approved resolutions whereby, among other things, all shareholder rights that ChinaCache Beijing has in Beijing Blue I.T. pursuant to the irrevocable powers of attorney executed by the shareholders of Beijing Blue I.T. on September 23, 2005, and all shareholder rights that ChinaCache Beijing has in Beijing Jingtian pursuant to the irrevocable powers of attorney executed by the shareholders of Beijing Jingtian on July 31, 2008, were re-assigned to ChinaCache Beijing's shareholders or a party designated by ChinaCache Beijing's shareholders.

***Exclusive Option Agreements.*** On September 23, 2005, ChinaCache Holdings entered into exclusive option agreements with Beijing Blue I.T. and each of its two shareholders, Mr. Song Wang and Ms. Jean Xiaohong Kou. Such agreements were amended and supplemented on May 10, 2010 and superseded by the exclusive option agreements entered into by and among ChinaCache Holdings, Beijing Blue I.T. and each of its two shareholders on January 20, 2016 and further superseded by the exclusive option agreements entered into by and among ChinaCache Holdings, Beijing Blue I.T. and each of its two shareholders on December 19, 2016. Pursuant to these agreements, the shareholders irrevocably granted ChinaCache Holdings or its designated representative an exclusive option to purchase, when and to the extent permitted under PRC law, all or part of the equity interest in Beijing Blue I.T. The consideration in excess of the outstanding loan amount when received by the shareholders upon the exercise of the exclusive option is required to be remitted to ChinaCache Beijing in accordance with PRC law. The shareholders must remit any funds received from Beijing Blue I.T. to ChinaCache Beijing in the manner permitted under PRC law, in the event that any distributions are made by Beijing Blue I.T. pursuant to any written consents by ChinaCache Holdings. ChinaCache Holdings or its designated representative has sole discretion to decide when to exercise the option and whether in part or in full. The term of these agreements is 10 years and will expire on December 19, 2026. The agreements may be renewed for an additional 10 years at ChinaCache Holdings' sole discretion, and the times of such renewals are unlimited.

On December 3, 2012, ChinaCache Beijing entered into an exclusive option agreement with Beijing Jingtian and Ms. Huiling Ying, which superseded the exclusive option agreements entered into on July 31, 2008 and their supplementary agreements entered into on May 10, 2010. On July 1, 2013, ChinaCache Beijing entered into an exclusive option agreement with Beijing Jingtian and Mr. Lei Wang. Pursuant to the exclusive option agreements, the shareholders irrevocably granted ChinaCache Beijing or its designated representative an exclusive option to purchase, to the extent permitted under PRC law, all or part of the equity interest in Beijing Jingtian. ChinaCache Beijing has sole discretion to decide when to exercise the option and whether in part or in full. The term of these exclusive option agreements is 10 years. The term of the agreements may be renewed at ChinaCache Beijing's sole discretion. Other terms of the exclusive purchase option agreement with Beijing Jingtian are substantially the same as those of the agreement between ChinaCache Holdings and Beijing Blue I.T.

Agreements that Transfer Economic Benefits to Us or Absorb Losses

***Exclusive Business Cooperation Agreement.*** Pursuant to the exclusive business cooperation agreement between ChinaCache Beijing and Beijing Blue I.T. entered into on September 23, 2005, ChinaCache Beijing agreed to provide Beijing Blue I.T. with exclusive business support and technical and consulting services, including technical services, business consultations, intellectual property licensing, equipment or property leasing, marketing consultancy, system integration, research and development, and system maintenance in return for fees determined at the sole discretion of ChinaCache Beijing. Beijing Blue I.T. agreed that it will not accept any consultation or services provided by any third party without ChinaCache Beijing's prior written consent. ChinaCache Beijing is entitled to have exclusive and proprietary rights and interests to any intellectual properties or technologies arising out of or created during the performance of this agreement. Pursuant to the exclusive business cooperation agreement, ChinaCache Beijing and Beijing Blue I.T. entered into the exclusive technical consultation and training agreement and exclusive technical support and service agreement (both described below), under which service fees are paid by Beijing Blue I.T. to ChinaCache Beijing. The initial term of the exclusive business cooperation agreement is 10 years and it was extended for another ten years upon ChinaCache Beijing's written confirmation on September 20, 2015, which will expire on September 23, 2025. Prior to this agreement's and subsequent agreements' expiration dates, ChinaCache Beijing can at its sole discretion renew at a term of its choice through written confirmation.

The exclusive business cooperation agreement dated July 31, 2008 between ChinaCache Beijing and Beijing Jingtian contains terms substantially similar to those of the exclusive business cooperation agreement between ChinaCache Beijing and Beijing Blue I.T.

***Exclusive Technical Consultation and Training Agreement.*** On September 23, 2005, ChinaCache Beijing and Beijing Blue I.T. entered into an exclusive technical consultation and training agreement. Under this agreement, ChinaCache Beijing agreed to provide Beijing Blue I.T. with evaluation and analysis of Beijing Blue I.T.'s research and development system, process and results of operations, and training service. In return, Beijing Blue I.T. agreed to pay ChinaCache Beijing service fees determined at the sole discretion of ChinaCache Beijing. Beijing Blue I.T. agreed that it will not accept any consultation or services provided by any third party without ChinaCache Beijing's prior written consent. ChinaCache Beijing is entitled to have exclusive and proprietary rights and interests arising out of or created during the performance of this agreement, whether by ChinaCache Beijing or Beijing Blue I.T., including but not limited to, patent, copyright, and know-how property. The initial term of this agreement was five years and it was extended for another five years upon ChinaCache Beijing's written confirmation in September 2010 and was extended again for another five years upon ChinaCache Beijing's written confirmation on September 20, 2015 which will expire on September 23, 2020. The term can be extended at the sole discretion of ChinaCache Beijing by written notice prior to the expiration of the term, and the extended term shall be determined by ChinaCache Beijing.

***Exclusive Technical Support and Service Agreement.*** Pursuant to the exclusive technical support and service agreement between ChinaCache Beijing and Beijing Blue I.T., entered into on September 23, 2005, ChinaCache Beijing has the exclusive right to provide Beijing Blue I.T. with technical support and services, including but not

limited to, research and development of technology, daily maintenance, monitoring, testing and malfunction resolution of Beijing Blue I.T.'s equipment, and consultation on Beijing Blue I.T.'s network equipment, products and software. In return, Beijing Blue I.T. agreed to pay ChinaCache Beijing service fees determined at the sole discretion of ChinaCache Beijing. Beijing Blue I.T. agreed that it will not accept any consultation or services provided by any third party without ChinaCache Beijing's prior written consent. ChinaCache Beijing is entitled to have exclusive and proprietary rights and interests arising out of or created during the performance of this agreement, whether by ChinaCache Beijing or Beijing Blue I.T., including but not limited to, patent, copyright, and know-how property. The initial term of this agreement was five years and it was extended for another five years upon ChinaCache Beijing's written confirmation in September 2010 and was extended again for another five years upon ChinaCache Beijing's written confirmation on September 20, 2015 which will expire on September 23, 2020. The term can be extended solely by ChinaCache Beijing by written notice prior to the expiration of the term, and the extended term shall be determined by ChinaCache Beijing.

***Equipment Leasing Agreement.*** Under the equipment leasing agreement between ChinaCache Beijing and Beijing Blue I.T. dated September 23, 2005, ChinaCache Beijing agreed to lease its equipment to Beijing Blue I.T. and Beijing Blue I.T. agreed to pay the rent within five business days of the first month of each quarter. Beijing Blue I.T. can only use the equipment to conduct business according to its authorized business scope. The initial term of this agreement was five years. The agreement may be renewed at ChinaCache Beijing's sole discretion. The agreement was extended for another five years upon ChinaCache Beijing's written confirmation in September 2010 and was extended again for another five years upon ChinaCache Beijing's written confirmation on September 20, 2015 which will expire on September 23, 2020. The term can be extended solely by ChinaCache Beijing by written notice prior to the expiration of the term, and the extended term shall be determined by ChinaCache Beijing.

**Loan Agreements.** Each shareholder of Beijing Blue I.T. entered into a loan agreement on September 23, 2005 and a supplementary agreement on May 10, 2010 with ChinaCache Holdings. Pursuant to these agreements, ChinaCache Holdings provided an interest-free loan facility of RMB5.5 million and RMB4.5 million, respectively, to the two shareholders of Beijing Blue I.T., Mr. Song Wang and Ms. Jean Xiaohong Kou, for the purpose of providing capital to Beijing Blue I.T. to develop its business. In addition, ChinaCache Holdings also agreed to provide continuous financial support to the shareholders of Beijing Blue I.T. to be used for the operations of Beijing Blue I.T. The term of the loan agreement is ten years and it was extended for another ten years upon the contracting parties' written confirmation on September 20, 2015, which will expire on September 23, 2025. The term of the loan agreement may be extended upon mutual written consent of the parties. On January 20, 2016, each shareholder of Beijing Blue I.T. entered into another loan agreement with ChinaCache Holdings. Pursuant to these agreements, ChinaCache Holdings provided an interest-free loan facility of RMB5.5 million and RMB 4.5 million, respectively, to the two shareholders of Beijing Blue I.T., Mr. Song Wang and Ms. Jean Xiaohong Kou, for the purpose of subscribe for the capital increase of Beijing Blue I.T. The term of the loan agreement is ten years and expires on January 20, 2026. The term of the loan agreement may be extended upon mutual written consent of the parties. On December 19, 2016, each shareholder of Beijing Blue I.T. entered into another loan agreement with ChinaCache Holdings. Pursuant to these agreements, ChinaCache Holdings provided an interest-free loan facility of RMB11 million and RMB9 million, respectively, to the two shareholders of Beijing Blue I.T., Mr. Song Wang and Ms. Jean Xiaohong Kou, for the purpose of purchasing the increased capital of Beijing Blue I.T. The term of the loan agreement is ten years and expires on December 19, 2026. The term of the loan agreement may be extended upon mutual written consent of the parties. In each loan agreement, the method of repayment shall be at the sole discretion of ChinaCache Holdings and the proceeds from the transfer of the shareholder's equity interest in Beijing Blue I.T. to ChinaCache Holdings or another person designated by ChinaCache Holdings as permitted under PRC law shall be used to repay the loan. The shareholders shall repay the loans immediately upon certain events, including the shareholder leaving our employment, a third-party filing a claim against the shareholder which exceeds RMB100,000 or ChinaCache Holdings exercising its option to purchase the shareholder's equity interest in Beijing Blue I.T. pursuant to the exclusive option agreement described above. Each loan agreement contains a number of covenants that restrict the actions the shareholders can take or cause Beijing Blue I.T. to take. For example, these covenants provide that the shareholder will:

- not transfer, pledge or otherwise dispose of or encumber his or her equity interest in Beijing Blue I.T. without the prior written consent of ChinaCache Holdings;
- not take any action without the prior written consent of ChinaCache Holdings, if such action will have a material impact on the assets, business and liabilities of Beijing Blue I.T.;
- not vote for, or execute any resolutions to approve, any merger or consolidation with any person, or any acquisition of or investment in any person by Beijing Blue I.T. without the prior written consent of ChinaCache Holdings; and
- vote to elect the director candidates nominated by ChinaCache Holdings.

Ms. Huiling Ying and Ms. Xinxin Zheng, who were then shareholders of Beijing Jingtian, entered into a loan agreement on July 31, 2008, which was supplemented on May 10, 2010 and December 3, 2012 with ChinaCache Beijing. Pursuant to these agreements, ChinaCache Beijing provided an interest-free loan of RMB4,250,000 to Ms. Xinxin Zheng and Ms. Huiling Ying, as shareholders of Beijing Jingtian at that time, for their investment in the registered share capital of Beijing Jingtian. On July 1, 2013, as a result of a transfer by Ms. Xinxin Zheng of all her equity interests in Beijing Jingtian to Mr. Lei Wang. Ms. Zheng and Mr. Wang entered into a loan assignment agreement, pursuant to which all liabilities of Ms. Zheng under the previous loan agreements were assigned to and assumed by Mr. Wang. The other terms of these agreements are substantially the same as those of the loan agreement



and supplementary agreement between ChinaCache Holdings and the shareholders of Beijing Blue I.T. The term of these loan agreements is ten years from the date of execution. Such agreement can be extended upon mutual written consent of ChinaCache Beijing and two shareholders of Beijing Jingtian. ChinaCache Holdings also agreed to provide continuous financial support to the shareholders of Beijing Jingtian to be used for the operations of Beijing Jingtian and agreed to forego the right to seek repayment in the event that the shareholders of Beijing Jingtian are unable to repay such funding, to the extent permitted by PRC law.

In the opinion of Han Kun Law Offices, our PRC legal counsel, except as otherwise disclosed herein:

the ownership structure of our PRC subsidiary, our PRC consolidated variable interest entities and their branches and subsidiaries comply with all existing PRC laws and regulations;  
each and all of the currently effective documents under the VIE arrangements among us, our PRC subsidiary, PRC consolidated variable interest entities and their shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect; and  
the business operations of our PRC subsidiary, our PRC consolidated variable interest entities and their branches and subsidiaries are in all material respects in compliance with existing PRC laws and regulations and the terms of their licenses and permits.

We have been advised by our PRC legal counsel, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities, in particular the MIIT, which regulates providers of content and application delivery services and other participants in the PRC telecommunications industry, and the Ministry of Commerce, will not in the future take a view that is contrary to the above opinion of our PRC legal counsel. We have been further advised by our PRC legal counsel that if the PRC government finds that the agreements that establish the structure for operating our content and application delivery business in China do not comply with PRC government restrictions on foreign investment in the telecommunications industry, we could be subject to severe penalties including being prohibited from continuing our operations. See “Item 3. Key Information — D. Risk Factors — Risks Related to Our Corporate Structure—If the PRC government finds that the arrangements that establish the structure for operating our business do not comply with PRC government restrictions on foreign investment in the telecommunications business, we could be subject to severe penalties.” In addition, these contractual arrangements may not be as effective in providing us with control over Beijing Blue I.T. and Beijing Jingtian as would direct ownership of such entities. See “Item 3 Key Information — D. Risk Factors — Risks Related to Our Corporate Structure — We rely on contractual arrangements with Beijing Blue I.T. and Beijing Jingtian and their respective shareholders for our China operations, which may not be as effective as direct ownership in providing operational control.”

#### D. Property, Plants and Equipment

Our headquarters are located at Section A, Building 3, Dian Tong Creative Square, No. 7 Jiuxianqiao North Road, Chaoyang District, Beijing 100015, PRC, where we lease approximately 9,116 square meters of office space. As of December 31, 2017, our other offices in mainland China occupied an aggregate of 943 square meters of leased space, and we also leased an aggregate of 7,922 square feet in the U.S., London and Hong Kong. In addition, we owned two office buildings of, in aggregate, approximately 10,000 square meters in California, the U.S., to expand our research and development capacity and support our global operations. One of these two buildings is currently leased out.

We have paid RMB51.9 million to acquire land use right in relation to approximately 39,000 square meters of land in Tianzhu Comprehensive Bonded Zone in Beijing. See “Item 5. Operating and Financial Review and Prospects — B.

Liquidity and Capital Resources — Capital Expenditures.” In December 2014, we entered into agreements with BFSMC, pursuant to which we agreed to sell to BFSMC one of the data center buildings with construction areas of approximately 14,208 square meters, which has been constructed on the aforementioned land in the Tianzhu Comprehensive Bonded Zone. Under our framework agreement with BFSMC, we agreed to sell two buildings to a subsidiary of BFSMC through transferring the equity interest of our subsidiary Beijing Zhao Du, the owner of the buildings. In addition, we agreed to lease back the buildings from the subsidiary of BFSMC starting from an agreed earlier date. We also reached a supplemental company letter with BFSMC, pursuant to which we agreed that September 30, 2015 should be deemed as the date of delivery as long as we complete the actual delivery of the buildings as well as the equity transfer by December 31, 2016. If the equity transfer and other agreed procedures are completed on time, our liabilities shall be deemed fully discharged. However, BFSMC has not accepted the buildings by December 31, 2016 due to our disagreement with BFSMC on the standard of delivery and acceptance of the buildings. Therefore, we re-negotiated with BFSMC and reached a series of new agreements with BFSMC in July 2017. Pursuant to the new agreements, BFSMC agreed to make the payments of RMB105.6 million to us immediately upon the completion of equity transfer of Beijing Zhao Du. Although we have completed the transfer of the equity interest in Beijing Zhao Du and the ownership of the buildings in July 2017, BFSMC failed to make the payments of RMB105.6 million to us as agreed. We have filed a lawsuit with the court, claiming the payment of the outstanding amount of consideration and the interest accrued thereon in August 2017. In September 2017, BFSMC filed a counterclaim to sue for, among others, the late delivery penalties and other relating losses. Thereafter we filed a motion to dismiss BFSMC’s counterclaim arguing that the court does not have the jurisdiction. Management is of the view that these proceedings are at a preliminary stage, therefore it is impossible at this stage to properly evaluate the outcome. Therefore, no provision has been made for this case. In April 2018, we were notified by the court that our motion was rejected and Xin Run’s bank deposits and other assets in a total amount of approximately RMB 50.5 million were sealed up, distrained or frozen by the court. On April 24, 2018, we amended our claim requesting, among other things, the defendant pay the additional purchase price of RMB96 million, damages for breach of contract in an amount of RMB14.4 million and the relating interest of RMB8.86 million. In addition, in October 2017, a subsidiary of BFSMC filed a lawsuit against Xin Run in the Shunyi District Court of Beijing requesting Xin Run pay overdue rent and the relating interest in a total amount of approximately RMB30 million. We filed a motion to dismiss for lack of jurisdiction. However, the motion was rejected by the court and as a result, this lawsuit is still pending. Management is of the view that these proceedings are at a preliminary stage, therefore it is impossible at this stage to properly evaluate the outcome. Therefore, no provision has been made for this case. Please see “Item 8. Financial Information – A. Consolidated Statements and Other Financial Information – Legal Proceedings” for more information. In April 2014, we entered into a framework agreement with People.cn, pursuant to which we agreed to sell to People.cn one of the data center buildings to be constructed in the Tianzhu Comprehensive Bonded Zone. This building has been put into use. On December 29, 2017, Xin Run entered into a framework agreement with People.cn, under which, among others, Xin Run will transfer 100% equity interest in Beijing Shuoge Technology Co., Ltd. to People.cn subject to terms and conditions to be set forth in a definitive equity transfer agreement. We are still negotiating with People.cn on the terms of the equity transfer agreement and the final equity transfer agreement for the People.cn transfer will be effective when the requisite governmental approvals are obtained. In the event that we cannot successfully complete the sales of the data center building to People.cn, People.cn may demand their prepayment, which could have a material adverse impact on our cash position.

ITEM 4A.

UNRESOLVED STAFF COMMENTS

None.

ITEM 5.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion and analysis may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information — D. Risk Factors” or in other parts of this annual report on Form 20-F.*

A.

Operating Results

Key Factors Affecting Our Results of Operations

Our financial condition and results of operations are mainly affected by the following factors:

Number of active customers and customer mix

The number of active customers affects our revenues. We had approximately 2,169, 1,999 and 1789 active customers as of December 31, 2015, 2016 and 2017, respectively. Revenues from our top five customers accounted for 37.5%, 48.2% and 57.2% of our total net revenues in 2015, 2016 and 2017, respectively.

Our revenues are also affected by the composition of our customer base, which we refer to as customer mix. Our revenues in 2017 decreased as compared to that in 2016, mainly due to the interruption of our services we experienced caused by certain platform issues and intensified industry competition. We intend to attract and retain more high-value customers to increase our revenues and to maintain our margin at a stable level, meanwhile, we target gradual improvement in margins as our scale grow to stable and maintain an optimal level of customer mix.

## Selling price

We operate in a competitive market and we face pricing pressure for our services. We typically charge customers on a per-gigabit per-second basis for the bandwidth usage or per-gigabyte basis for traffic volume used. Prices for our services are affected by a variety of factors, including supply and demand conditions and pricing pressures from our competitors. In recent years, the selling prices for our services have declined. The price erosion was partially due to price discounts granted at the outset of the arrangement to customers with large contractual service commitments. Furthermore, increased competition has also caused price declines. We expect that we will continue experiencing pricing pressure in the future and thus we must reduce our cost of revenues to offset the price decline and to maintain and increase our gross profit.

## Cost reductions

Our ability to achieve and increase profitability depends on our ability to effectively reduce our cost of revenues. Our cost of revenues as a percentage of our total net revenues increased from 76.9% in 2015 to 102.2% in 2016, primarily as a result of the decrease of our total net revenues, and decreased to 91.7% in 2017, primarily as a result of improved bandwidth using efficiency. We plan to devote significant resources to enhancing the efficiency of our operations and further to improve our bandwidth usage. However, if we fail to effectively reduce our cost of revenues, our profitability and competitiveness will be adversely affected.

A significant component of our cost of revenues is the depreciation of our network equipment, which is related to our capital expenditures. We had capital expenditures of RMB417.8 million, RMB356.0 million and RMB162.8 million (US\$25.0 million) in 2015, 2016 and 2017, respectively. We make our investment decisions based upon evaluation of a number of factors, such as the amount of bandwidth and storage that our customers may demand, the cost of the physical network equipment required to meet such requirements and the forecasted capacity utilization of our network. If we over-estimate or under-estimate future demand for our services, our results of operations may suffer.

## Components of Results of Operations

### Revenues

In 2015, 2016 and 2017, we generated net revenues of RMB1,353.6 million, RMB1,054.2 million and RMB852.6million (US\$131 million), respectively.

Most of our revenues were derived from the sale of our content and application delivery total solutions to our customers. We typically charge customers on a per-gigabit per-second basis for the bandwidth usage or per-gigabyte basis for traffic volume used. Our customer service agreements generally commit the customers to a minimum level of usage and specify the rate that the customers must pay for actual usage above the minimum usage commitment. These agreements typically provide for a one-year term with a one-year renewal option.

The number of our active customers has decreased from 2,169 as of December 31, 2015 to 1,999 as of December 31, 2016 and further decreased to 1789 as of December 31, 2017. We categorize our customers into five industry groups: internet and software, mobile internet, media and entertainment, enterprises and e-commerce and government agencies. Due to the changing competition landscape, our sales to customers in the media and entertainment, internet

and software, mobile internet, enterprises and e-commerce industry groups fluctuated over time. During any given period, a relatively small number of customers typically accounts for a significant percentage of our total net revenues.

In September 2012, 6% of VAT, has replaced the original 5% business tax in Beijing as a result of the PRC government's pilot VAT reform program, and applied to all services provided by ChinaCache Beijing and Beijing Jingtian and certain services provided by Beijing Blue I.T. Effective from June 2014, all services provided by Beijing Blue I.T. fall within the scope of the pilot program on telecom industry, and revenues generated by these services are subject to VAT instead of business tax. Our revenues are presented net of such VAT taxes and related charges in the same period in which the related revenues are recognized.

## Cost of Revenues and Operating Expenses

The following table sets forth, for the periods indicated, our cost of revenues and operating expenses, in absolute amount and as a percentage of total net revenues:

	For the Year Ended December 31,						
	2015		2016		2017		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except percentages)						
Net Revenues							
Third party customers	1,353,627	100.0%	1,054,235	100.0%	852,568	131,037	100.00%
Total Net Revenues	1,353,627	100.0%	1,054,235	100.0%	852,568	131,037	100.00%
Cost of revenues <sup>(1)(2)</sup>							
Bandwidth, co-location and storage fees	793,498	58.6%	842,726	79.9%	681,134	104,688	80.0%
Depreciation of network equipment	133,854	9.9%	134,079	12.7%	9,244	1,421	1.08%
Payroll and other compensation costs of network operations personnel	81,309	6.0%	76,702	7.3%	56,455	8,677	6.6%
Other cost of revenues	32,751	2.4%	24,303	2.3%	34,989	5,378	4.1%
Total cost of revenues	1,041,412	76.9%	1,077,810	102.2%	781,822	120,164	91.70%
Other operating (income) loss	(13,911)	(1.0)%	19,044	1.8%	19,483	2,994	-2.28%
Operating expenses <sup>(1)</sup>							
Sales and marketing expenses	115,621	8.5%	93,603	8.9%	61,770	9,494	7.25%
General and administrative expenses	202,518	15.0%	256,007	24.3%	142,721	21,936	16.74%
Provision (recovery of provision) for doubtful accounts receivable	(3,892)	(0.3)%	9,010	0.8%	17,514	2,692	2.05%
Transaction tax on assets transfer	27,733	2.0%	—	—	—	—	—
Research and development expenses	103,110	7.6%	104,018	9.9%	81,748	12,564	9.59%
Impairment of long-lived assets	—	—	399,094	37.9%	21,757	3,344	2.12%
Impairment of long-term investments	—	—	18,240	1.7%	3,690	567	0.43%
Total operating expenses	445,090	32.8%	879,972	83.5%	329,200	50,597	38.17%

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

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	US\$ %
	(in thousands, except percentages)					



Allocation of share-based compensation expense										
Cost of revenues	3,670	7.6	%	5,961	7.0	%	490	75	4.5	%
Sales and marketing expenses	2,882	5.9	%	2,753	3.2	%	254	39	2.3	%
General and administrative expenses	38,796	79.8	%	72,483	85.3	%	9,631	1,480	88.1	%
Research and development expenses	3,258	6.7	%	3,828	4.5	%	562	86	5.1	%
Total share-based compensation expenses included in cost of revenues and operating expenses	48,606	100.0	%	85,025	100.0	%	10,937	1,680	100.0	%

(2) Includes amount to a related party of RMB0.1 million, nil and nil for the years ended December 31, 2015, 2016 and 2017, respectively.

### Cost of Revenues

Our cost of revenues primarily consists principally of the following:

- bandwidth, co-location and storage fees;
- depreciation of network equipment;
- payroll and other compensation costs of network operations personnel; and
- other cost and expenses that are directly attributable to the provisions of our content and application delivery total solutions.

Bandwidth, co-location and storage fees are the amounts we pay to purchase bandwidth usage, co-location services and data storage from telecommunications carriers or ISPs. For the years ended December 31, 2015, 2016 and 2017, 95%, 91% and 86%, respectively, of our bandwidth, co-location and data storage were purchased from three major PRC telecommunications carriers, China Telecom, China Mobile and China Unicom, through their respective subsidiaries and sale agents. Our agreements with the telecommunication carriers typically use a standard form provided by the carriers, with pricing terms individually negotiated with the carriers' local subsidiaries or sale agents. The agreements are typically of a one-year term with renewal options. We pay monthly service fees based on the number of internet gateways, bandwidth usage and the number of server clusters.

Depreciation of network equipment expenses primarily consists of the depreciation associated with our network servers and backbone. In April 2008, we entered into an agreement with Tong Zhen Networks Co., Ltd., an independent third party, pursuant to which we agreed to lease an optical fiber cable from Beijing to Hangzhou for a term of 20 years commencing from the date of the agreement. We have prepaid an aggregate amount of RMB13.1 million in rental fees for the entire 20-year period. We also have the right to renew the lease by notifying the lessor within 12 months prior to the expiration date of the lease. Depreciation of network equipment and amortization of intangible assets increased from RMB133.9 million in 2015 to RMB134.1 million in 2016 and decreased to RMB11.5 million (US\$1.8 million) in 2017, due to impairment charges of RMB 21.8 million of long-lived assets recognized for the year ended December 31, 2017(2015: Nil and 2016: RMB399 million). Our depreciation expense in each period is closely correlated to the amount of equipment we purchased. We had capital expenditures of RMB417.8 million, RMB356.0 million and RMB162.8 million (US\$25.0 million) in 2015, 2016 and 2017, respectively.

Our cost of revenues increased from RMB1,041.4 million in 2015 to RMB1,077.8 million in 2016 and decreased to RMB781.8million (US\$120.2million) in 2017. Our cost of revenues as a percentage of our total net revenues increased from 76.9% in 2015 to 102.2% in 2016 and decreased to 91.7% in 2017. The decrease from 2016 to 2017 in terms of percentage was primarily due to the improvement of operating efficiency from 2016 to 2017. Overall, we expect that our cost rate will continue to decrease as we expand our operations; however, such improvement is likely to be partially offset by lower unit price from the existing or potential customers.

#### Other Operating Loss

Our other operating loss was RMB19.5million (US\$3 million) for the year ended December 31, 2017, which was primarily due to the provision of late delivery penalties accrued on our agreements with BFSMC.

As a percentage of our total net revenues, our other operating loss was 2.3% for the year ended December 31, 2017.

## Operating Expenses

Our operating expenses primarily consist of sales and marketing expenses, general and administrative expenses and research and development expenses.

### *Sales and Marketing Expenses.*

Our sales and marketing expenses primarily consist of the following:

- salary and benefit expenses for our sales and marketing staff, including share-based compensation expenses;
- promotion and marketing expenses, including costs for sponsoring special promotional and marketing events and organizing and participating in industry conferences and related expenses for business development activities; and
- travel-related expenses to support sales and marketing functions.

Our sales and marketing expenses decreased from RMB115.6 million for the year ended December 31, 2015 to RMB93.6 million for the year ended December 31, 2016 and further decreased to RMB61.8 million (US\$9.5 million) for the year ended December 31, 2017. The decrease from 2016 to 2017 was primarily due to our improved cost control measures.

As a percentage of our total net revenues, our sales and marketing expenses increased from 8.5% for the year ended December 31, 2015 to 8.9% for the year ended December 31, 2016 and decreased to 7.2% for the year ended December 31, 2017. Going forward, we expect our sales and marketing expenses to decrease in absolute dollar amount as we expect our existing marketing initiatives will be more effectively aligned with CDN business consolidation while gearing towards promoting internet data center service offerings.

***General and Administrative Expenses.***

Our general and administrative expenses primarily consist of the following:

· salary and benefit expenses for management and administrative staff, including share-based compensation expenses;  
· depreciation of facilities and office equipment; and  
· professional service expenses.

Our general and administrative expenses increased from RMB202.5 million for the year ended December 31, 2015 to RMB256.0 million for the year ended December 31, 2016 and decreased to RMB142.7 million (US\$21.9 million) for the year ended December 31, 2017. The decrease from 2016 to 2017 was primarily due to the decreased option fees and declined legal expenses.

As a percentage of our total net revenues, our general and administrative expenses increased from 15.0% for the year ended December 31, 2015 to 24.3% for the year ended December 31, 2016 and further decreased to 16.7% for the year ended December 31, 2017. We expect that our general and administrative expenses in absolute amount will continue to decrease.

***Provision for doubtful accounts receivable.*** Our provision for doubtful accounts receivable increased from negative RMB3.9 million for the year ended December 31, 2015 to RMB9.0 million for the year ended December 31, 2016 and increased to RMB17.5 million (US\$2.7 million) for the year ended December 31, 2017. The increase from 2016 to 2017 was primarily due to prudence principal basing on the analysis of customers' aging.

As a percentage of our total net revenues, our provision for doubtful accounts receivable increased from negative 0.3% for the year ended December 31, 2015 to 0.9% for the year ended December 31, 2016 and further increased to 2.1% for the year ended December 31, 2017.

**Research and Development Expenses.** Our research and development expenses primarily consist of payroll and related personnel costs, including share-based compensation expenses. Research and development costs are expensed as incurred. Our research and development expenses increased from RMB103.1 million for the year ended December 31, 2015 to RMB104.0 million for the year ended December 31, 2016 and decreased to RMB81.7 million (US\$12.6 million) for the year ended December 31, 2017.

As a percentage of our total net revenues, our research and development expenses increased from 7.6% for the year ended December 31, 2015 to 9.9% for the year ended December 31, 2016 and decreased to 9.6% for the year ended December 31, 2017. We anticipate that our research and development expenses will decrease in the absolute dollar amount as we believe that we will better align our R&D resources to consolidate our product support platforms in response to a mature CDN market and the need to exercise cost control in all areas of operations.

**Impairments of long-lived assets.** We did not incur the impairments of long-lived assets in the year ended December 31, 2015. We recorded the impairment of long-lived assets of RMB399.1 million and RMB21.8 million (US\$3.3 million) for the year ended December 31, 2016 and December 31, 2017, respectively, due to the deterioration of our operating results.

***Impairment of long term investments.*** Our impairment of long term investments was nil, RMB18.2 million and RMB3.7 million (US\$0.6 million) for the year ended December 31, 2015, December 31, 2016, and December 31, 2017, respectively.

## Critical Accounting Policies

We prepare our financial statements in accordance with U.S. GAAP, which requires us to make significant judgments, estimates and assumptions that affect, among other things, the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the end of each reporting period, and the reported amounts of revenues and expenses during each reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

Some of our accounting policies require higher degrees of judgment than others in their application. When reviewing our consolidated financial statements, you should consider our selection of critical accounting policies, the judgment and other uncertainties affecting the application of such policies, and the sensitivity of reported results to changes in conditions and assumptions. We consider the policies discussed below to be critical to an understanding of our consolidated financial statements as their application places significant demands on the judgment of our management. The following descriptions of our critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements, the risks and uncertainties described under “Item 3. Key Information — D. Risk Factors” and other disclosures included in this annual report.

## Revenue Recognition

We provide a portfolio of content and application delivery total solutions, including web page content services, file transfer services, rich media streaming services, guaranteed application delivery, managed internet data services, cloud hosting services, content bridging services, mobile internet solution and value-added services to our customers to improve the performance, reliability and scalability of their online services and applications. Consistent with the criteria of ASC 605, “Revenue Recognition,” we recognize revenue from sales of these services when there is a signed sales agreement with fixed or determinable fees, services have been provided to the customer and collection of the resulting customer’s receivable is reasonably assured.

Our services are provided under the terms of a one-year master service agreement, which is typically accompanied with a one-year term renewal option with the same terms and conditions. Customers choose at the outset of the

arrangement to either use our services through a monthly fixed bandwidth or traffic volume usage and fee arrangement or choose a plan based on actual bandwidth or traffic volume used during the period at fixed pre-set rates. We recognize and bill for revenue for excess usage, if any, in the month of its occurrence to the extent a customer's usage of the services exceeds their pre-set monthly fixed bandwidth usage and fee arrangements. The rates as specified in the master service agreements are fixed for the duration of the contract term and are not subject to adjustment.

We may charge our customers an initial set-up fee prior to the commencement of their services. To date, these amounts have been insignificant; however, we record these initial set-up fees as deferred revenue and recognizes them as revenue ratably over the estimated life of the customer arrangement.

#### Fair Value of Financial Instruments

The carrying amounts of financial assets and liabilities, such as cash and cash equivalents, restricted cash, accounts receivable, short-term investments, other receivables included in prepaid expenses and other current assets, short term loan, accounts payable, balances with related parties and other payables, approximate their fair values because of the short-term maturity of these instruments. The carrying amounts of long-term loan approximate its fair value since it bears interest rate which approximates market interest rates. Available-for-sale investments were initially recognized at cost and subsequently remeasured at the end of each reporting period with the adjustment in its fair value recognized in accumulated other comprehensive income. We, with the assistance of an independent third party valuation firm, determined the estimated fair value of its available-for-sale investments that are recognized in the consolidated financial statements.

### Consolidation of Variable Interest Entity

We have adopted ASC 810-10, “Consolidation: Overall.” ASC 810-10 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

PRC laws and regulations currently restrict foreign ownership of telecommunications value-added services, including content and application delivery services. To comply with these foreign ownership restrictions, we operate our business in China through our consolidated variable interest entities, Beijing Blue I.T. and Beijing Jingtian, which are wholly owned by PRC citizens. Beijing Blue I.T. and Beijing Jingtian hold the licenses and approvals that are required to operate our business. The Company and ChinaCache Beijing have entered into a series of contractual arrangements with Beijing Blue I.T. and Beijing Jingtian and their shareholders. See “Item 4. Information on the Company — C. Organizational Structure — Contractual Arrangements with Our Consolidated Variable Interest Entities.” As a result of these contractual agreements, we have the substantial ability to control Beijing Blue I.T. and Beijing Jingtian and receive substantially all the profits and absorb all the expected losses of Beijing Blue I.T. and Beijing Jingtian. Therefore we are considered the primary beneficiary of Beijing Blue I.T. and Beijing Jingtian. Accordingly, Beijing Blue I.T. and Beijing Jingtian are our VIEs under U.S. GAAP and we consolidate their results in our consolidated financial statements. We have confirmed with our PRC legal counsel on the compliance and validity of such ownership structure with PRC laws and regulations. Any changes in PRC laws and regulations that affect our ability to control Beijing Blue I.T. and Beijing Jingtian might preclude us from consolidating Beijing Blue I.T. and Beijing Jingtian in the future.

### Impairment of Long-lived Assets

We evaluate our long-lived assets or asset group, including intangible assets with finite lives, for impairment whenever events or changes in circumstances, such as a significant adverse change to market conditions that will impact the future use of the assets, indicate that the carrying amount of an asset or a group of long-lived assets may not be recoverable. When these events occur, we evaluate potential impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we would recognize an impairment loss based on the excess of the carrying amount of the asset group over its fair value. For long-lived assets held for sale, assets are written down to fair value less cost to sell. Fair value is generally determined by discounting the cash flows expected to be generated by the assets, when the market prices are not readily available for the long-lived assets.



Due to the deterioration of the operating results, we recognized an impairment charge based on the excess of the carrying amount of the asset group over its fair value. We determined the fair value of the asset group using the income approach based on the discounted expected cash flows associated with the asset group. The discounted cash flow for the asset group were based on three year projections which is consistent with its remained useful lives of the principal assets. Cash flow projections were based on past experience, actual results of operations and management best estimates about future developments as well as certain market assumptions.

We fully impaired the net value of our property and equipment and intangible assets excluding CHN-IX as of December 31, 2017.

Impairment charge was nil, RMB399.1 million and RMB21.8 million (US\$3.3 million) for the year ended December 31, 2015, 2016, and 2017, respectively.

#### Long-lived assets (disposal group) to be disposed of by sale

We classify long-lived assets and disposal groups as held for sale if their carrying amounts will be recovered principally through disposal by sale rather than through continuing use. Such long-lived assets and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn.

Property and equipment and intangible assets are not depreciated or amortized once classified as held for distribution.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated balance sheets.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results.

#### Available-for-sale investments

We have classified our investments in convertible redeemable investments of certain unlisted companies and mutual funds as available-for-sale in accordance with ASC320-10, Investments — Debt and Equity Securities. Such available-for-sale investments are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income in shareholders' equity. Realized gains or losses are charged to earnings during the period in which the gain or loss is realized. If we determine a decline in fair value is other-than-temporary, the cost basis of the individual security is written down to its estimated fair value. The new cost basis will not be adjusted for subsequent recoveries in fair value. Determination of whether declines in value are other-than-temporary requires significant judgment. Subsequent increases and decreases in the fair value of available-for-sale securities will be included in other comprehensive income except for an other-than-temporary impairment, which would be charged to current period earnings. Impairment of available-for-sale investment for the years ended December 31, 2015, 2016

and 2017 were nil, nil and RMB3.2 million (US\$0.5 million) respectively.

Dividend and interest income, including the amortization of the premium and discount arising at acquisition, for all categories of investments in securities are included in earnings.

#### Cost Method Investment

In accordance with ASC subtopic 325-20 (“ASC 325-20”), Investments-Other: Cost Method Investments, for investments which are not in-substance common stock and hence, do not have readily determinable fair values or investments in an investee over which we do not have significant influence, we carry the investment at cost and only adjust for other-than-temporary declines in fair value and distributions of earnings that exceed our share of earnings since its investment. We regularly evaluate the impairment of the cost method investments based on performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee’s cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the excess of the investment’s cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment.

## Income Taxes

We follow the liability method in accounting for income taxes in accordance with ASC topic 740 (“ASC 740”). Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. We record a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized.

We adopted ASC 740 to account for uncertainty in income taxes. ASC 740 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the consolidated financial statements. We have elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of “interest expense” and “other expenses,” respectively, in the consolidated statements of comprehensive loss.

## Share-based Compensation

We account for share options and restricted share units award issued to employees in accordance with ASC topic 718, or ASC 718, “Compensation-Stock Compensation.” In accordance with ASC 718, we determine whether a share option or restricted share units award should be classified and accounted for as a liability award or an equity award. All grants of share options and restricted share units award to employees classified as equity awards are recognized in the financial statements over their requisite service period based on their grant date fair values. All grants of shares options to employees classified as liability awards are remeasured at the end of each reporting period with any fair value adjustments recorded to the current period expenses. We have elected to recognize compensation expenses using the accelerated method for our share options and restricted share units award granted. For restricted share awards granted with performance conditions, we commence recognition of the related compensation expense if it is probable the defined performance condition will be met. To the extent that we determine that it is probable that a different number of share-based awards will vest depending on the outcome of the performance condition, the cumulative effect of the change in estimate is recognized in the period of change.

ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in the subsequent period if actual forfeitures differ from initial estimates. Forfeiture rate is estimated based on historical and future expectations of employee turnover rates and are adjusted to reflect future changes in circumstances and facts, if any. Share-based compensation expense is recorded net of estimated forfeitures such that expense was recorded only for those share-based awards that are expected to vest. During the years ended December 31, 2014, 2015 and 2016, we estimated that the forfeiture rate for both the management group and the non-management group was zero. To the extent we revise this estimate in the future, the share-based payments could be materially impacted in the period of revision, as well as in following periods.

We account for share options issued to non-employees in accordance with the provisions of ASC 718 and ASC sub-topic 505-50, or ASC 505-50, "Equity: Equity-Based Payment to Non-employees." For the awards granted to non-employees, we will record compensation expenses equal to the fair value of the share options at the measurement date, which is determined to be the earlier of the performance commitment date or the service completion date.

We, with the assistance of an independent third party valuation firm, determined the estimated fair values of the share options granted to employees and non-employees using the binomial option pricing model.

## Taxation

### Cayman Islands

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us or an investor in ADSs or ordinary shares levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

#### United States of America

ChinaCache U.S. and CCAL were incorporated in the State of California in the U.S. and is subject to both California State income tax and U.S. federal income tax on its income and capital gains under the current laws of the State of California and the U.S.

#### Hong Kong

Our subsidiary in Hong Kong, ChinaCache Network (Hong Kong) Limited, is subject to a corporate income tax of 16.5% on the estimated assessable profit derived from its Hong Kong operation. ChinaCache Network (Hong Kong) Limited had no taxable profits during the years ended December 31, 2015, 2016 and 2017, and accordingly we have made no provision for its income tax.

#### PRC

ChinaCache Beijing, Beijing Blue I.T., Beijing Jingtian and Xin Run are companies incorporated in the PRC and are subject to PRC enterprise income tax on their taxable income in accordance with the relevant PRC income tax laws.

The PRC Enterprise Income Tax Law applies a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises, except where a special preferential rate applies. The PRC Enterprise Income Tax Law and related tax rules provide a five-year transitional period for those entities that were established before March 16, 2007 and enjoyed a favorable income tax rate of less than 25% under the previous income tax laws and rules, to gradually change their rates to 25%, and in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term. Under the PRC Enterprise Income Tax Law and related implementation rules, enterprises that are qualified as “high and new technology enterprises strongly supported by the State” are entitled to a reduced enterprise income tax rate of 15%. According to relevant PRC tax laws, enterprises that obtain the qualification of “Key Software Enterprises Covered by the National Planning Layout Scheme” are entitled to a reduced income tax rate of 10%. A “Key Software Enterprise” used to be designated and recognized jointly by the National Development and Reform Commission, the MIIT, the Ministry of Commerce, the Ministry of Finance and the State Administration of Taxation. However, according to a Circular issued by the MIIT and the SAT on Matters relating to Preferential Corporate Income Tax Policies for Software Enterprises in May 27, 2015, the recognition of “Key Software Enterprise” was stopped in May 2015. Subsequently in May 2016, Ministry of Finance, SAT, National Development and Reform Commission and MIIT jointly issued a Circular on Issues concerning Preferential Enterprise Income Tax Policies for Software and Integrated Circuit Industries, or the Circular No. 49. Pursuant to the Circular No. 49, an enterprise may be entitled to the preferential tax rate of 10% by filing with the local tax authority

with supporting documentation proving its qualifications to be a Key Software Enterprise during its annual income tax settlement process. The tax authority will transfer the filed documentations to the national development and reform department and the industry and information technology department for examination. If an enterprise that has enjoyed the preferential tax treatment is found to be unqualified to be a Key Software Enterprise, the tax authority will require it to pay the delinquent taxes and may impose administrative penalties.

In November 2013, ChinaCache Beijing obtained the certificate of “high and new technology enterprise” jointly issued by the Beijing Science and Technology Commission, Beijing Finance Bureau, Beijing Administration of State Taxation and Beijing Administration of Local Taxation, and has since then continued to qualify as a “high and new technology enterprise” and been entitled to a reduced income tax rate of 15%. In December 2016, ChinaCache Beijing was recognized as a “high and new technology enterprise” again and became eligible for a preferential tax rate of 15% effective from 2016 to 2018.

In November 2012, Beijing Blue I.T. was recognized as a “high and new technology enterprise” and was eligible for a preferential tax rate of 15% effective retrospectively from 2012 to 2014. In July 2015, Beijing Blue I.T. was recognized as a “high and new technology enterprise” again and became eligible for a preferential tax rate of 15% effective from 2015 to 2017, Beijing Blue I.T. is currently in the process of applying for the renewal of such qualification.. In December 2013, Beijing Blue I.T. was recognized as a Key Software Enterprise jointly by the National Development and Reform Commission, the MIIT, Ministry of Commerce and the SAT, which entitled it to enjoy a preferential income tax rate of 10% for 2013 and 2014. The recognition of “Key Software Enterprise” was stopped since May 2015 and Beijing Blue I.T. has not made such filings with the authorities pursuant to Circular No. 49 yet and therefore does not enjoy the preferential tax rate of 10% for “Key Software Enterprise”.

Our other PRC subsidiaries are currently subject to an enterprise income tax rate of 25% unless they are qualified as Small Scale and Low Profit Enterprises which would be entitled to exempt fifty percent (50%) of their income from tax and enjoy a reduced enterprise income tax rate of 20%. Our PRC subsidiaries can enjoy such reduced enterprise income tax rate if their financial data are determined to meet the standard of “small scale and low profit” enterprise when filing with the tax bureau.

Pursuant to the Enterprise Income Tax Law and its implementation rules, if a non-resident enterprise has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, it will be subject to a withholding tax on its PRC-sourced income at a rate of 10%. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to enjoy the reduced withholding tax: (i) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (ii) it must have directly owned such percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations.

In August 2015, the SAT promulgated the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatments under Tax Treaties, or Circular 60, which became effective on November 1, 2015. Circular 60 provides that



non-resident enterprises are not required to obtain pre-approval from the relevant tax authority in order to enjoy the reduced withholding tax rate. Instead, non-resident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and file necessary forms and supporting documents when performing tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities. According to the Circular on Several Questions regarding the “Beneficial Owner” in Tax Treaties, or Circular 9, which was issued on February 3, 2018 by the SAT and became effective on April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of his or her income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. Circular 9 further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Circular 60. Accordingly, ChinaCache (Hong Kong), our Hong Kong subsidiary, may be able to enjoy the 5% withholding tax rate for the dividends they receive from ChinaCache Beijing and Xin Run, our PRC subsidiaries, if it satisfies the conditions prescribed under Circular 81 and other relevant tax rules and regulations. However, according to Circular 81, Circular 60 and Circular 9, if the relevant tax authorities consider the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future.

Under the PRC Enterprise Income Tax Law, enterprises that are established under the laws of foreign countries or regions and whose “de facto management bodies” are located within the PRC territory are considered PRC resident enterprises, and will be subject to the PRC enterprise income tax at the rate of 25% on their worldwide income. Under the implementation rules of the PRC Enterprise Income Tax Law, “de facto management bodies” are defined as the bodies that have material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. We cannot assure you that our Cayman Islands holding company, ChinaCache Holdings will not be deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law and be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income. It is also unclear whether the dividends ChinaCache Holdings receives from its PRC subsidiary, ChinaCache Beijing, will constitute dividends between “qualified resident enterprises” and therefore qualify for exemption from withholding tax, even if ChinaCache Holdings is deemed to be a “resident enterprise” for PRC enterprise income tax purposes. See “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — Under China’s Enterprise Income Tax Law, we may be classified as a ‘resident enterprise’ of China. Such classification could result in unfavorable tax consequences to us and our non-PRC resident shareholders.”

In November 2011, the PRC Ministry of Finance and the SAT jointly issued two circulars setting out the details of the pilot VAT reform program, which change the charge of sales tax from business tax to VAT for certain pilot industries. The pilot VAT reform program initially applied only to the pilot industries in Shanghai, and have been expanded to eight additional regions, including, among others, Beijing, in 2012. According to two circulars jointly issued by the PRC Ministry of Finance and the SAT in May and December 2013, the pilot program has also been expanded nationwide. On April 29, 2014, the Ministry of Finance and the SAT issued the Circular on the Inclusion of Telecommunications Industry in the Pilot Collection of Value-added Tax in Lieu of Business Tax. On March 23, 2016, the Ministry of Finance and the SAT issued the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax. Effective from May 1, 2016, the PRC tax authorities collect VAT in lieu of Business Tax on a trial basis within the territory of China, and in industries such as construction industries, real estate industries, financial industries, and living service industries. In November 2017, PRC State Counsel issued State Counsel Order 691 to abolish business tax, and issued the amendment to Interim Regulations of PRC Value Added Taxes, or the VAT Regulation, pursuant to which certain other industries are subject to VAT.

All services provided by ChinaCache Beijing and Beijing Jingtian and certain services provided by Beijing Blue I.T. fall within the scope of the pilot program, and beginning in September 2012, revenues generated by these services are subject to VAT instead of business tax. All services provided by Beijing Blue I.T. fall within the scope of the pilot program on telecom industry, and beginning from June 2014, revenues generated by these services are subject to VAT instead of business tax.

Inflation

In the last three years, inflation in China has impacted our results of operations in varying degrees. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2015, 2016 and 2017 were 6.1%, 6.8% and 5.8% respectively. We may be affected significantly if China experiences higher rates of inflation in the future.

## Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated both in absolute amount and as a percentage of our total net revenues. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report.

	For the Year Ended December 31,							
	2015		2016		2017		USD	
	RMB	%	RMB	%	RMB			%
	(in thousands, except percentages)							
Net revenues	1,353,627	100.0%	1,054,235	100.0%	852,568	131,037		100.0%
Cost of revenues <sup>(1)(2)</sup>	(1,041,412)	(76.9)%	(1,077,810)	(102.2)%	(781,822)	(120,164)		(91.7)%
Gross profit (loss)	312,215	23.1%	(23,575)	(2.2)%	70,746	10,873		8.3%
Other operating income (loss)	13,911	1.0%	(19,044)	(1.8)%	(19,483)	(2,994)		(2.3)%
Operating expenses <sup>(1)</sup>								
Sales and marketing expenses <sup>(1)</sup>	(115,621)	(8.5)%	(93,603)	(8.9)%	(61,770)	(9,494)		(7.2)%
General and administrative expenses <sup>(1)</sup>	(202,518)	(15.0)%	(256,007)	(24.3)%	(142,721)	(21,936)		(16.7)%
Provision (recovery of provision) for doubtful accounts receivable	3,892	0.3%	(9,010)	(0.8)%	(17,514)	(2,692)		(2.1)%
Transaction tax on assets transfer	(27,733)	(2.0)%	—	—	—	—		—
Research and development expenses <sup>(1)</sup>	(103,110)	(7.6)%	(104,018)	(9.9)%	(81,748)	(12,564)		(9.6)%
Impairment of long-lived assets	—	—	(399,094)	(37.9)%	(21,757)	(3,344)		(3.0)%
Impairment of long term investments	—	—	(18,240)	(1.7)%	(3,690)	(567)		(0.4)%
Total operating expenses	(445,090)	(32.8)%	(879,972)	(83.5)%	(329,200)	(50,597)		(39.0)%
Operating loss	(118,964)	(8.7)%	(922,591)	(87.5)%	(277,937)	(42,719)		(30.8)%
Interest income	4,618	0.3%	4,669	0.4%	1,430	220		(0.2)%
Interest expense	(13,158)	(1.0)%	(11,647)	(1.1)%	(18,665)	(2,869)		(2.2)%
Other income	2,991	0.2%	5,336	0.5%	(5,303)	(815)		(0.6)%
Foreign exchange gain, net	13,164	1.0%	14,209	1.4%	(11,043)	(1,697)		(1.3)%
Loss before income taxes	(111,349)	(8.2)%	(910,024)	(86.3)%	(311,518)	(47,880)		(36.1)%
Income tax benefit (expense)	22,614	1.7%	(4,229)	(0.4)%	(59,648)	(9,168)		(8.5)%
Net loss	(88,735)	(6.5)%	(914,253)	(86.7)%	(371,166)	(57,048)		(44.6)%
Net loss attributable to the noncontrolling interest	(44)	(0.0)%	(776)	(0.1)%	(2,005)	(308)		(0.3)%
Net loss attributable to ChinaCache	(88,691)	(6.5)%	(913,477)	(86.6)%	(369,161)	(56,740)		(44.3)%

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

	For the year ended December 31,			
	2015	2016	2017	US\$
	RMB	RMB	RMB	
	(in thousands)			
Allocation of share-based compensation expenses:				
Cost of revenues	3,670	5,961	490	75
Sales and marketing expenses	2,882	2,753	254	39
General and administrative expenses	38,796	72,483	9,631	1,480
Research and development expenses	3,258	3,828	562	86
Total share-based compensation expense included in cost of revenues and operating expenses	48,606	85,025	10,937	1,680

(2) Includes amount to a related party of nil, nil and nil for the years ended December 31, 2015, 2016 and 2017, respectively.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

### Net Revenues

Our net revenues decreased by 19.1% from RMB1,054.2 million for the year ended December 31, 2016 to RMB852.6million (US\$131million) for the year ended December 31, 2017. The decrease was primarily due to the interruption of our services we experienced caused by certain platform issues and intensified industry competition. The number of our active customers decreased by 10.5% from 1,999 as of December 31, 2016 to 1789 as of December 31, 2017.

### Cost of Revenues

Our cost of revenues decreased by 27.5% from RMB1,077.8 million for the year ended December 31, 2016 to RMB781.8million (US\$120.2million) for the year ended December 31, 2017. The decrease was primarily due to a decrease in our bandwidth, co-location and storage fees of RMB161.6 million (US\$24.8 million), a decrease in depreciation of network equipment and amortization of intangible assets of RMB124.8 million (US\$19.2 million), a decrease of other cost of revenues of RMB10.7 million (US\$ 1.6 million), and a decrease of our payroll and other compensation costs of network operations personnel of RMB20.2million (US\$3.1 million).. Cost of revenues included share-based compensation expenses of RMB0.5 million (US\$0.1 million) for the year ended December 31, 2017, compared to RMB6.0 million for the year ended December 31, 2016.

Cost of revenues was comprised of the following:

	For the Year Ended December 31,		
	2016	2017	US\$
	RMB	RMB	
	(in thousands)		
Bandwidth, co-location and storage fees	842,726	681,134	104,688
Depreciation of network equipment and amortization of intangible assets	134,079	9,244	1,421
Payroll and other compensation costs of network operations personnel	76,702	56,455	8,677
Other cost of revenues	24,303	34,989	5,378
Total cost of revenues	1,077,810	781,822	120,164

### **Other Operating Loss**

Our other operating loss was RMB19.5 million (US\$3 million) for the year ended December 31, 2017 which was due to the provision of late delivery penalties accrued upon our agreement with BFSMC, as compared to our other operating income of RMB19.0 million for the year ended December 31, 2016.

### **Operating Expenses**

Our operating expenses decreased from RMB880.0 million for the year ended December 31, 2016 to RMB329.2 million (US\$50.6 million) for the year ended December 31, 2017. We expect our operating expense, as percentage of sales revenue, will decrease going forward as we exercise stringent cost control to fend off margin erosion to CDN business as a result of pricing-centric competition in the market.

*Sales and Marketing Expenses.* Our sales and marketing expenses decreased by 34% from RMB93.6 million for the year ended December 31, 2016 to RMB61.8 million (US\$9.5 million) for the year ended December 31, 2017. The year-over-year decrease was primarily due to improved cost control measures implemented throughout our company.

*General and Administrative Expenses.* Our general and administrative expenses decreased by 44% from RMB256.0 million for the year ended December 31, 2016 to RMB142.7 million (US\$21.9 million) for the year ended December 31, 2017, primarily due to

- a decrease of RMB63.8 million (US\$9.8 million) in share-based compensation expenses associated with newly granted restricted share units in 2017;
- a decrease of RMB20.4 million (US\$3.1million) in general operating fees related to reduction of counsel fees;
- a decrease of RMB81.9 million (US\$12.6 million) in salary expenses including option fees related to strategic hires in 2016; and
- a decrease of RMB10.8million (US\$1.7 million) in depreciation of facilities and office equipment.

*Provision for doubtful accounts receivable.* Our provision for doubtful accounts receivable was RMB17.5 million (US\$2.7 million) for the year ended December 31, 2017, as compared to RMB9.0 million for the year ended December 31, 2016. The increase from 2016 to 2017 was primarily due to the Company electing to adopt a more prudent doubtful account provision.

*Research and Development Expenses.* Our research and development expenses decreased by 21.4% from RMB104.0 million for the year ended December 31, 2016 to RMB81.7million (US\$12.6 million) for the year ended December 31, 2017. The decrease was primarily due to a decrease of RMB10.8 million (US\$1.7million) of down-sized R&D staff as a result of the Company's integrating several development platforms, as well as RMB 12.6 million (US\$1.9 million) in depreciation expense reduction from R&D related asset impairment.

*Impairment of long-lived assets.* We recorded the impairment of long-lived assets of RMB399.1 million and RMB21.8 million (US\$3.3 million) for the years ended December 31, 2016 and December 31, 2017, respectively. The result was due to the deterioration of our operating results.

*Impairment of long term investments.* Our impairment of long term investments was RMB18.2 million and RMB3.7 million (US\$0.6 million) for the years ended December 31, 2016 and December 31, 2017, respectively.

## Operating Loss

As a result of the above, operating loss for the year ended December 31, 2017 was RMB 277.9 million (US\$42.7 million), as compared to operating loss for the year ended December 31, 2016 of RMB922.6 million.

## Income Tax Expense

We had income tax expense of RMB59.6 million (US\$9.2 million) for the year ended December 31, 2017, as compared to income tax benefit of RMB4.2 million for the year ended December 31, 2016. Our income tax expense for the year ended December 31, 2017 was mainly composed of RMB29.4 million (US\$4.5 million) of current income tax expenses and RMB30.2million (US\$4.6 million) of deferred tax expenses.

#### Net Loss

As a result of the above, we had net loss of RMB RMB371.2million (US\$57.0 million) for the year ended December 31, 2017, as compared to a net loss of RMB914.3 million for the year ended December 31, 2016.

#### Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

#### Net Revenues

Our net revenues decreased by 22.1% from RMB1,353.6 million for the year ended December 31, 2015 to RMB1,054.2 million for the year ended December 31, 2016. The decrease was primarily due to the interruption of our services we experienced caused by certain platform issues and intensified industry competition. The number of our active customers decreased by 7.8% from 2,169 as of December 31, 2015 to 1,999 as of December 31, 2016.



## Cost of Revenues

Our cost of revenues increased by 3.5% from RMB1,041.4 million for the year ended December 31, 2015 to RMB1,077.8 million for the year ended December 31, 2016. The increase was primarily due to an increase in our bandwidth, co-location and storage fees of RMB49.2 million, and an increase in depreciation of network equipment and amortization of intangible assets of RMB0.2 million, partially offset by a decrease of other cost of revenues of RMB8.4 million, and a decrease of our payroll and other compensation costs of network operations personnel of RMB4.6 million. Cost of revenues included share-based compensation expenses of RMB6.0 million for the year ended December 31, 2016, compared to RMB3.7 million for the year ended December 31, 2015.

Cost of revenues was comprised of the following:

	For the Year Ended December 31,	
	2015	2016
	RMB	RMB
	(in thousands)	
Bandwidth, co-location and storage fees	793,498	842,726
Depreciation of network equipment and amortization of intangible assets	133,854	134,079
Payroll and other compensation costs of network operations personnel	81,309	76,702
Other cost of revenues	32,751	24,303
Total cost of revenues	1,041,412	1,077,810

## Other Operating Loss

Our other operating loss was RMB19.0 million for the year ended December 31, 2016, which was due to the provision of late delivery penalties accrued upon our agreement with BFSMC, as compared to our other operating income of RMB13.9 million for the year ended December 31, 2015.

## Operating Expenses

Our operating expenses increased from RMB445.1 million for the year ended December 31, 2015 to RMB880.0 million for the year ended December 31, 2016, mainly attributable to our losses from impairment of long-lived assets in 2016. We expect our operating expenses related to daily operation, to increase as we expand our business.

*Sales and Marketing Expenses.* Our sales and marketing expenses decreased by 19.0% from RMB115.6 million for the year ended December 31, 2015 to RMB93.6 million for the year ended December 31, 2016. The year-over-year decrease was primarily due to improved cost control measures implemented throughout our company.

*General and Administrative Expenses.* Our general and administrative expenses increased by 26.4% from RMB202.5 million for the year ended December 31, 2015 to RMB256.0 million for the year ended December 31, 2016, primarily due to

an increase of RMB33.7 million in share-based compensation expenses associated with newly granted restricted share units in 2016;

- an increase of RMB12.2 million in professional fees related to transactional and other consulting services;
  - an increase of RMB4.3 million in salary expenses related to strategic hires; and
  - an increase of RMB2.3 million in depreciation of facilities and office equipment.

*Provision for doubtful accounts receivable.* Our provision for doubtful accounts receivable was RMB9.0 million for the year ended December 31, 2016, as compared to negative RMB3.9 million for the year ended December 31, 2015. The increase from 2015 to 2016 was primarily due to reversals of provision for doubtful accounts receivable from certain customers for the year ended December 31, 2015.

*Transaction tax on assets transfer.* Our transaction tax on assets transfer was RMB27.7 million for the year ended December 31, 2015, which was related to an asset transaction within our company, and we did not incur any transaction tax on assets transfer for the year ended December 31, 2016.

*Research and Development Expenses.* Our research and development expenses increased by 0.9% from RMB103.1 million for the year ended December 31, 2015 to RMB104.0 million for the year ended December 31, 2016. The increase was primarily due to an increase of RMB2.7 million in salary expenses, including share-based compensation expenses, for continued efforts in online service solutions development.

*Impairment of long-lived assets.* We recorded the impairment of long-lived assets of RMB399.1 million for the year ended December 31, 2016 due to the deterioration of our operating results. We did not incur the impairments of long-lived assets in the year ended December 31, 2015.

*Impairment of long term investments.* Our impairment of long term investments was nil and RMB18.2 million for the year ended December 31, 2015 and 2016, respectively.

## Operating Loss

As a result of the above, operating loss for the year ended December 31, 2016 was RMB922.6 million, as compared to operating loss for the year ended December 31, 2015 of RMB119.0 million.

## Income Tax Expense

We had income tax expense of RMB4.2 million for the year ended December 31, 2016, as compared to income tax benefit of RMB22.6 million for the year ended December 31, 2015. Our income tax expense for the year ended December 31, 2016 was mainly composed of RMB1.1 million of current income tax expenses and RMB3.1 million of deferred tax expenses.

## Net Loss

As a result of the above, we had net loss of RMB914.3 million for the year ended December 31, 2016, as compared to a net loss of RMB88.7 million for the year ended December 31, 2015.

B. Liquidity and Capital Resources

Cash Flows and Working Capital

To date, we have financed our operations primarily through cash flows from bank borrowings, operating activities, and the proceeds from our initial public offering in 2010 and subsequent private placement in 2014. In October 2010, we completed our initial public offering in which we issued and sold 5,923,247 ADSs representing 94,771,952 ordinary shares, resulting in net proceeds to us of approximately US\$76.6 million. In March 2014, we issued and sold an aggregate of 53,855,569 ordinary shares, represented by 3,365,973 ADSs, to a group of institutional investors affiliated with Wellington Management Company, LLP for an aggregate purchase price of approximately US\$55.0 million.

As of December 31, 2017, we had RMB106.7million (US\$16.4million) in cash and cash equivalents.

Our board and management are now reviewing strategy and priorities for the next 12 months. We will be focusing on a number of business initiatives and strategies to improve cash revenue from operation assets and operation efficiency, together with obtaining credit facilities. First, we will focus on generating cash revenue from the improvement of CDN operations to increase our liquidity and reinvest in potential project pipeline. Second, we plan to use the cash inflows to be funded by the credit facilities to support and complete our cloud infrastructure. Third, we will explore strategies to enhance the company's competitiveness in high-level data center operation and service. .. Lastly, we plan to better manage our selling and general administrative expenses to improve operation efficiency.

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities or debt securities or borrow from banks. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our shareholders. The incurrence of debt would divert cash from working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that would restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business, operations and prospects may suffer. See “Item 3. Risk Factors — D. Risks Related to Our Business and Industry — We have incurred losses in the past and may incur losses in the future. There is substantial doubt about our ability to continue as a going concern.”

Although we consolidate the results of Beijing Blue I.T. and Beijing Jingtian and their respective subsidiaries, our access to the cash balances or future earnings of these entities is only through our contractual arrangements with Beijing Blue I.T. and Beijing Jingtian and their respective shareholders. See “Item 4. Information on the Company — C. Organizational Structure — Contractual Arrangements with Our Consolidated Variable Interest Entities.” For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see “—Holding Company Structure.”

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

	For the Year Ended December 31,			
	2015	2016	2017	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash provided by (used in) operating activities	770,476	(187,180)	(99,041 )	(15,220)
Net cash used in investing activities	(432,349)	(202,390)	(88,295 )	(13,724)
Net cash provided by (used in) financing activities	(106,797)	(84,645 )	149,007	22,902
Net increase (decrease) in cash and cash equivalents	231,330	(474,215)	(39,329 )	(6,045 )
Effect of foreign exchange rate changes on cash	9,009	14,617	(10,584 )	(1,628 )
Cash and cash equivalents at beginning of the period	375,879	616,218	156,620	24,072
Cash and cash equivalents at end of the period	616,218	156,620	106,709	16,401

Operating Activities

Net cash used in operating activities was RMB99.0 million (US\$15.2million) for the year ended December 31, 2017. Net cash used in operating activities for the year ended December 31, 2017 reflects a net loss of RMB371.2 million (US\$57.0 million), adjusted by reconciling items in the total amount of RMB272.1 million (US\$41.9 million), which primarily include depreciation of property and equipment of RMB9.1 million (US\$1.4 million), share-based compensation expenses of RMB10.9 million (US\$1.7 million), impairment of long-lived assets of RMB21.8 million (US\$3.3 million), impairment of long term investments of RMB3.7 million (US\$0.6 million), foreign exchanges loss of RMB11.0 million (US\$1.7 million), allowance for doubtful accounts of RMB17.5 million (US\$2.7million), amortization of intangible assets and land use right of RMB2.4 million (US\$0.4million), deferred tax expense of RMB30.2million (US\$4.6 million), loss from disposal of property and equipment of RMB0.6 million (US\$0.1 million) and interest expense of RMB4.3million (US\$0.7 million). Additional major factors that affected operating cash flows for the year ended December 31, 2017 include: (i) an increase of RMB60.9 million (US\$9.4 million) in accounts payable in connection with accrued bandwidth, co-location and storage expenses to the carriers; (ii) an increase of accrued expenses and other payables of RMB61.4 million (US\$9.4million) primarily due to the decrease in payables for purchase of property and equipment; (iii) a increase of RMB14.0 million (US\$2.2 million) in accounts receivable primarily due to improved accounts receivable collection; (iv) an increase of RMB58.3 million (US\$9.0 million) in long term deposits and other non-current assets; (v) a decrease of RMB26.5 million (US\$4.1million) in prepaid expense and other current assets; and (vi) a decrease of RMB4.6 million (US\$0.7 million) in Deferred government grant.

Net cash used in operating activities was RMB187.2 million for the year ended December 31, 2016. Net cash used in operating activities for the year ended December 31, 2016 reflects a net loss of RMB914.3 million, adjusted by reconciling items in the total amount of RMB659.3 million, which primarily include depreciation of property and equipment of RMB155.2 million, share-based compensation expenses of RMB85.0 million, impairment of long-lived assets of RMB399.1 million, impairment of long term investments of RMB18.2 million, foreign exchanges gain of RMB14.2 million, allowance for doubtful accounts of RMB9.0 million, amortization of intangible assets and land use right of RMB3.9 million, gain from sale of short term investments of RMB3.6 million, deferred tax expense of RMB3.1 million, loss from disposal of property and equipment of RMB2.0 million and interest expense of RMB1.4 million. Additional major factors that affected operating cash flows for the year ended December 31, 2016 include: (i) an increase of RMB101.4 million in accounts payable in connection with accrued bandwidth, co-location and storage expenses to the carriers; (ii) a decrease of accrued expenses and other payables of RMB73.2 million primarily due to the decrease in payables for purchase of property and equipment; (iii) a decrease of RMB41.8 million in accounts receivable primarily due to improved accounts receivable collection; (iv) an increase of RMB1.2 million in long term deposits and other non-current assets; (v) an increase of RMB1.1 million in prepaid expense and other current assets; and (vi) an increase of RMB1.1 million in accrued employee benefits.

Net cash provided by operating activities was RMB770.5 million for the year ended December 31, 2015. Net cash provided by operating activities for the year ended December 31, 2015 reflects net loss of RMB88.7 million, adjusted by reconciling items in the total amount of RMB172.9 million, which primarily include depreciation of property and equipment of RMB153.3 million, share-based compensation expenses of RMB48.6 million, deferred tax benefit of RMB25.3 million, foreign exchanges gain of RMB9.0 million, amortization of intangible assets and land use right of RMB4.3 million, and allowance for doubtful accounts of RMB3.9 million. Additional major factors that affected operating cash flows for the year ended December 31, 2015 include: (i) an increase of accrued expenses and other payables of RMB789.4 million primarily due to the increase in advance from certain buyers of part of our cloud infrastructure; (ii) a decrease of RMB80.3 million in accounts receivable primarily due to improved accounts receivable collection; (iii) an increase of RMB77.4 million in prepaid expense and other current assets; (iv) a decrease of RMB50.2 million in accounts payable in connection with accrued bandwidth, co-location and storage expenses to the carriers; (v) an increase of RMB35.0 million in long term deposits and other non-current assets; (vi) a decrease of RMB12.6 million in deferred government grant received; and (vii) a decrease of RMB9.3 million in income tax payable.

### Investing Activities

Net cash used in investing activities was RMB89.3million (US\$13.7million) for the year ended December 31, 2017. Net cash used in investing activities for the year ended December 31, 2017 resulted primarily from (i) cash paid for cloud infrastructure construction in progress of RMB73.7 million (US\$11.3 million); ; (ii) cash paid for purchases of property and equipment and intangible assets of RMB15.2 million (US\$2.3 million); and (iii) cash paid for long term investments of RMB0.4 million (US\$0.1 million); and (iv) cash received from sales of short term investment of RMB10.0 million (US\$1.5 million).

Net cash used in investing activities was RMB202.4 million for the year ended December 31, 2016. Net cash used in investing activities for the year ended December 31, 2016 resulted primarily from (i) cash paid for cloud infrastructure construction in progress of RMB222.3 million; (ii) cash paid for purchases of property and equipment and intangible assets of RMB59.2 million (US\$8.5 million); and (iii) cash paid for long term investments of RMB2.2 million; partially offset by (i) cash received from sales of short term investment of RMB53.6 million; and (ii) cash received from sales of short term investment of RMB26.8 million;

Net cash used in investing activities was RMB432.3 million for the year ended December 31, 2015. Net cash used in investing activities for the year ended December 31, 2015 resulted primarily from (i) cash paid for cloud infrastructure construction in progress of RMB290.3 million; (ii) cash paid for purchases of property and equipment of RMB90.2 million; and (iii) cash paid for short term investments of RMB50.0 million.



## Financing Activities

Our financing activities primarily consist of sale of our ADSs, capital contributions and borrowings from commercial banks.

Net cash used in financing activities was RMB411.7 million (US\$63.3 million) for the year ended December 31, 2017. Net cash used in financing activities for the year ended December 31, 2017 resulted primarily from (i) proceeds from bank borrowings of RMB411.7 million (US\$63.3 million).

Net cash used in financing activities was RMB84.6 million for the year ended December 31, 2016. Net cash used in financing activities for the year ended December 31, 2016 resulted primarily from (i) payment of capital lease obligation of RMB74.5 million; (ii) payment for repurchase of ordinary shares of RMB39.4 million; and (iii) repayment of bank borrowings of RMB7.7 million (US\$1.1 million); partially offset by (i) proceeds from bank borrowings of RMB29.3 million; and (ii) proceeds from employee share options exercised of RMB7.6 million.

Net cash used in financing activities was RMB106.8 million for the year ended December 31, 2015. Net cash used in financing activities for the year ended December 31, 2015 resulted primarily from (i) payment for repurchase of ordinary shares of RMB93.9 million; (ii) repayment of bank borrowings of RMB67.2 million; and (iii) payment of capital lease obligation of RMB32.2 million, partially offset by (i) changes in restricted cash of RMB68.2 million; and (ii) proceeds from employee share options exercised of RMB17.0 million.

## Holding Company Structure

### Overview

We are a holding company with no material operations of our own. We conduct our operations in China through a series of contractual arrangements between our company, ChinaCache Beijing, which is our wholly-owned PRC subsidiary, Beijing Blue I.T. and Beijing Jingtian, which are our consolidated variable interest entities in China, and the respective shareholders of Beijing Blue I.T. and Beijing Jingtian. See “Item 4. Information on the Company — C. Organizational Structure — Contractual Arrangements with Our Consolidated Variable Interest Entities” for a summary of these contractual arrangements. Beijing Blue I.T. contributed to 77.1%, 61.9% and 55.1% of our total net revenues in 2015, 2016 and 2017, respectively. Beijing Jingtian’s contribution to our total net revenues in 2015, 2016 and 2017 was immaterial.

Conducting our operations through contractual arrangements with our consolidated variable interest entities in China entails a risk that we may lose effective control over our consolidated variable interest entities, which may result in our being unable to consolidate their financial results with our results and may impair our access to their cash flow from operations and thereby reduce our liquidity. See “Item 3. Key Information — D. Risk Factors — Risks Related to Our Corporate Structure” for more information, including the risk factors titled “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” and “We rely on contractual arrangements with Beijing Blue I.T. and Beijing Jingtian and their respective shareholders for our China operations, which may not be as effective as direct ownership in providing operational control.”

## Dividend Distributions

As a holding company, our ability to pay dividends and other cash distributions to our shareholders depends solely upon dividends and other distributions paid to us by our PRC subsidiaries ChinaCache Beijing and Xin Run. The amount of dividends paid by ChinaCache Beijing to us depends solely on the service fees paid to ChinaCache Beijing from our consolidated variable interest entities, Beijing Blue I.T. and Beijing Jingtian. In 2015, 2016 and 2017, the aggregate amount of service fees that ChinaCache Beijing charged Beijing Blue I.T. and Beijing Jingtian was RMB83.5 million, RMB46.7 million and RMB32.1 million (US\$4.9 million), respectively, which accounted for 6.2%, 4.4% and 3.8%, respectively, of our total net revenues.

Under PRC law, ChinaCache Beijing, Xin Run and each of our consolidated variable interest entities in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation. ChinaCache Beijing and Xin Run are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations.

Pursuant to contractual arrangements that ChinaCache Beijing has with each of Beijing Blue I.T. and Beijing Jingtian, the earnings and cash of each of Beijing Blue I.T. and Beijing Jingtian (including dividends received from their respective subsidiaries) are used to pay service fees in RMB to ChinaCache Beijing, in the manner and amount set forth in these agreements.

After paying the withholding taxes applicable to ChinaCache Beijing and Xin Run's revenue and earnings, making appropriations for its statutory reserve requirement and retaining any profits from accumulated profits, the remaining net profits of ChinaCache Beijing and Xin Run would be available for distribution to us, ChinaCache Beijing and Xin Run's shareholder, although we have not, and do not have such plan at present to, make such distributions. As of December 31, 2017, the amount of the net assets of ChinaCache Beijing, Xin Run and our consolidated variable interest entities, which includes the paid-in-capital and statutory reserves of ChinaCache Beijing and Xin Run and the equity of our consolidated variable interest entities which were restricted due to statutory reserve requirements and other applicable laws and regulations, and thus not available for distribution, was in aggregate a deficit of RMB767.2 million (US\$117.9 million). We do not believe that these restrictions on the distribution of our net assets will have a significant impact on our ability to timely meet our financial obligations in the future. See "Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China—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" for more information.

Furthermore, cash transfers from ChinaCache Beijing and Xin Run to our subsidiaries outside of China are subject to PRC government control of currency conversion. Restrictions on the availability of foreign currency may affect the ability of ChinaCache Beijing, Xin Run and our consolidated variable interest entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. See “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China—Governmental control of currency conversion may limit our ability to utilize our revenues.”

### Capital Expenditures

We had capital expenditures of RMB417.8 million, RMB356.0 million and RMB162.8 million (US\$25.0 million) in 2015, 2016 and 2017, respectively, representing 30.9%, 33.8% and 19.1% of our total net revenues for such years, respectively. Our capital expenditures were primarily for the purchase of land use right, servers, other property and equipment and certain intangible assets and cash paid for cloud infrastructure construction in progress, for our business. Our capital expenditures have been primarily funded by net cash provided by financing activities. We expect that our capital expenditures in 2018 will increase from 2017 as we will focus on completing the cloud infrastructure to prepare the company’s expanded IDC business.

### C. Research and Development

Our internal research and development team consisted of 271 engineers as of December 31, 2017, representing approximately 44% of our work force. Our senior management team leads our research and development efforts and sets strategic initiatives to improve our services and products, focusing on efforts to sustain our technology leadership, raise our productivity and enhance the competitiveness of our services. We devote our market-oriented research and development efforts to focus on bringing innovative services and solutions to the market quickly. As of the date of this annual report, we have 55 PRC patents, two U.S. patents, three PRC patent applications and 23 software copyright registrations in China relating to the technologies used in our business.

Our research and development expenses primarily consist of payroll and related personnel costs, including share-based compensation expenses. We incurred RMB103.1 million, RMB104.0 million and RMB81.7 million (US\$12.6 million) of research and development expenses in 2015, 2016 and 2017, respectively.

#### D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2017 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions. Off-Balance Sheet Arrangements

Other than the operating lease obligations and purchase commitments set forth in the table below, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

#### E. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2017:

	Payment Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands of RMB)				
Capital lease obligations <sup>(1)</sup>	45,026	43,587	1,439	-	-
Operating lease obligations <sup>(2)</sup>	39,767	20,458	19,309	-	-
Purchase commitments <sup>(3)</sup>	188,203	188,203	-	-	-
Total	272,996	252,248	20,748	—	—

- (1) Capital lease obligations refers to our obligations for leasing certain computer equipment and optical fibers, and the total amount of interest to be paid is RMB1.0 million (US\$0.1 million).
- (2) Operating lease obligations refers to our future minimum lease payments for office space under non-cancelable operating leases.
- (3) Purchase commitments refers to our commitment to purchase bandwidth and cloud infrastructure from our bandwidth and construction providers.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

<b>Directors and Executive Officers</b>	<b>Age</b>	<b>Position/Title</b>
Song Wang	54	Chairman and Chief Executive Officer
Jean Xiaohong Kou	56	Director and Senior Vice President
Yunjie Liu	75	Director
Fuya Zheng	53	Director
Bang Zhang	50	Director
Guangsheng Meng	50	Chief Financial Officer

*Mr. Song Wang* is our co-founder, chairman of our board of directors and chief executive officer. He co-founded our company in 1998. Mr. Wang oversees the strategic direction of the company and has transformed the company from a small start-up to an established and leading content and application delivery total solution provider in China. Prior to co-founding our company, Mr. Wang served as the chief representative of Business 2000 Resources Beijing Office from 1996 to 1998. Prior to that, Mr. Wang served as Greater China senior counsel for Boston Technology, Inc. from 1995 to 1996. Mr. Wang worked for Northern China Computer Technologies Institute as a computer-aided design engineer from 1987 to 1995. Mr. Wang studied French at the China Foreign Affairs University and attended EMBA training courses on top manager management at the Guanghua School of Management, Peking University. Mr. Wang is the husband of Ms. Jean Xiaohong Kou, our co-founder, director and senior vice president.

*Ms. Jean Xiaohong Kou* is our co-founder, director and senior vice president. She co-founded our company in 1998. Ms. Kou is in charge of developing human resources strategy, business development functionality and financial strategy development, and supervises day-to-day administrative matters. Prior to co-founding our company, Ms. Kou worked for seven years at Town Sky Technology Group, an information technology company based in Hong Kong, as senior sales manager for Greater China area. Ms. Kou studied computer applications at Beijing Jiaotong University and attended training courses on human resources and financial management at the Guanghua School of Management, Peking University. Ms. Kou is the wife of Mr. Song Wang, our co-founder, chairman of the board of directors and chief executive officer.

*Mr. Yunjie Liu* has served as our director since October 2005. Our board of directors has determined that Mr. Liu satisfies the “independence” requirements of Rule 5605 of Nasdaq Stock Market Rules and Rule 10A-3 under the Securities Exchange Act. Mr. Liu has extensive experience in telecommunications technology and management, particularly in the area of data communications. He currently serves as chief scientist of the Technology Committee of China United Network Communications (Group) Limited, formerly known as China United Telecommunications Corporation (Group) Limited, or Unicom Group. From April 1999 to December 2003, Mr. Liu served as the Chief Engineer and later vice president of Unicom Group. From May 2000 to January 2004, Mr. Liu was vice president of China Unicom (Hong Kong) Limited (formerly known as China Unicom Limited), a company listed on the New York Stock Exchange. Unicom Group is an indirect controlling shareholder of China Unicom (Hong Kong) Limited. Mr. Liu served as a non-executive director of China Unicom (Hong Kong) Limited from February 2004 to April 2006. Prior to joining Unicom Group, Mr. Liu held various high-ranking positions at the Ministry of Posts and Telecommunications, including director general of the Institute of Data Communication Research and president of the Institute of Postal. Mr. Liu serves as an independent director of Telling Telecommunication Holding Co., Ltd., a Shenzhen Stock Exchange-listed company which is primarily engaged in the distribution and repairing of communication products in China, and as the director-general of the China (Nanjing) Future Network Industry Innovation Center. Mr. Liu received a bachelor’s degree in physics from Peking University and is a member of the Chinese Academy of Engineering.

*Mr. Fuya Zheng*, aged 53, has served as our director since February 2018. He was an independent non-executive director of Yindge Gases Group Company Limited from September 2009 to September 2017. Mr. Zheng was a director of Cogo Group, Inc., a company listed on the NASDAQ and has since January 1, 2008 served as the chief financial officer of the same company. Mr. Zheng was previously vice president of travel service at eLong, Inc., one

of the leading online travel service companies in China and listed on the NASDAQ, where Mr. Zheng was responsible for the overall operation of eLong Inc.'s travel services. Mr. Zheng has more than ten years of experience in the service industry. Mr. Zheng received a Bachelor of Business Administration majoring in accounting from City University of New York in 1994.



*Mr. Bang Zhang* has served as our director since July 2017. Our board of directors has determined that Mr. Zhang satisfies the “independence” requirements of Rule 5605 of Nasdaq Stock Market Rules and Rule 10A-3 under the Securities Exchange Act. Mr. Zhang has been the chief financial officer of DG Group, a social network and media company, since 2016. Prior to that, he served as the chief financial officer and senior vice president of Golden Jaguar, one of the largest buffet restaurant chains in China, from 2013 to 2015. During 2009 to 2013, Mr. Zhang was the senior vice president and the chief financial officer of Mecox Lane (Nasdaq: MCOX). Prior to joining Mecox Lane, Bang Zhang worked at McDonald’s China for more than 15 years with his last role as China chief financial officer. Before joining McDonald’s, Mr. Zhang worked for couple other U.S. and European companies and China’s state-owned enterprises as a financial controller and accounting manager for 11 years. Mr. Zhang received his MBA degree from Jinan University in 2001.

*Mr. Guangsheng Meng* joined the Company as its Senior Vice President in January 2018, and was subsequently appointed as Chief Financial Officer on April 20, 2018. With over two decades of senior financial management record, Mr. Meng is experienced in leading and advising both public and private companies through complex restructurings, financial engineering and capital market transactions. From 2009 to 2017, Mr. Meng was the Chief Financial Officer of China Gerui Advanced Materials Group Limited. Prior to that, Mr. Meng served as Senior Vice President/Chief Financial Officer with A-Power Energy Generation Systems Ltd., Terex (China) Ltd., Shell (China) Ltd., Koch Materials (China) Company (a subsidiary of Koch Industries Inc.), etc. A Certified Public Accountant, Mr. Meng received his Master of Business Administration in Finance from Georgetown University in 1997 and is fluent in English and Mandarin.

## Employment Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our senior executive officers is employed for a specified time period. We may terminate employment for cause, at any time, without advance notice or remuneration, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. In such case, the executive officer will not be entitled to receive payment of any severance benefits or other amounts by reason of the termination, and the executive officer’s right to all other benefits will terminate, except as required by any applicable law. We may also terminate an executive officer’s employment without cause upon one-month advance written notice. In such case of termination by us, we are required to provide compensation to the executive officer, including severance pay, as expressly required by the applicable law of the jurisdiction where the executive officer is based. The executive officer may terminate the employment at any time with a one-month advance written notice, if there is any significant change in the executive officer’s duties and responsibilities inconsistent in any material and adverse respect with his or her title and position or a material reduction in the executive officer’s annual salary before the next annual salary review, or if otherwise approved by the board of directors.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice and to assign all right, title and interest in them to us, and assist us in obtaining patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and for one year following the last date of employment. Specifically, each executive officer has agreed not to (i) approach our clients, customers or contacts or other persons or entities introduced to the executive officer for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination.

B. Compensation

For the fiscal year ended December 31, 2017, the aggregate compensation we paid to our executive officers was approximately RMB9.5million (US\$1.5 million) and the aggregate compensation we paid to our non-executive directors for the same period was approximately RMB1.2million (US\$0.2 million). For the same period, we paid RMB0.3million (approximately US\$48000 for pension, retirement, medical insurance or other similar benefits for our executive officers. Other than the amounts stated above, no pension, retirement or similar benefits has been set aside or accrued for our executive officers or directors.

Stock Incentive Plans

In October 2008, May 2009, May 2010 and July 2011, we adopted our 2007 Stock Incentive Plan, 2008 Stock Incentive Plan, 2010 Stock Incentive Plan and 2011 Share Incentive Plan, respectively. These four plans are referred to herein as the “Stock Incentive Plans.” The Stock Incentive Plans were adopted to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. The Stock Incentive Plans permit the grant of options to purchase our ordinary shares, share appreciation rights, restricted share units, restricted share units, dividend equivalent rights and other instruments as deemed appropriate by the administrator under the plans. The maximum aggregate number of ordinary shares that may be issued pursuant to all awards under the 2007, 2008, 2010 and 2011 plans is 14,000,000 shares, 8,600,000 shares, 9,000,000 shares and 22,000,000 shares, respectively. On July 2, 2012, our shareholders approved amendments to our 2011 plan which provide, in effect, that the maximum aggregate number of ordinary shares that may be issued pursuant to all awards, or the Award Pool, under the 2011 plan shall be equal to five percent of the total issued and outstanding ordinary shares as of July 2, 2012; provided that, the ordinary shares reserved in the Award Pool shall be increased automatically if and whenever the unissued ordinary shares reserved in the Award Pool accounts for less than one percent of the total then issued and outstanding ordinary shares, as a result of which increase the unused ordinary shares reserved in the Award Pool immediately after each such increase shall equal to five percent of the then issued and outstanding ordinary shares.

As of March 31, 2018, we had granted options to purchase 14,000,000 ordinary shares under our 2007 Stock Incentive Plan, options to purchase 8,600,000 ordinary shares under our 2008 Stock Incentive Plan, options to purchase 9,099,872 ordinary shares under our 2010 Stock Incentive Plan, and options to purchase 49,017,808 ordinary shares and 76,634,512 restricted share units under our 2011 Share Incentive Plan.

The following table summarizes, as of March 31, 2018, the stock options granted under our Stock Incentive Plans to our directors and executive officers, directors and executive officers as a group and other individuals as a group.

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	Option Granted	Exercise Price (US\$/Share)	Vesting Commencement Date	Date of Grant	Date of Expiration
Song Wang	2,400,000	0.24	April 1, 2011	June 20, 2011	June 19, 2021
	1,600,000	0.24	January 1, 2013	July 8, 2013	July 7, 2023
	320,000	0.24	January 1, 2014	July 8, 2013	July 7, 2023
	1,692,608	0.5294	January 1, 2014	December 23, 2014	December 22, 2024
	8,960,000	0.0725	January 1, 2016	December 13, 2017	December 12, 2027
Jean Xiaohong Kou	430,000	0.24	January 1, 2013	July 8, 2013	July 7, 2023
	160,000	0.24	January 1, 2014	July 8, 2013	July 7, 2023
Yunjie Liu	*	0.01	April 1, 2007	March 31, 2007	March 30, 2016
	*	0.01	October 1, 2007	September 30, 2007	September 29, 2016
	*	0.24	October 1, 2013	July 8, 2013	July 7, 2023
Fuya Zheng	—	—	—	—	—
Bang Zhang	—	—	—	—	—
Guangsheng Meng	—	—	—	—	—
Directors and officers as a group	16,922,608	0.01 to 0.5294			
Other individuals as a group <sup>(1)</sup>	63,795,072	0.01 to 0.5294			

The following table summarizes, as of the March 31, 2018, the restricted share units granted under our Stock Incentive Plans to our directors and executive officers, directors and executive officers as a group and other individuals as a group.

	Restricted Share Units Granted	Vesting Commencement Date	Date of Grant
Song Wang	960,000	January 1, 2013	July 8, 2013
	1,600,000	January 1, 2014	December 23, 2014
	3,680,000	January 1, 2015	December 11, 2015
	11,440,000	January 1, 2015	December 11, 2015
	7,920,000	December 1, 2017	December 13, 2017
Jean Xiaohong Kou	320,000	January 1, 2013	July 8, 2013
	1,646,304	January 1, 2014	December 23, 2014
	9,493,328	January 1, 2015	December 11, 2015
	1,645,328	January 1, 2015	December 11, 2015
	7,933,344	December 1, 2017	December 13, 2017
Yunjie Liu	—	—	—
Fuya Zheng	—	—	—
Bang Zhang	*	December 1, 2017	December 13, 2017
Guangsheng Meng	—	—	—
Directors and officers as a group	47,598,304		
Other individuals as a group <sup>(1)</sup>	29,036,208		

\* In aggregate owns options and/or restricted share units to acquire less than 1% of our outstanding ordinary shares on an as-converted basis.

(1) Includes a director who has left the company.

#### Principal Terms of the 2007, 2008 and 2010 Stock Incentive Plans

The following paragraphs describe the principal terms of the 2007, 2008 and 2010 Stock Incentive Plans.

*Plan Administration.* Our board of directors or a committee designated by our board will administer the plans. The committee or our board of directors, as appropriate, will determine the provisions and terms and conditions of each award grant. It shall also have discretionary power to interpret the terms of the plans.

*Award Agreement.* Awards granted under the plans are evidenced by an award agreement that sets forth terms, conditions and limitations for each award. In addition, the award agreement may also provide that securities granted are subject to a 90-day lockup period following the effective date of a registration statement filed by us under the Securities Act, if so requested by us or any representative of the underwriters in connection with any registration of the offering of any of our securities.

*Eligibility.* We may grant awards to our employees, directors and consultants, including those of our affiliates. However, we may grant options that are intended to qualify as incentive share options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, only to our employees.

*Acceleration of Awards upon Change in Control.* The outstanding awards will terminate and accelerate upon occurrence of a change-of-control corporate transaction, including amalgamations, mergers or consolidations, liquidations or dissolutions, sales of substantially all or all of the assets, reverse takeovers or acquisitions unless the successor entity assumes or replaces our outstanding awards under the plans. If the successor entity does not assume or replace our outstanding awards, each outstanding award will become fully vested and immediately exercisable and payable, and will be released from any repurchase or forfeiture rights immediately before the date of the change-of-control transaction, provided that the grantee's continuous service with us has not been terminated before that date.

*Exercise Price and Term of Awards.* The plan administrator shall determine the exercise price and the exercisable term for each option which shall be stated in the award document. For options that are intended to qualify as incentive share options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, the per share exercise price must not be less than 85% of the fair market value per share on the date of grant, unless the administrator determines otherwise.

*Vesting Schedule.* The vesting periods of the options under the plans are specified in individual award agreements.

*Termination of the Plans.* Unless terminated earlier, the stock incentives plans will continue in effect for nine years. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval to the extent such approval is required by applicable law. Shareholder approval is required for any amendment to our plans, if the amendment would adversely affect the grantee's rights under an outstanding award without the grantee's written consent, or change the board's authority to amend the plans subject to shareholders' approval.

#### Principal Terms of the 2011 Share Incentive Plan

The following paragraphs describe the principal terms of the 2011 Share Incentive Plan.

*Plan Administration.* The administrator of the 2011 Share Incentive Plan is our board of directors or the compensation committee of our board. The compensation committee or our board of directors, as appropriate, determines the provisions and terms and conditions of each award grant, and has discretionary power to interpret the terms of the plan. The plan administrator may delegate to a committee of one or more members of our board the authority to grant or amend awards to participants other than independent directors and executive officers of our company. Any grant or amendment of awards to any member of our board shall require approval by our board in accordance with our company's articles of association.

*Award Agreement.* Awards granted under the plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award, which may include the term of an award, the provisions applicable in the event the participant's employment or service terminates, and our company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an award.

*Eligibility.* We may grant awards to our employees, directors and consultants, including those of our affiliates. However, options that are intended to qualify as incentive share options within the meaning of Section 422 of the

Internal Revenue Code of 1986, as amended, may not be granted to employees of our affiliates or to independent directors or consultants.

*Acceleration of Awards upon Change in Control.* If the plan administrator anticipates the occurrence, or upon the occurrence, of a corporate transaction, the plan administrator may, in its sole discretion, provide for (i) any and all awards outstanding to terminate at a specific time in the future and shall give each participant the right to exercise the vested portion of such awards during a period of time as the plan administrator shall determine, or (ii) the purchase of any award for an amount of cash equal to the amount that could have been attained upon the exercise of such award, or (iii) the replacement of such award with other rights or property selected by the plan administrator in its sole discretion or the assumption of or substitution of such award by the successor or surviving corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices, or (iv) payment of award in cash based on the value of shares on the date of the corporate transaction plus reasonable interest on the award through the date when such award would otherwise be vested or have been paid in accordance with its original terms, if necessary to comply with Section 409A of the Internal Revenue Code of 1986.

*Exercise Price and Term of Awards.* The exercise price per share subject to an option shall be determined by the plan administrator and set forth in the award agreement which may be a fixed or variable price related to the fair market value of the ordinary shares. The exercise price per share subject to an option may be amended or adjusted in the absolute discretion of the plan administrator, the determination of which shall be final, binding and conclusive. For options that are intended to qualify as incentive share options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, the exercise price of any incentive share option granted to any individual who, at the date of grant, owns shares possessing more than ten percent of the total combined voting power of all classes of our shares may not be less than 110% of fair market value on the date of grant and such option may not be exercisable for more than five years from the date of grant.



*Vesting Schedule.* In general, our plan administrator determines or the evidence of the award specifies, the vesting schedule.

*Termination of the Plan.* The plan will expire on, and no award may be granted pursuant to the plan after, June 3, 2020. Awards that are outstanding after such date shall remain in force according to the terms of the plan and the applicable award agreement.

## C. Board Practices

### Board of Directors

Our board of directors consists of five directors. A director is not required to hold any shares in the company by way of qualification. Under our memorandum and articles of association, subject to any separate requirement for audit committee approval or compensation committee approval or unless disqualified by the chairman of the relevant board meeting, so long as a director discloses the nature of his or her interest in any contract, proposal or arrangement (including arrangement with respect to compensation to himself or herself or any other members of the board) in which he or she is materially interested, such a director may vote in respect of such contract, proposal or arrangement and may be counted in the quorum at such a meeting. A director may exercise all the powers of the company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

### Committees of the Board of Directors

We have established three committees under the board of directors: the audit committee, the compensation committee and the nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

*Audit Committee.* Our audit committee consists of Bang Zhang, Yunjie Liu and Fuya Zheng. Mr. Zhang, Mr. Liu and Mr. Zheng satisfy the "independence" requirements of Rule 5605 of Nasdaq Stock Market Rules and Rule 10A-3 under the Securities Exchange Act of 1934. Bang Zhang is the chair of our audit committee. The purpose of the audit committee is to assist our board of directors with its oversight responsibilities regarding: (i) the integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications and independence and (iv) the performance of our internal audit function and independent auditor. The

audit committee is responsible for, among other things:

· appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;

· reviewing with the independent auditors any audit problems or difficulties and management's response;

· discussing the annual audited financial statements with management and the independent auditors;

· reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;

· reviewing and approving all proposed related party transactions;

· meeting separately and periodically with management and the independent auditors; and

· monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

*Compensation Committee.* Our compensation committee consists of Fuya Zheng and Yunjie Liu. Mr. Zheng and Mr. Liu satisfy the “independence” requirements of Rule 5605 of Nasdaq Stock Market Rules. Mr. Zheng is the chairperson of our compensation committee. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our Chief Executive Officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person’s independence from management.

*Nominating and Corporate Governance Committee.* Our nominating and corporate governance committee consists of Song Wang and Yunjie Liu. Mr. Liu satisfies the “independence” requirements of Rule 5605 of Nasdaq Stock Market Rules. Mr. Wang is the chair of our nominating and corporate governance committee. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

#### Duties of Directors

Under Cayman Islands law, our directors have a duty of loyalty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. A shareholder has the right to seek damages if a duty owed by our directors is breached.

## Terms of Directors and Officers

Our officers are elected by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they are removed from office by special resolution or the unanimous written resolution of all shareholders. We do not have a mandatory retirement age for directors. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; or (ii) dies or is found by our company to be or becomes of unsound mind.

## D. Employees

We had 1,128, 861 and 611 employees as of December 31, 2015, 2016 and 2017, respectively. The following table sets forth the number of our employees by function as of December 31, 2017:

Functional Area	Number of Employees	% of Total	
Customer service	111	18.1	%
Sales and marketing	121	19.8	%
Research and development	271	44.4	%
Management and administration	108	17.7	%
Total	611	100.0	%

Of our total employees as of December 31, 2017, 518 were located in Beijing, 53 were located in other cities throughout China and 40 were located outside China. We remunerate our employees with a base salary as well as performance-based bonuses. We have also granted stock options to management and key employees in order to reward their performance and provide them with equity incentives. In February 2016, about 30 of our employees initiated arbitration for labor dispute against Xin Run, Beijing Shouming, Beijing Zhao Du and Xin Run's Tianjin Branch with Shunyi Labor Dispute Arbitration Committee and Chaoyang Labor Dispute Arbitration Committee. They withdrew the arbitration request in June 2016 and later re-initiated the arbitration proceeding in May 2017. The arbitrators ruled that our subsidiaries should pay compensation in the amount of approximately RMB0.6 million to those employees. The arbitration award was supported by the judgement of trial court. We have appealed the judgement to the appellate court in October 2017 and the appellate court dismissed the appeal and sustained the original judgement in October and November 2017. We believe that these are isolated cases and that our employee relations are good.

Our full time employees in the PRC participate in a government mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that our PRC subsidiaries make contributions to the government for these benefits based on a fixed percentage of the employees' salaries.

E. Share Ownership

Please refer to "Item 7 — Major Shareholders and Related Party Transactions."

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of March 31, 2018, by each of our directors and executive officers, and the beneficial ownership of our ordinary shares as of March 31, 2018 by each person known to us to own beneficially more than 5.0% of our ordinary share:

The calculations in the table below are based on 426,267,345 ordinary shares outstanding as of March 31, 2018 for the purpose of calculating the beneficial ownership in the following table. Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days following March 31, 2018, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage

ownership of any other person.

	<b>Ordinary Shares Beneficially Owned</b>		
	<b>Number</b>	<b>%</b>	
Directors and Executive Officers:			
Song Wang <sup>(1)</sup>	86,600,733	20.3	%
Jean Xiaohong Kou <sup>(2)</sup>	86,600,733	20.3	%
Yunjie Liu	—	—	
Fuya Zheng	—	—	
Bang Zhang	*	*	
Guangsheng Meng	—	—	
All Directors and Executive Officers as a Group	86,920,733	20.4	%
Principal Shareholders:			
Consolidated Capital Holdings Ltd. <sup>(1)(2)(3)</sup>	56,543,248	13.8	%
Investor AB <sup>(4)</sup>	42,391,092	10.4	%
FIL Limited <sup>(5)</sup>	40,300,208	9.8	%

\*Less than 1%.

Consists of (i) 56,487,472 ordinary shares and 3,486 ADSs representing 55,776 ordinary shares directly held by Consolidated Capital Holdings Ltd., (ii) 313,293 ordinary shares directly held by Harvest Century International Ltd., (iii) 18,864,096 ordinary shares that Mr. Song Wang has the right to acquire upon exercise or vesting of equity incentive awards within 60 days after March 31, 2018, and (iv) 10,880,096 ordinary shares that Mr. Wang's wife, Ms. Jean Xiaohong Kou has the right to acquire upon exercise or vesting of equities incentive awards within (1) 60 days after March 31, 2018. Song Wang and Jean Xiaohong Kou possess the power to direct the voting and disposition of the shares owned by Consolidated Capital Holdings Ltd. and Harvest Century International Ltd. through Hong Song Family Trust and are deemed to have shared voting and investment power over the shares held by Consolidated Capital Holdings Ltd. and Harvest Century International Ltd. The business address for Mr. Wang is Section A, Building 3, Dian Tong Creative Square, No. 7 Jiuxianqiao North Road, Chaoyang District, Beijing 100015, China.

See Note (1) above. Mr. Song Wang and Ms. Jean Xiaohong Kou are husband and wife, and may be deemed to share beneficial ownership of the shares and ADSs held by each other. The business address for Ms. Kou is (2) Section A, Building 3, Dian Tong Creative Square, No. 7 Jiuxianqiao North Road, Chaoyang District, Beijing 100015, China.

(3) The business address for Consolidated Capital Holdings Ltd. is c/o Jean Xiaohong Kou, Section A, Building 3, Dian Tong Creative Square, No. 7 Jiuxianqiao North Road, Chaoyang District, Beijing 100015, China.

Consists of (i) 22,954,468 ordinary shares and 419,996 ADSs, representing 6,719,936 ordinary shares held by Investor Investments Asia Limited, (ii) 9,836,608 ordinary shares and 180,005 ADSs representing 2,880,080 ordinary shares held by Investor Group Asia, L.P., as reported in a Schedule 13G/A filed on February 14, 2018 by (4) Investor AB. We refer to these funds collectively as Investor AB Funds. The business address for Investor AB Funds is Arsenalsgatan 8C, S-103, 32 Stockholm, Sweden. Investor AB, a limited liability company incorporated under the laws of Sweden, through one or more intermediate entities, possesses the sole power to vote and the sole power to direct the disposition of all the shares held by Investor AB Funds. Investor Group Asia, L.P. is a Guernsey limited partnership.

Consists of 40,300,208 ordinary shares beneficially owned by FIL Limited as reported in a Schedule 13G/A filed (5) on February 13, 2018 by FIL Limited and other filers. The business address for FIL Limited is Pembroke Hall, 42, Crow Lane, Hamilton, Bermuda.

To our knowledge, as of March 31, 2018, 386,583,680 of our ordinary shares, or approximately 84.8% of our total outstanding ordinary shares, were held by three record holders in the U.S., including Citibank, N.A., the depository of our ADS program. The number of beneficial owners of our ADSs in the U.S. is likely to be much larger than the number of record holders of our ordinary shares in the U.S. To our knowledge, we are not owned or controlled,

directly or indirectly, by another corporation, by any foreign government or by any other natural or legal persons, severally or jointly. None of our shareholders has different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

B. Related Party Transactions

Contractual Arrangements with Our Consolidated Variable Interest Entities

See “Item 4. Information on the Company — C. Organizational Structure — Contractual Arrangements with Our Consolidated Variable Interest Entities.”

Employment Agreements

See “Item 6. Directors, Senior Management and Employees — A. Directors and Senior Management — Employment Agreements.”



## Stock Incentive Plans

See “Item 6. Directors, Senior Management and Employees — B. Compensation — Stock Incentive Plans.”

## Private Placement

In March 2014, we issued and sold an aggregate of 53,855,569 ordinary shares, represented by 3,365,973 ADSs, to a group of institutional investors affiliated with Wellington Management Company, LLP for an aggregate purchase price of approximately US\$55.0 million in reliance on Regulation D under the Securities Act. In connection with the transaction, we have agreed to give the institutional investors the preemptive rights to subscribe for the new shares that may be issued by us in proportion to their shareholdings, and certain registration rights, including the filing with the SEC of a registration statement shortly after the filing of this annual report covering the resale of all of the shares acquired by the institutional investors in the transaction. Pursuant to the registration rights we granted to these institutional investors, we filed a registration statement on Form F-3 in April 2014 with respect to the proposed sale from time to time by such institutional investors of up to 3,365,973 ADSs of ours.

## Share Repurchase

Under our share repurchased programs established in December 2014, August 2015 and December 2015, respectively, we had repurchased an aggregate of 44,562,816 ordinary shares of us, represented by 2,785,176 ADSs, in the open market for an aggregate purchase price of approximately US\$21 million as of March 31, 2016. We did not make any repurchase of our shares since March 31, 2016.

## Transaction with Related Parties

In 2015 and 2016, Flashapp Inc., or Flashapp, provided services to us in the amount of RMB0.1 million and nil, respectively. As of December 31, 2016, we did not have any payables to Flashapp. The board of directors of Flashapp shall consist of five persons, where we, as a majority of Series A Preferred Shares, may appoint two directors. We, through the directors appointed, have the ability to exercise significant influence over the operating and financial policies of Flashapp and hence, Flashapp is a related party of us.

In September 2015, Xin Run increased its registered capital by US\$0.2 million, which was subscribed by Tianjin Shuishan and thus Xin Run was converted from a wholly foreign-owned enterprise to a sino-foreign joint venture with ChinaCache Networks (Hong Kong) Limited and Tianjin Shuishan each holding 99% and 1%, respectively, of its equity interest. In December 2015, we entered into definitive agreements for Xin Run, pursuant to which Tianjin Shuishan, KPIW (Beijing) Investment Fund Co., Ltd. and Tianjin Dingsheng will subscribe for 36%, 22% and 2%, respectively, of the post-investment equity interest in Xin Run for a consideration of RMB225.0 million, RMB137.5 million and RMB12.5 million, respectively. The agreements were later terminated. In March 2017, we entered into another set of definitive agreements for Xin Run, pursuant to which Tianjin Shuishan, Shanghai Qiaoyong and Tianjin Dingsheng will purchase 47.7%, 26.3% and 5.0%, respectively, of the equity interest in Xin Run for a consideration of RMB133.5 million, RMB73.7 million and RMB14.0 million, respectively. Tianjin Shuishan is owned by Mr. Song Wang and Ms. Jean Xiaohong Kou. On December 28, 2017, the board of approval to terminate the translation. On March 23, 2018, we entered into a termination agreement with relevant parties and terminated the equity transfer of Xin Run.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Please refer to Item 18.

## Legal Proceedings

We may become subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time.

We and certain of our current and former officers and directors have been named as defendants in a putative shareholder class action lawsuit filed in the U.S. District Court for the Central District of California (the “District Court”): *Xu v. ChinaCache International Holdings Ltd., et al.*, Civil Action No. 2:15-cv-07952-CAS-RAO (C.D. Cal.) (filed on October 9, 2015). The action — purportedly brought on behalf of a class of persons who allegedly suffered damages as a result of their trading activities related to our ADSs from March 27, 2015 to August 20, 2015 — alleges that certain of our statements in press releases, quarterly earnings calls, and an SEC filing contained misstatements or omissions related to our High Performance Cloud Cache platform and asserts claims under Sections 10(b) and 20(a) of the U.S. Securities Exchange Act. On January 5, 2016, the District Court appointed a lead plaintiff and approved the lead plaintiff’s selection of lead counsel. On February 19, 2016, the lead plaintiff filed a First Amended Complaint. On August 15, 2016, the District Court dismissed without prejudice the First Amended Complaint against our Company. On September 14, 2016, the lead plaintiff filed the Second Amended Complaint. On January 9, 2017, the District Court dismissed the Second Amended Complaint without prejudice, allowing plaintiff to file the Third Amended Complaint on or before January 30, 2017. On February 28, 2017, the lead plaintiff filed a motion for judgment on the pleadings, which the District Court granted on March 1, 2017. On March 6, 2017, the lead plaintiff filed a notice of appeal of the District Court’s order granting our company’s motion to dismiss and other related orders to the U.S. Court of Appeals for the Ninth Circuit (the “Court of Appeals”). On September 13, 2017, the lead plaintiff filed with the Court of Appeals a motion for extension of time to file its opening brief, reporting to the Court of Appeals that the lead plaintiff and we have reached an agreement in principle for the settlement of the purported class action, which settlement would require approval by the District Court. On September 14, 2017, the Court of Appeals granted the lead plaintiff’s motion for extension of time to file its opening brief. On February 14, 2018, the lead plaintiff filed an unopposed motion to remand the case to the District Court for the limited purpose of enabling the District Court to consider the parties’ settlement agreement, which motion was granted by the Court of Appeals on March 6, 2018. On March 28, 2018, the lead plaintiff filed an unopposed motion for preliminary approval of class action settlement in the District Court, requesting that the District Court a) preliminarily approve a settlement agreement that the parties reached to settle the case for USD 990,000, b) certify the proposed settlement class for settlement purposes only, c) approve the parties’ proposed form and method of giving settlement class members notice of the action and proposed settlement, and d) set a hearing at which the District Court will consider whether to grant final approval of the settlement, dismiss claims against defendants, approve the release of claims against all released parties, enter judgment, and award attorneys’ fees and expenses to co-lead counsel. The lead plaintiff’s unopposed motion is currently pending before the District Court.

We believe the case is without merit and intend to defend the action vigorously. For risks and uncertainties relating to the pending cases against us, please see “Item 3. Key Information—D. Risk Factors — Risks Related to Our ADSs — We have been named as a defendant in a putative shareholder class action lawsuit that could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.”

In August 2017, our PRC subsidiary, Xin Run, initiated a lawsuit against BFSMC in Beijing, arising out of the sales of data center buildings. We sought the payment of purchase price in the amount of RMB105.6 million and the relating interest. In September 2017, BFSMC filed the statement of defense and made a counterclaim, claiming, among others, the late delivery penalties and relating losses. Thereafter we filed a motion to dismiss BFSMC's counterclaim arguing that the court does not have the jurisdiction. Management is of the view that these proceedings are at a preliminary stage, therefore it is impossible at this stage to properly evaluate the outcome. Therefore, no provision has been made for this case. In April 2018, we were notified by the court that our motion was dismissed and as a result, the lawsuit is currently pending. In addition, Xin Run's bank deposits and other assets in a total amount of approximately RMB 50.5 million were sealed up, distrained or frozen by the court. On April 24, 2018, we amended our claim requesting, among other things, the defendant pay the additional purchase price of RMB96 million, damages for breach of contract in an amount of RMB14.4 million and the relating interest of RMB8.86 million. Management is of the view that these proceedings are at a preliminary stage, therefore it is impossible at this stage to properly evaluate the outcome. Therefore, no provision has been made for this case.

In October 2017, a subsidiary of BFSMC filed a lawsuit against Xin Run in the Shunyi District Court of Beijing requesting Xin Run pay overdue rent and the relating interest in a total amount of approximately RMB30 million. We filed a motion to dismiss for lack of jurisdiction. However, the motion was rejected by the court and as a result, this lawsuit is still pending. Management is of the view that these proceedings are at a preliminary stage, therefore it is impossible at this stage to properly evaluate the outcome. Therefore, no provision has been made for this case.

In view of the nature of the claims, both factual and legal, that were raised in the proceedings and given the stage of the proceedings, it is impossible at this stage to properly evaluate the prospect of the lawsuits being successful. See "Item3. Key Information — D. Risk Factor — If we are required to seek additional funding, such funding may not be available on commercially acceptable terms, if at all".

A claim was raised by the construction company of the data center buildings in 2017 against Xin Run, for the alleged non-payment of construction fees of RMB73.9 million and the relating interest. We believe that the claims are without merit and intend to defend the claims vigorously. We consider that given the preliminary status of the trial, our Company cannot reasonably predict the result and potential financial impact of this pending claim, if any. Therefore, no provision has been made against this pending claim.

#### Dividend Policy

We do not have any present plan to pay any dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and support our business.

Our board of directors has complete discretion whether to distribute dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

Holders of our ADSs will be entitled to receive dividends, if any, subject to the terms of the deposit agreement, to the same extent as the holders of our ordinary shares. Cash dividends will be paid to the depositary in U.S. dollars, which will distribute them to the holders of ADSs according to the terms of the deposit agreement. Other distributions, if any, will be paid by the depositary to the holders of ADSs by any means it deems legal, fair and practical.

We are a holding company incorporated in the Cayman Islands. We rely on dividends from our subsidiaries in China for our cash needs. Our PRC subsidiaries are required to comply with applicable PRC regulations when it pays dividends to us. See “Item 3. Key Information — D. Risk Factors — Risks Relating to Doing Business in China — 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.”

#### B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9.

THE OFFER AND LISTING

A.

Offering and Listing Details

See “— C. Markets.”

B.

Plan of Distribution

Not applicable.

C.

Markets

Our ADSs, each representing 16 of our ordinary shares, were listed on the Nasdaq Global Market since October 1, 2010. Since January 2, 2014, our ADSs were transferred to and listed on the Nasdaq Global Select Market. Our ADSs trade under the symbol “CCIH.” The following table provides the high and low trading prices for our ADSs on the Nasdaq since the date of our initial public offering.

The last reported closing price for our ADSs on April 27, 2018 was US\$1.25 per ADS.

	Market Price (US\$)	
	High	Low
Annual High and Low		
Fiscal Year 2013	10.64	3.50
Fiscal Year 2014	29.34	8.31
Fiscal Year 2015	15.69	4.69
Fiscal Year 2016	10.48	2.33
Fiscal Year 2017	3.05	0.72
Quarterly Highs and Lows		
First Fiscal Quarter of 2016	10.48	5.96
Second Fiscal Quarter of 2016	9.65	6.13
Third Fiscal Quarter of 2016	6.95	3.58
Fourth Fiscal Quarter of 2016	4.28	2.33
First Fiscal Quarter of 2017	2.80	1.45
Second Fiscal Quarter of 2017	1.78	0.82
Third Fiscal Quarter of 2017	1.17	0.72
Fourth Fiscal Quarter of 2017	3.05	0.85
First Fiscal Quarter of 2018	2.89	1.07
Monthly Highs and Lows		
October 2017	1.39	0.84
November 2017	1.26	0.96
December 2017	3.05	0.93
January 2018	2.89	1.69
February 2018	1.63	1.24
March 2018	1.45	1.07

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10.

ADDITIONAL INFORMATION

A.

Share Capital

Not applicable.

B.

Memorandum and Articles of Association

We are a Cayman Islands company and our affairs are governed by our amended and restated memorandum and articles of association, as amended from time to time, and the Companies Law (2016 Revision) of the Cayman Islands, which is referred to below as the Companies Law.

The following are summaries of the material provisions of our amended and restated memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our ordinary shares.

Registered Office and Objects

Our registered office in the Cayman Islands is located at Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. As set forth in article 3 of our amended and restated memorandum of association, the objects for which our company is established are unrestricted.



## Board of Directors

See “Item 6. Directors, Senior Management and Employees — C. Board Practices — Board of Directors” and “Item 6. Directors, Senior Management and Employees — C. Board Practices — Terms of Directors and Officers.”

## Ordinary Shares

*General.* Certificates representing the ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

*Dividends.* The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors, subject to the Companies Law.

*Voting Rights.* Each ordinary share is entitled to one vote on all matters upon which the ordinary shares are entitled to vote. Voting at any shareholders’ meeting is by show of hands unless a poll is demanded. A poll may be demanded by at least three shareholders entitled to vote at the meeting, or one or more shareholders holding at least 10% of the paid up voting share capital or 10% of the total voting rights entitled to vote at the meeting, present in person or by proxy.

A quorum required for a meeting of shareholders consists of at least one shareholder present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative, who holds no less than one third of our voting share capital. Shareholders’ meetings are held annually and may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate at least one-third of our voting share capital. Advance notice of at least 14 days is required for the convening of our annual general meeting and other shareholders’ meetings.

An ordinary resolution to be passed by the shareholders requires a simple majority of votes cast in a general meeting, while a special resolution requires no less than two-thirds of the votes cast. A special resolution is required for important matters such as a change of name. Our shareholders may effect certain changes by ordinary resolution, including increase the amount of our authorized share capital, consolidate and divide all or any of our share capital into shares of larger amount than our existing shares, and cancel any shares.

*Transfer of Shares.* Subject to the restrictions of our memorandum and articles of association, as applicable, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board.

Our board of directors may, in its sole discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our directors may also decline to register any transfer of any share unless (i) the instrument of transfer is lodged with us, accompanied by the certificate for the shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer; (ii) the instrument of transfer is in respect of only one class of shares; (iii) the instrument of transfer is properly stamped, if required; (iv) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four; (v) the shares conceded are free of any lien in favor of us; or (vi) a fee of such maximum sum as the Nasdaq may determine to be payable, or such lesser sum as our board of directors may from time to time require, is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal. The registration of transfers may, on 14 days' notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year.

*Liquidation.* On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

*Calls on Shares and Forfeiture of Shares.* Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time of payment. The shares that have been called upon and remain unpaid on the specified time are subject to forfeiture.

*Redemption of Shares.* Subject to the provisions of the Companies Law, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as may be determined by our board of directors.

*Variations of Rights of Shares.* All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the written consent of the holders of a majority of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking in priority to or *pari passu* with such previously existing shares.

*Inspection of Books and Records.* Holders of our ordinary shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, each annual statement on Form 20-F that we file with the SEC includes, among other things, annual audited financial statements and certain shareholding information for our directors and officers and principal shareholders.

*Anti-Takeover Provisions.* Some provisions of our amended and restated memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our amended and restated memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

*Limitations on the Right to Own Shares.* There are no limitations on the right to own our ordinary shares.

C.

Material Contracts

For the two years immediately preceding the date of this annual report, we have not entered into any material contracts other than in the ordinary course of business and other than those described below or in “Item 4. Information on the Company” or elsewhere in this annual report.

In March 2017, we entered into a set of definitive agreements for Xin Run, pursuant to which Tianjin Shuishan, Shanghai Qiaoyong and Tianjin Dingsheng will purchase 47.7%, 26.3% and 5.0%, respectively, of the equity interest in Xin Run for a consideration of RMB133.5 million, RMB73.7 million and RMB14.0 million, respectively (the “Equity Transfer of Xin Run”). Tianjin Shuishan is owned by Mr. Song Wang and Ms. Jean Xiaohong Kou. On December 28, 2017, the board of approval to terminate the translation. On March 23, 2018, we entered into a termination agreement with relevant parties and terminated the Equity Transfer of Xin Run.

On October 30, 2017, one of our PRC subsidiaries, Xin Run, entered into a series of loan agreements with Fushun Bank Co., Ltd., Shenyang Branch, under which Xin Run can borrow a mortgage loan of RMB90.0 million and a working capital loan of RMB150.0 million. The loans have a repayment schedule of three years. Our Chairman and CEO, Mr. Song Wong, provided guarantees to these loans.

On December 21, 2017, Xin Run entered into a loan agreement with Shenyang Rural & Commercial Bank Co., Ltd., Shenhe Branch, under which Xin Run may borrow for a maximum amount of RMB220 million with the term expiring on December 20, 2022. The loan was guaranteed by certain real properties and land use rights owned by Xin Run and certain personal properties owned by Mr. Song Wang and Ms. Jean Xiaohong Kou.

On December 29, 2017, Xin Run entered into a framework agreement with People.cn, under which, among others, Xin Run will transfer 100% equity interest in Beijing Shuoge Technology Co., Ltd. to People.cn subject to terms and conditions to be set forth in a definitive equity transfer agreement.

#### D.

#### Exchange Controls

The Cayman Islands currently has no exchange control restrictions. See also “Item 4. Information on the Company— B. Business Overview—Regulation—Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents,” “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Foreign Currency Exchange” and “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Dividend Distribution.”

#### E.

#### Taxation

The following summary of the material Cayman Islands, People’s Republic of China and U.S. federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws. To the extent that the discussion relates to matters of Cayman Islands tax law, it is the opinion of Conyers, Dill & Pearman, our Cayman Islands counsel, and to the extent it relates to PRC tax law, it is the opinion of Han Kun Law Offices, our PRC counsel.

#### Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us or an investor in ADSs or ordinary shares levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

#### People's Republic of China Taxation

Under the PRC enterprise income tax law, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise” of the PRC. A circular issued by the SAT on April 22, 2009, or the 2009 Circular, clarified that dividends and other income paid by certain offshore enterprises controlled by a PRC company or a PRC company group established outside of the PRC will be considered PRC-source income and subject to PRC withholding tax, currently at a rate of 10%, when paid to non-PRC resident enterprise shareholders and 20% for shareholders who are non-PRC resident individuals. Under the implementation regulations to the enterprise income tax law, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the 2009 Circular specifies that certain offshore enterprises controlled by a PRC company or a PRC company group will be classified as PRC resident enterprises if the following are located or resident in the PRC: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, the company seal, and minutes of board meetings and shareholders’ meetings; and half or more of the senior management or directors having voting rights. Although the 2009 Circular only applies to offshore enterprises controlled by PRC enterprises and not those controlled by PRC individuals, the determining criteria set forth in the 2009 Circular may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. We are incorporated in the Cayman Islands. We believe that we are not a PRC resident enterprise. However, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our non-PRC resident enterprise shareholders and a 20% withholding tax for our non-PRC resident individual shareholders, including the holders of our ADSs. In addition, non-PRC shareholders may be subject to PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC shareholders would be able to claim the benefits of any tax treaties between their tax residence and the PRC in the event that we are treated as a PRC resident enterprise. See “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — Under China’s Enterprise Income Tax Law, we may be classified as a ‘resident enterprise’ of China. Such classification could result in unfavorable tax consequences to us and our non-PRC resident shareholders.”

In January 2009, the SAT promulgated the Provisional Measures for the Administration of Withholding of Enterprise Income Tax for Non-resident Enterprises, or the Non-resident Enterprises Measures, pursuant to which the entities that have the direct obligation to make certain payments to a non-resident enterprise shall be the relevant tax withholders for such non-resident enterprise. Further, the Non-resident Enterprises Measures provides that in case of an equity transfer between two non-resident enterprises which occurs outside China, the non-resident enterprise which receives the equity transfer payment shall, by itself or engage an agent to, file tax declaration with the PRC tax authority located at place of the PRC company whose equity has been transferred, and the PRC company whose equity has been transferred shall assist the tax authorities to collect taxes from the relevant non-resident enterprise. On April 30, 2009, the MOF and the SAT jointly issued the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59. On December 10, 2009, the SAT issued the Notice on Strengthening the Administration of the Enterprise Income Tax concerning Proceeds from Equity Transfers by Non-resident Enterprises, or Circular 698. Both Circular 59 and Circular 698 became effective retroactively as of January 1, 2008. By promulgating and implementing these two circulars, the PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise.

On February 3, 2015, the SAT issued a Public Notice (2015) No.7, or Public Notice 7, to supersede the existing tax rules in relation to the Indirect Transfer as set forth in Circular 698, while the other provisions of Circular 698 remain in force. Public Notice 7 introduces a new tax regime that is significantly different from that under Circular 698. Public Notice 7 extends its tax jurisdiction to capture not only Indirect Transfer as set forth under Circular 698 but also transactions involving transfer of immovable property in China and assets held under the establishment and place, in China of a foreign company through the offshore transfer of a foreign intermediate holding company. Public Notice 7 also addresses the term transfer of the equity interest in a foreign intermediate holding company widely. In addition, Public Notice 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and introduces safe harbor scenarios applicable to internal group restructurings on. However, it also brings challenges to both the foreign transferor and transferee of the Indirect Transfer as they have to make self-assessment on whether the transaction should be subject to PRC tax and to file or withhold the PRC tax accordingly.

On October 17, 2017, the State Administration of Taxation issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Bulletin 37, which came into effect on December 1, 2017 and concurrently abolished the Non-resident Enterprises Measures and Circular 698. The SAT Bulletin 37 further clarifies the practice and procedure of the withholding of non-tax resident enterprise income tax. Pursuant to Circular 7 and SAT Bulletin 37, both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties on the reporting and consequences on private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our company and other non-resident enterprises in our group may be subject to filing obligations or being taxed if our company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our company and other non-resident enterprises in our group are transferees in such transactions, under Public Notice 7 and/or SAT Bulletin 37. For the transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under Public Notice 7 and/or SAT Bulletin 37.

The PRC tax authorities have the discretion under SAT Circular 59, Public Notice 7 and SAT Bulletin 37 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of investment.

On May 1, 2017 a SAT Public Notice (2017) No. 6, or Public Notice 6, came into effect, which supersedes the Public Notice No. 16 issued by SAT on March 18, 2015. Public Notice 6 further regulates the transfer pricing administration, the method and process of special tax investigation, as well as the management of mutual consultation process. Public Notice 6 provides certain circumstances where the tax authorities may implement special tax adjustment to the taxable income based on the full amount deducted before tax, including payments to an overseas related party which does not undertake any function, bear any risk or has no substantial operation or activities and which do not comply with arm's-length principles, payments to a related party for non-beneficial services, and royalties paid to a related party which only owns the legal rights of the intangible assets but has no contribution to the creation of such intangible assets and which do not comply with arm's-length principles or royalties paid to a related party where such intangible assets do not yield any economic benefits and which do not comply with arm's-length principles. Although we believe all of our related party transactions, including all payments by our PRC subsidiaries and consolidated affiliated entities to our non-PRC entities, are made on an arm's-length basis and our estimates are reasonable, the ultimate decisions by the relevant tax authorities may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

#### U.S. Federal Income Tax Considerations

The following discussion is a summary of U.S. federal income tax consequences of the ownership and disposition of our ADSs or ordinary shares by a U.S. Holder described below that acquires and holds our ADSs or ordinary shares as "capital assets" (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended, or the Code. This summary is based upon existing U.S. federal tax law and the regulations, rulings, and decisions thereunder, all of which are subject to differing interpretations or change, possibly with retroactive effect. This summary does not discuss all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual investment circumstances, including investors subject to special tax rules (for example, banks, financial institutions, regulated investment companies or real estate investment trusts, insurance companies,



broker-dealers, traders in securities that elect mark-to-market treatment, partnerships and their partners, tax-exempt organizations (including private foundations), investors who own (directly, indirectly, or constructively) 10% or more of our voting stock, investors that will hold our ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for U.S. federal income tax purposes, certain expatriates or former long-term residents of the U.S., persons liable for alternative minimum tax, governments or agencies or instrumentalities thereof, persons holding ADSs or ordinary shares through partnerships or other pass-through entities, persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as consideration, or investors that have a functional currency other than the U.S. dollar), all of whom may be subject to tax rules that differ significantly from those summarized below.

In addition, this summary does not discuss the Medicare tax on net investment income or any state, local, or estate or gift tax considerations and, except for the limited instances where PRC tax law and potential PRC taxes are discussed below, does not discuss any non-U.S. tax considerations. Each U.S. Holder is urged to consult its tax advisor regarding the U.S. federal, state, local, and non-U.S. income and other tax considerations of an investment in our ADSs or ordinary shares.

## General

For purposes of this summary, a “U.S. Holder” is a beneficial owner of our ADSs or ordinary shares that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the U.S., (ii) a corporation (or other entity treated as a corporation) created in, or organized under the law of, the U.S. or any state thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise elected to be treated as a U.S. person under applicable U.S. Treasury regulations.

If a partnership is a beneficial owner of our ADSs or ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partners of a partnership holding our ADSs or ordinary shares are urged to consult their tax advisors regarding an investment in our ADSs or ordinary shares.

For U.S. federal income tax purposes, U.S. Holders of ADSs should be treated as the beneficial owners of the underlying shares represented by the ADSs. The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement have been and will be complied with in accordance with the terms.

## Passive Foreign Investment Company Considerations

A non-U.S. corporation, such as our company, will be classified as a “passive foreign investment company”, or PFIC, for U.S. federal income tax purposes for any taxable year, if either (i) at least 75% of its gross income for such year consists of certain types of “passive” income or (ii) at least 50% of the value of its assets (determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. For this purpose, cash and assets readily convertible into cash are categorized as passive assets and the total value of assets will be calculated with reference to the market value of the corporation. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

Although the law in this regard is not entirely clear, we treat Beijing Blue I.T. and Beijing Jingtian as being owned by us for U.S. federal income tax purposes, because we control their management decisions and are entitled to substantially all of their economic benefits, and, as a result, we consolidate these entities’ results of operations in our consolidated, U.S. GAAP financial statements. If it were determined, however, that we are not the owner of Beijing

Blue I.T. and Beijing Jingtian for U.S. federal income tax purposes, we would likely be treated as a PFIC for the current year and any other taxable year.

Assuming that we are the owner of Beijing Blue I.T. and Beijing Jingtian for U.S. federal income tax purposes, we believe that we primarily operate as an active provider of content and application delivery total solutions in China. Based on the market price of our ADSs and ordinary shares, the value of our assets, and the composition of our assets and income, we do not believe that we were a PFIC for the taxable year ended December 31, 2016 and we do not expect to be a PFIC for the current taxable year. However, we can give no assurances with respect to our PFIC status for past or future taxable years as the PFIC determination is inherently factual and the application of the PFIC rules is subject to ambiguity in several aspects.

The determination of whether we are a PFIC is a fact-intensive determination made annually. Accordingly, no assurance can be given that we are not, or will not, become classified as a PFIC for the current or any future taxable year due to changes in our asset or income composition. Because the total value of our assets for purposes of the asset test generally will be calculated with reference to the market value of our equity, a decrease in the price of our ADSs may also result in our becoming a PFIC. In addition, because of uncertainties in the application of the relevant rules (as described above), it is possible that the U.S. Internal Revenue Service, or IRS, may successfully challenge our classification of certain income items and assets as non-passive or our valuation of our tangible and intangible assets, each of which may result in our company becoming classified as a PFIC for the current or any other taxable year. If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares, you will become subject to special tax rules discussed below. You are urged to consult with your tax advisor regarding the consequences of potentially holding an interest in a PFIC, and the ramifications of making a “deemed sale” election, as discussed further below.

The discussion below under “Dividends” and “Sale or Other Disposition of ADSs or Ordinary Shares” assumes that we will not be classified as a PFIC for U.S. federal income tax purposes. The U.S. federal income tax rules that apply if we are classified as a PFIC for the current or any subsequent taxable year are generally discussed below under “Passive Foreign Investment Company Rules.”

## Dividends

Any cash distributions (including the amount of any PRC tax withheld if we are deemed to be a resident enterprise under the PRC Enterprise Income Tax Law) paid with respect to our ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of ordinary shares, or by the depositary bank, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution paid will generally be treated as a “dividend” for U.S. federal income tax purposes. Dividends received with respect to our ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to corporations.

A non-corporate recipient of dividend income generally will be subject to tax on dividend income from a “qualified foreign corporation” at the lower capital gain tax rate applicable to “qualified dividend income,” rather than the marginal tax rates generally applicable to ordinary income, provided that certain holding period and other requirements are met. U.S. Holders should consult their tax advisors regarding the availability of the reduced tax rate on dividends in their particular circumstances.

For U.S. foreign tax credit purposes, dividends generally will be treated as income from foreign sources and generally will constitute passive category income. In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid, if any, on our ADSs or ordinary shares. A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any non-refundable foreign withholding taxes imposed on dividends received with respect to our ADSs or ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld, may instead claim a deduction, for U.S. federal income tax purposes, in respect of such withholdings, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

## Sale or Other Disposition of ADSs or Ordinary Shares

A U.S. Holder will generally recognize capital gain or loss upon the sale or other disposition of our ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the holder's adjusted tax basis in such ADSs or ordinary shares. Any capital gain or loss will be long-term if such ADSs or ordinary shares have been held for more than one year and will generally be U.S. source gain or loss for U.S. foreign tax credit purposes. Long-term capital gain recognized by non-corporate U.S. Holders is generally subject to U.S. federal income tax at favorable rates. The deductibility of a capital loss may be subject to limitations. In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law and gain from the disposition of our ADSs or ordinary shares is subject to tax in the PRC, such gain may be treated as PRC source gain for foreign tax credit purposes under the U.S.-PRC income tax treaty. U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit under their particular circumstances.

## Passive Foreign Investment Company Rules

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares, unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125% of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition, including, under certain circumstances, a pledge, of our ADSs or ordinary shares. Under the PFIC rules the:

- excess distribution and/or gain will be allocated ratably over the U.S. Holder's holding period for our ADSs or ordinary shares;
- amount allocated to the current taxable year and any taxable years in the U.S. Holder's holding period prior to the first taxable year in which we are classified as a PFIC, or a pre-PFIC year, will be taxable as ordinary income;
- the amount allocated to each of the other taxable years will be subject to tax at the highest rate of tax in effect for such U.S. Holder for such year and will be increased by an additional tax equal to interest on the resulting tax deemed deferred with respect to each such other taxable year.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares and any of our non-U.S. subsidiaries is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC and would be subject to the rules described above on certain distributions by a lower-tier PFIC and a disposition of shares of a lower-tier PFIC even though such U.S. Holder would not receive the proceeds of those distributions or dispositions. U.S. Holders should consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary share, our ADSs or ordinary shares generally will continue to be treated as shares in a PFIC for all succeeding years during which a U.S. Holder holds our ADSs or ordinary shares, unless we cease to be a PFIC and the U.S. Holder makes a "deemed sale" election with respect to the ADSs or ordinary shares. If you make a deemed sale election, you will be deemed to have sold the ADSs or ordinary shares you hold at their fair market value as of the last day of the last year during which we were a PFIC. Any gain from such deemed sale would be taxed as an excess distribution as described above. You are urged to consult your tax adviser regarding our possible status as a PFIC as well as the benefit of making a deemed sale election.

As an alternative to the foregoing rules, a holder of "marketable stock" (as defined below) in a PFIC may make a mark-to-market election with respect to such stock. If we are a PFIC, and a U.S. Holder makes this election with respect to our ADSs, the holder will generally (i) include as ordinary income for each taxable year that we are a PFIC

the excess, if any, of the fair market value of our ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of our ADSs over the fair market value of such ADSs held at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. Holder's adjusted tax basis in our ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of our ADSs and we cease to be classified as a PFIC, the holder will not be required to take into account the mark-to-market gain or loss described above during any period we are not classified as a PFIC. If a U.S. Holder makes a mark-to-market election, any gain such U.S. Holder recognizes upon the sale or other disposition of our ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. The mark-to-market election is available only for "marketable stock," which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter, or regularly traded, on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. If our ADSs continue to be listed on the Nasdaq and are regularly traded, we expect that the mark-to-market election would be available with respect to our ADSs, but we do not believe that such election would be available for our ordinary shares.

Because, as a technical matter, a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the PFIC rules with respect to such U.S. Holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections, which, if available, would result in tax treatment different from the general tax treatment for PFICs described above.

If a U.S. Holder owns our ADSs or ordinary shares during any taxable year that we are a PFIC, the holder must file an annual report with the IRS. In the case of a U.S. Holder who has held our ADSs or ordinary shares during any taxable year in respect of which we were classified as a PFIC and continues to hold such ADSs or ordinary shares (or any portion thereof) and has not previously determined to make a mark-to-market election, and who is now considering making a mark-to-market election, special tax rules may apply relating to purging the PFIC taint of such ADSs or ordinary shares. Each U.S. Holder is urged to consult its tax advisor concerning the U.S. federal income tax consequences of purchasing, holding, and disposing of our ADSs or ordinary shares if we are or become classified as a PFIC, including the possibility of making a mark-to-market or deemed sale election.

#### Information Reporting and Backup Withholding

Dividend payments with respect to our ADSs or ordinary shares and proceeds from the sale, exchange or redemption of our ADSs or ordinary shares may be subject to information reporting to the IRS and U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification, or who is otherwise exempt from backup withholding. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability, and a U.S. Holder generally may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

#### F. Dividends and Paying Agents

Not applicable.

#### G. Statements by Experts

Not applicable.



H.

Documents on Display

We previously filed with the SEC a registration statement on Form F-1 (Registration No. 333-169288), as amended, including the prospectus contained therein, to register our ordinary shares. We have also filed with the SEC a related registration statement on F-6 (Registration No. 333-169390) to register the ADSs. We have previously filed with the SEC a registration statement on Form F-3 (Registration No. 333-195192) with respect to the proposed sale from time to time by certain of our shareholders of up to 3,365,973 ADSs of ours.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC, including filing annually a Form 20-F within four months after the end of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish Citibank, N.A., the depositary of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, upon our written request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depositary from us.

In accordance with Nasdaq Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at [www.chinacache.com](http://www.chinacache.com).

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Our consolidated financial statements are expressed in RMB, which is our reporting currency. ChinaCache Holdings, ChinaCache Beijing, Beijing Blue I.T. and Beijing Jingtian determine their functional currency to be the RMB, while ChinaCache U.S. ChinaCache Network (Hong Kong) Limited, ChinaCache Ireland and ChinaCache UK determine their functional currency to be the U.S. dollar, Hong Kong dollar, Euro and G.B. pound. However, substantially all of our businesses are transacted in RMB. We earn substantially all of our revenues and incur most of our expenses in RMB. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk. Although in general, our exposure to foreign exchange risks should be limited, the value of an investment in our ADSs will be affected by the exchange rate between the U.S. dollar and the RMB because the value of our business is denominated in RMB, while the ADSs are traded in U.S. dollars.

The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation was halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. It is

difficult to predict how long the current situation may last and when and how RMB exchange rates may change in the future. To the extent that we need to convert U.S. dollars into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amounts available to us.

#### Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits, and interest expenses attributable to short term and long term loans. As of December 31, 2016 and 2017, RMB118,835,000 and RMB 91,587,000 (US\$14,077,000), respectively, were deposited with major financial institutions located in the PRC, RMB51,108,000 and RMB2,129,000 (US\$327,000), respectively, were deposited with in the major financial institutions located in the Hong Kong Special Administration Region, RMB1,218,000 and RMB253,000 (US\$39,000), respectively were held in major financial institutions located in Europe, RMB 3,078,000 (US\$473,000) as of December 31, 2017 was deposited with major financial institutions located in the UK and RMB43,978,000 and RMB6,666,000 (US\$960,000), respectively were held in major financial institutions in the United States of America. We have not used derivative financial instruments in our investment portfolio. Interest earning instruments carry a degree of interest rate risk. We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges

Holders of our ADSs will be required to pay the following service fees to the depositary bank:

<b>Service</b>	<b>Fees</b>
Issuance of ADSs	Up to U.S. 5¢ per ADS issued
Cancellation of ADSs	Up to U.S. 5¢ per ADS canceled
Distribution of cash dividends or other cash distributions	Up to U.S. 5¢ per ADS held
Distribution of ADSs pursuant to stock dividends, free stock distributions or exercise of rights	Up to U.S. 5¢ per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to U.S. 5¢ per ADS held
Depositary Services	Up to U.S. 5¢ per ADS held on the applicable record date(s) established by the depositary bank

Holders of our ADSs will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges such as:

- fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of ordinary shares);
- expenses incurred for converting foreign currency into U.S. dollars;
- expenses for cable, telex and fax transmissions and for delivery of securities;
- taxes and duties upon the transfer of securities (i.e., when ordinary shares are deposited or withdrawn from deposit);
- and
- fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.

Depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividend, rights), the depositary bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary banks.

In the event of refusal to pay the depositary fees, the depositary bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

The fees and charges holders of our ADSs may be required to pay may vary over time and may be changed by us and by the depositary bank. Holders of our ADSs will receive prior notice of such changes.

The depositary bank may reimburse us for certain expenses incurred by us in respect of the ADR program established pursuant to the deposit agreement, by making available a portion of the depositary fees charged in respect of the ADR program or otherwise, upon such terms and conditions as the Company and the depositary bank may agree from time to time. In 2017, we received approximately US\$93,122.07, net of applicable withholding taxes in the U.S., from the depositary as reimbursement for our expenses incurred in connection with the establishment and maintenance of the ADS program.

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Material Modifications to the Rights of Security Holders

See “Item 10. Additional Information — B. Memorandum and Articles of Association — Ordinary Shares” for a description of the rights of securities holders, which remain unchanged.

Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File Number: 333-169288), or the F-1 Registration Statement, in relation to our initial public offering of 5,014,100 ADSs representing 80,225,600 of our ordinary shares, and the underwriters’ full exercise of their option to purchase from us an additional 909,147 ADSs representing 14,546,352 ordinary shares, at an initial offering price of US\$13.90 per ADS. Our initial public offering closed in October 2010. Merrill Lynch, Pierce, Fenner & Smith Incorporated and Deutsche Bank Securities Inc. were the representatives of the underwriters for our initial public offering.

We received net proceeds of approximately US\$74.9 million from our initial public offering. For the period from September 30, 2010, the date that the F-1 Registration Statement was declared effective by the SEC, As of December 31, 2017, we used net proceeds from our initial public offering as follows:

- approximately US\$28.5 million to expand our research and development efforts and build our cloud infrastructure;
- approximately US\$28.3 million capital expenditure for network and other equipment; and
- approximately US\$18.1 million for general corporate purposes.

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act. Based upon this evaluation, our management, with the participation of our chief executive officer and chief financial officer, has concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in by the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.



Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an assessment of the design and operation effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, we used the criteria established within the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Based on this assessment, our management has concluded that, as of December 31, 2017, our internal control over financial reporting was effective.

***Attestation Report of the Registered Public Accounting Firm***

Because the Company is a non-accelerated filer, this annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting.

## Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

### Item 16A.

### AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Bang Zhang and Fuya Zheng, independent directors (under the standards set forth in Nasdaq Stock Market Rule 5605(a)(2) and Rule 10A-3 under the Exchange Act) and members of our audit committee, are both audit committee financial experts.

### Item 16B.

### CODE OF ETHICS

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers, employees and advisors, which became effective upon the completion of our initial public offering in October 2010.

In November 2016, our board of directors adopted amendment to the code of business conduct and ethics, which has been posted on our website at [www.chinacache.com](http://www.chinacache.com).

### Item 16C.

### PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by the categories specified below in connection with certain professional services rendered by Ernst & Young Hua Ming LLP, our independent registered public accounting firm for the years ended December 31, 2016 and 2017. We did not pay any other fees to our auditors during the periods indicated below.

2016	2017
US\$	US\$
(in thousands)	

Audit fees <sup>(1)</sup>	1,101	778
Tax fees <sup>(2)</sup>	128	68
Other fees <sup>(3)</sup>	97	-

(1) “Audit fees” represent the aggregate fees billed for professional services rendered by our principal auditors for the audit of our annual consolidated financial statements.

(2) “Tax fees” represent the aggregate fees billed for professional services rendered by our principal auditors for tax compliance, tax advice and tax planning.

(3) “Other fees” represent the aggregate fees billed by our principal auditors for services rendered other than services reported under “Audit fees”, “Audit-related fees” and “Tax fees”.

The policy of our audit committee is to pre-approve all audit and non-audit services to be provided by Ernst & Young Hua Ming LLP, including audit services, audit-related services, tax services and other services are described above, other than those for de minimus services which are approved by the audit committee prior to the completion of the audit.

Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

There were no purchases of equity securities made by or on behalf of us or any “affiliated purchaser” as defined in Rule 10b-18 of the Exchange Act during the fiscal year ended December 31, 2017.

Item 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

Item 16G. CORPORATE GOVERNANCE

We are incorporated in the Cayman Islands and our corporate governance practices are governed by applicable Cayman Islands law, our memorandum and articles of association. In addition, because our ADSs are listed on NASDAQ, we are subject to NASDAQ's corporate governance requirements.

NASDAQ Listing Rule 5615(a)(3) permits a foreign private issuer like us to follow home country practices in lieu of certain requirements of Listing Rule 5600, provided that such foreign private issuer discloses in its annual report filed with the SEC each requirement of Rule 5600 that it does not follow and describes the home country practice followed in lieu of such requirement.

Nasdaq Stock Market Rule 5605 requires that a nomination committee be comprised solely of independent directors. We have elected to follow home country practice with respect to the composition of our nominating and corporate governance committee and the annual shareholder meetings. Our nominating and corporate governance committee consists of Song Wang and Yunjie Liu. Mr. Liu satisfies the “independence” requirements of Rule 5605 of Nasdaq Stock Market Rules. Mr. Wang, the chair of our nominating and corporate governance committee, is our founder and chief executive officer.

In addition, we have also elected to follow home country practice with respect to annual meetings and did not hold an annual meeting of shareholders in 2017. It is our intention not to hold annual shareholder meetings in the future unless we have specific matters that require shareholders’ approvals.

Other than the two matters described above, there are no significant differences between our corporate governance practices and those followed by U.S. domestic companies under Nasdaq Stock Market Rules.

Item 16H.

MINE SAFETY DISCLOSURE

Not applicable.

Item 17.

FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

Item 18.

FINANCIAL STATEMENTS

The consolidated financial statements of ChinaCache International Holdings Limited are included at the end of this annual report.

Item 19.

EXHIBITS

**Exhibit  
Number**

**Description of Document**

- |            |  |
|------------|--|
| <u>1.1</u> | <u>Fifth Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1, as amended (File No. 333-169288))</u> |
| <u>2.1</u> | <u>Registrant's Specimen American Depositary Receipt (included in Exhibit 4.3) (incorporated herein by reference to Exhibit 4.1 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>         |
| <u>2.2</u> | <u>Registrant's Specimen Certificate for Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>                               |

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Exhibit Number	Description of Document
2.3	<u>Deposit Agreement dated September 30, 2010, among the Registrant, the depositary and holder of the American Depositary Receipts (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form S-8 (File No. 333-172962))</u>
4.1	<u>Third Amended and Restated Investors' Rights Agreement dated August 13, 2010, among the Registrant, Series A, B and C investors, and other parties thereto (incorporated herein by reference to Exhibit 4.4 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.2	<u>2007 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.3	<u>2008 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.4	<u>2010 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.5	<u>2011 Share Incentive Plan, as amended (incorporated by reference to Exhibit 4.7 to the Registrant's annual report on Form 20-F, as amended (File No. 001-34873), initially filed with the SEC on April 26, 2013)</u>
4.6	<u>Form of Indemnification Agreement between the Registrant and its directors (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.7	<u>Form of Employment Agreement between the Registrant and an Executive Officer of the Registrant (incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.8	<u>English translation of Loan Agreement dated September 23, 2005, between the Registrant and the shareholders of Beijing Blue I.T. (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.9	<u>English translation of Supplementary Agreement to Loan Agreement dated May 10, 2010, between the Registrant and the shareholders of Beijing Blue I.T. (incorporated herein by reference to Exhibit 10.10 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.10	<u>Loan Agreements dated January 20, 2016, between the Registrant and each shareholder of Beijing Blue I.T. (incorporated by reference to Exhibit 4.10 to the Registrant's annual report on Form 20-F (File No. 001-34873), filed with the SEC on April 27, 2016)</u>
4.11	<u>English translation of Share Pledge Agreements dated September 23, 2005 among ChinaCache Beijing, Beijing Blue I.T. and the shareholders of Beijing Blue I.T. (incorporated herein by reference to Exhibit 10.11 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.12	<u>English translation of Powers of Attorney dated September 23, 2005 by the shareholders of Beijing Blue I.T. (incorporated herein by reference to Exhibit 10.12 to the registration statement on Form F-1, as amended (File No. 333169288))</u>
4.13	<u>English translation of Exclusive Business Cooperation Agreement dated September 23, 2005, between ChinaCache Beijing and Beijing Blue I.T. (incorporated herein by reference to Exhibit 10.13 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.14	<u>English translation of Exclusive Technical Consultation and Training Agreement dated September 23, 2005, between ChinaCache Beijing and Beijing Blue I.T. (incorporated herein by reference to Exhibit 10.14 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.15	<u>English translation of Exclusive Technical Support and Service Agreement dated September 23, 2005, between ChinaCache Beijing and Beijing Blue I.T. (incorporated herein by reference to Exhibit 10.15 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.16	

English translation of Equipment Leasing Agreement dated September 23, 2005, between ChinaCache Beijing and Beijing Blue I.T. (incorporated herein by reference to Exhibit 10.16 to the registration statement on Form F-1, as amended (File No. 333-169288))

Exhibit Number	Description of Document
4.17	<u>English translation of Exclusive Option Agreements dated September 23, 2005, among the Registrant, Beijing Blue I.T. and the shareholders of Beijing Blue I.T. (incorporated herein by reference to Exhibit 10.17 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.18	<u>English translation of Supplementary Agreements to Exclusive Option Agreement dated May 10, 2010, among the Registrant, Beijing Blue I.T. and the shareholders of Beijing Blue I.T. (incorporated herein by reference to Exhibit 10.18 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.19	<u>Exclusive Option Agreements dated January 20, 2016, among the Registrant, Beijing Blue I.T. and each shareholder of Beijing Blue I.T. (incorporated by reference to Exhibit 4.19 to the Registrant's annual report on Form 20-F (File No. 001-34873), filed with the SEC on April 27, 2016)</u>
4.20	<u>English translation of Loan Agreements dated July 31, 2008, between ChinaCache Beijing and the shareholders of Beijing Jingtian (incorporated herein by reference to Exhibit 10.19 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.21	<u>English translation of Supplementary Agreements to Loan Agreements dated May 10, 2010, among the Registrant, ChinaCache Beijing and the shareholders of Beijing Jingtian (incorporated herein by reference to Exhibit 10.20 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.22	<u>English translation of Supplementary Agreements to Loan Agreements dated December 3, 2012, between ChinaCache Beijing and the two shareholders of Beijing Jingtian (incorporated by reference to Exhibit 4.25 to the Registrant's annual report on Form 20-F, as amended (File No. 001-34873), initially filed with the SEC on April 26, 2013)</u>
4.23	<u>English translation of Loan Assignment Agreement dated July 1, 2013, between Xinxin Zheng and Lei Wang (incorporated by reference to Exhibit 4.26 to the Registrant's annual report on Form 20-F (File No. 001-34873), filed with the SEC on April 7, 2014)</u>
4.24	<u>English translation of the Share Pledge Agreements dated December 3, 2012, among ChinaCache Beijing, Beijing Jingtian and the shareholders of Beijing Jingtian (incorporated by reference to Exhibit 4.26 to the Registrant's annual report on Form 20-F, as amended (File No. 001-34873), initially filed with the SEC on April 26, 2013)</u>
4.25	<u>English translation of the Share Pledge Agreement dated July 1, 2013, among ChinaCache Beijing, Beijing Jingtian and Lei Wang (incorporated by reference to Exhibit 4.28 to the Registrant's annual report on Form 20-F (File No. 00134873), filed with the SEC on April 7, 2014)</u>
4.26	<u>English translation of the Powers of Attorney dated July 31, 2008 by the shareholders of Beijing Jingtian (incorporated herein by reference to Exhibit 10.22 to the registration statement on Form F-1, as amended (File No. 333-169288))</u>
4.27	<u>English translation of the Power of Attorney dated July 1, 2013 by Lei Wang (incorporated by reference to Exhibit 4.30 to the Registrant's annual report on Form 20-F (File No. 001-34873), filed with the SEC on April 7, 2014)</u>
4.28	<u>English translation of the Exclusive Option Agreements dated December 3, 2012, among ChinaCache Beijing, Beijing Jingtian and the shareholders of Beijing Jingtian (incorporated by reference to Exhibit 4.28 to the Registrant's annual report on Form 20-F, as amended (File No. 001-34873), initially filed with the SEC on April 26, 2013)</u>
4.29	<u>English translation of the Exclusive Option Agreement dated July 1, 2013, among ChinaCache Beijing, Beijing Jingtian and Lei Wang (incorporated by reference to Exhibit 4.32 to the Registrant's annual report on Form 20-F (File No. 00134873), filed with the SEC on April 7, 2014)</u>
4.30	<u>English translation of the Exclusive Business Cooperation Agreement dated July 31, 2008, between ChinaCache Beijing and Beijing Jingtian (incorporated herein by reference to Exhibit 10.25 to the registration statement on Form F1, as amended (File No. 333-169288))</u>



4.31 English translation of Optical Fiber Line Lease and Services Agreement dated April 10, 2008, between Beijing Blue I.T. and Tong Zhen Networks Co., Ltd. (incorporated herein by reference to Exhibit 10.38 to the registration statement on Form F-1, as amended (File No. 333-169288))

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Exhibit Number	Description of Document
4.32	<u>Written Confirmation Concerning Extension of Term of Certain Agreements, dated September 20, 2010 (incorporated by reference to Exhibit 4.37 to the Registrant’s annual report on Form 20-F, as amended (File No. 001-34873), initially filed with the SEC on April 26, 2013)</u>
4.33	<u>Securities Purchase Agreement, dated February 28, 2014, by and among the Registrant and the purchasers of the Registrant’s ordinary shares (incorporated by reference to Exhibit 4.42 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on April 7, 2014)</u>
4.34	<u>Registration Rights Agreement, dated February 28, 2014, by and among the Registrant and the purchasers of the Registrant’s ordinary shares (incorporated by reference to Exhibit 4.43 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on April 7, 2014)</u>
4.35	<u>Form of Share Repurchase Agreements, dated February 28, 2014, by and among the Registrant and the investors as listed at the end of the form and material terms of each Share Repurchase Agreement (incorporated by reference to Exhibit 4.44 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on April 7, 2014)</u>
4.36	<u>English summary of Cooperation Agreement, dated December 30, 2014, between ChinaCache Xin Run Technology (Beijing) Co., Ltd. and Beijing Federation of Supply and Marketing Cooperatives (incorporated by reference to Exhibit 4.34 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on April 10, 2015)</u>
4.37	<u>English summary of Lease Agreement, dated December 30, 2014, between ChinaCache Xin Run Technology (Beijing) Co., Ltd. and Beijing Blue I.T. Technology Co., Ltd. (incorporated by reference to Exhibit 4.35 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on April 10, 2015)</u>
4.38	<u>English summary of Framework Agreement for the Transfer of the Equipment Building and Memorandum dated April 10, 2014, and Payment Agreement No. 1 and Payment Agreement No. 2, dated April 11, 2014 and January 26, 2015, respectively, between ChinaCache Xin Run Technology (Beijing) Co., Ltd and Renminwang Co., Ltd. (incorporated by reference to Exhibit 4.36 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on April 10, 2015)</u>
4.39	<u>Loan Agreements dated December 19, 2016, between the Registrant and each shareholder of Beijing Blue I.T. (incorporated by reference to Exhibit 4.39 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on November 14, 2017)</u>
4.40	<u>Exclusive Option Agreements dated December 19, 2016, among the Registrant, Beijing Blue I.T. and each shareholder of Beijing Blue I.T. (incorporated by reference to Exhibit 4.40 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on November 14, 2017)</u>
4.41	<u>Supplemental Agreements to the Share Pledge Agreements dated December 19, 2016, among ChinaCache Beijing, Beijing Blue I.T. and the shareholders of Beijing Blue I.T. (incorporated by reference to Exhibit 4.41 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on November 14, 2017)</u>
4.42	<u>English translation of Share Transfer Agreement dated March 5, 2017, among Shanghai Qiaoyong Equity Investment Fund Management Co., Ltd., Tianjin Shuishan, Tianjin Dingsheng, ChinaCache Networks (Hong Kong) Limited and Xin Run. (incorporated by reference to Exhibit 4.42 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on November 14, 2017)</u>
4.43	<u>Powers of Attorney dated December 19, 2016, by the shareholders of Beijing Blue I.T. (incorporated by reference to Exhibit 4.43 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on November 14, 2017)</u>
4.44	<u>English translation of the Comprehensive Facility Contract dated October 30, 2017, by and between ChinaCache Xin Run Technology (Beijing) Co., Ltd. and Bank of Fushun Limited, Shenyang Branch</u>

(incorporated by reference to Exhibit 4.44 to the Registrant's annual report on Form 20-F (File No. 001-34873), filed with the SEC on November 14, 2017)

4.45 English translation of the Fixed Asset Loan Contract dated October 30, 2017, by and between ChinaCache Xin Run Technology (Beijing) Co., Ltd. and Bank of Fushun Limited, Shenyang Branch (incorporated by reference to Exhibit 4.45 to the Registrant's annual report on Form 20-F (File No. 001-34873), filed with the SEC on November 14, 2017)

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Exhibit Number	Description of Document
4.46	<u>English translation of the Contract for Mortgage of Maximum Amount dated October 30, 2017, by and between ChinaCache Xin Run Technology (Beijing) Co., Ltd. and Bank of Fushun Limited, Shenyang Branch (incorporated by reference to Exhibit 4.46 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on November 14, 2017)</u>
4.47	<u>English translation of the Working Capital Loan Contract dated October 30, 2017, by and between ChinaCache Xin Run Technology (Beijing) Co., Ltd. and Bank of Fushun Limited, Shenyang Branch (incorporated by reference to Exhibit 4.47 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on November 14, 2017)</u>
4.48	<u>English translation of the Contract for Guarantee of Maximum Amount in favor of ChinaCache Xin Run Technology (Beijing) Co., Ltd. dated October 30, 2017, by and between Song Wang and Bank of Fushun Limited, Shenyang Branch (incorporated by reference to Exhibit 4.48 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on November 14, 2017)</u>
4.49*	<u>English translation of the Termination Agreement, dated March 23, 2018, by and among Shanghai Qiaoyong Equity Investment Fund Management Co., Ltd., Tianjin Shuishan, Tianjin Dingsheng, ChinaCache Networks (Hong Kong) Limited, Song Wang, Jean Xiaohong Kou and Xin Run.</u>
4.50*	<u>English summary of Framework Agreement for the Transfer of 100% Equity Interest in Beijing Shuoge Technology Co., Ltd., dated December 29, 2017, between ChinaCache Xin Run Technology (Beijing) Co., Ltd and Renminwang Co., Ltd.</u>
4.51*	<u>English translation of the Loan Contract dated December 21, 2017, by and between ChinaCache Xin Run Technology (Beijing) Co., Ltd. and Shenyang Rural &amp; Commercial Bank Co., Ltd., Shenhe Branch.</u>
4.52*	<u>English translation of the Pledge Agreement dated December 21, 2017, by and between ChinaCache Xin Run Technology (Beijing) Co., Ltd. and Shenyang Rural &amp; Commercial Bank Co., Ltd., Shenhe Branch.</u>
4.53*	<u>English translation of the Guarantee Agreement dated December 21, 2017, by and among Shenyang Rural &amp; Commercial Bank Co., Ltd., Shenhe Branch, Song Wang and Jean Xiaohong Kou.</u>
4.54*	<u>English translation of the Property Supervision Agreement dated December 21, 2017, by and between ChinaCache Xin Run Technology (Beijing) Co., Ltd. and Shenyang Rural &amp; Commercial Bank Co., Ltd., Shenhe Branch.</u>
8.1	<u>List of Subsidiaries and Consolidated Affiliated Entities (incorporated by reference to Exhibit 8.1 to the Registrant’s annual report on Form 20-F (File No. 001-34873), filed with the SEC on November 14, 2017)</u>
11.1*	<u>Amended and Restated Code of Business Conduct and Ethics, adopted on November 4, 2016</u>
12.1*	<u>Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
12.2*	<u>Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
13.1**	<u>Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
13.2**	<u>Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
15.1*	<u>Consent of Conyers Dill &amp; Pearman</u>
15.2*	<u>Consent of Han Kun Law Offices</u>
15.3*	<u>Consent of Ernst &amp; Young Hua Ming LLP</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

\*\* Furnished herewith.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ChinaCache International Holdings Ltd.

By: /s/ Song Wang

Name: Song Wang

Title: Chairman and Chief Executive Officer

Date: April 30, 2018

CHINACACHE INTERNATIONAL HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015, 2016 and 2017

CHINACACHE INTERNATIONAL HOLDINGS LTD.

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of ChinaCache International Holdings Ltd.:

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of ChinaCache International Holdings Ltd.(the "Company") as of December 31, 2016 and 2017, the related consolidated statements of comprehensive loss, changes in shareholders' equity/(deficit) and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2016 and 2017, and the results of its operations and its cash flows for the each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

### **The Company's Ability to Continue as a Going Concern**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, has a working capital deficiency, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.



**Basis for Opinion (Continued)**

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young Hua Ming LLP

We have served as the Company's auditor since 2008.  
Shanghai, the People's Republic of China

April 30, 2018

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**ChinaCache International Holdings Ltd.**

## Consolidated Balance Sheets

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”))

	Note	As of December 31,		
		2016	2017	
		RMB	RMB	US\$
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	4	134,924	106,708	16,401
Accounts receivable (net of allowance for doubtful accounts of RMB63,921 and RMB81,301 (US\$12,496) as of December 31, 2016 and 2017, respectively)	5	190,587	161,043	24,752
Prepaid expenses and other current assets	6	70,502	212,984	32,734
Amounts due from subsidiaries held for sale	10	53,169	2,025	311
Assets held for sale	10	1,285,961	581,731	89,410
Total current assets		1,735,143	1,064,491	163,608
Non-current assets:				
Property and equipment, net	7	-	53,326	8,196
Intangible assets, net	8	-	165	25
Land use right, net	9	-	32,902	5,057
Cloud infrastructure construction in progress	10	-	416,352	63,992
Long term investments	11	34,159	30,148	4,634
Long term deposits and other non-current assets		36,525	8,651	1,330
Total non-current assets		70,684	541,544	83,234
<b>TOTAL ASSETS</b>		<b>1,805,827</b>	<b>1,606,035</b>	<b>246,842</b>

**ChinaCache International Holdings Ltd.**

## Consolidated Balance Sheets (CONTINUED)

(Amounts in thousands of RMB and US\$)

	Note	As of December 31,		
		2016	2017	
		RMB	RMB	US\$
<b>LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT):</b>				
Current liabilities:				
Accounts payable (including accounts payable of the VIEs without recourse to the Company of RMB298,231 and RMB353,133 (US\$54,276) as of December 31, 2016 and 2017, respectively)		301,569	367,924	56,549
Accrued employee benefits (including accrued employee benefits of the VIEs without recourse to the Company of RMB36,159 and RMB 32,783 (US\$5,039) as of December 31, 2016 and 2017, respectively)		46,233	44,465	6,834
Accrued expenses and other current liabilities (including accrued expenses and other payables of the VIEs without recourse to the Company of RMB9,386 and RMB29,728 (US\$4,569) as of December 31, 2016 and 2017, respectively)	13	35,549	39,282	6,038
Other payables (including accrued expenses and other payables of the VIEs without recourse to the Company of RMB16,693 and RMB15,547 (US\$2,389 as of December 31, 2016 and 2017, respectively)	14	30,674	1,254,375	192,794
Income tax payable (including income taxes payable of the VIEs without recourse to the Company of RMB6,121 and RMB6,268 (US\$963) as of December 31, 2016 and 2017, respectively)	20	13,924	34,087	5,239
Liabilities for uncertain tax positions (including liabilities for uncertain tax positions of the VIEs without recourse to the Company of RMB4,689 and RMB 4,187 (US\$644) as of December 31, 2016 and 2017, respectively)	20	10,020	44,250	6,801
Amounts due to related parties (including amounts due to related parties of the VIEs without recourse to the Company of nil and nil as of December 31, 2016 and 2017, respectively.)	21	18	18	3
Short-term borrowings (including short-term borrowings of the VIEs without recourse to the Company of RMB29,311 and RMB9,960 (US\$1,531) as of December 31, 2016 and 2017, respectively)	12	29,311	9,960	1,531
Current portion of long term borrowings (including current portion of long term borrowings of the VIEs without recourse to the Company of nil and nil as of December 31, 2016 and 2017, respectively)	12	3,840	32,642	5,017
Current portion of capital lease obligations (including current portion of capital lease obligations of the VIEs without recourse to the Company of RMB72,614 and RMB42,735 (US\$6,568) as of December 31, 2016 and 2017, respectively)	16	72,851	42,735	6,568

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Deferred government grant (including deferred government grant of the VIEs without recourse to the Company of RMB13,000 and RMB13,000 (US\$1,998) as of December 31, 2016 and 2017, respectively)	15	13,000	13,000	1,998
Amounts due to subsidiaries held for sale (including amount due to a subsidiary held for sale of the VIEs without recourse to the Company of RMB12,606 and RMB737 (US\$113) as of December 31, 2016 and 2017, respectively)	10	18,063	737	113
Liabilities held for sale (including liabilities held for sale of the VIEs without recourse to the Company of nil and nil as of December 31, 2016 and 2017, respectively)	10	1,318,136	3,888	597
Total current liabilities		1,893,188	1,887,363	290,082

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**ChinaCache International Holdings Ltd.**

## Consolidated Balance Sheets (CONTINUED)

(Amounts in thousands of RMB and US\$)

	Note	As of December 31,		
		2016	2017	US\$
		RMB	RMB	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICT): (CONTINUED)</b>				
Non-current liabilities:				
Long-term borrowings (including long-term borrowings of the VIEs without recourse to the Company of nil and nil as of December 31, 2016 and 2017, respectively)	12	-	211,578	32,519
Non-current portion of capital lease obligations (including non-current portion of capital lease obligations of the VIEs without recourse to the Company of RMB43,951 and RMB1,421 (US\$218) as of December 31, 2016 and 2017, respectively)	16	43,951	1,421	218
Deferred government grant (including deferred government grant of the VIEs without recourse to the Company of RMB11,208 and RMB6,581 (US\$1,011) as of December 31, 2016 and 2017, respectively)	15	11,208	6,580	1,012
Total non-current liabilities		55,159	219,579	33,749
Total liabilities		1,948,347	2,106,942	323,831
Commitments and contingencies	25			
Shareholders' deficit:				
Ordinary shares (US\$0.0001 par value; 1,000,000,000 and 1,000,000,000 shares authorized; 409,339,219 and 426,267,345 shares issued and outstanding as of December 31, 2016 and 2017, respectively)		334	338	52
Additional paid-in capital		1,562,408	1,573,341	241,818
Treasury stock		(24,531 )	-	-
Statutory reserves		1,326	1,326	204
Accumulated deficit		(1,682,459)	(2,076,151)	(319,099)
Accumulated other comprehensive income	18	717	2,559	393
Total ChinaCache International Holdings Ltd. shareholders' deficit		(142,205 )	(498,587 )	(76,632 )
Noncontrolling interest		(315 )	(2,320 )	(357 )

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Total shareholder's deficit	(142,520 )	(500,907 )	(76,989 )
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	1,805,827	1,606,035	246,842

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

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**ChinaCache International Holdings Ltd.**

## Consolidated statements of COMPREHENSIVE LOSS

(Amounts in thousands of RMB and US\$)

	Note	For the years ended December 31,			US\$
		2015 RMB	2016 RMB	2017 RMB	
Net revenues		1,353,627	1,054,235	852,568	131,037
Cost of revenues		(1,041,412 )	(1,077,810 )	(781,822 )	(120,164 )
Gross profit/(loss)		312,215	(23,575 )	70,746	10,873
Other operating income/(loss)	14	13,911	(19,044 )	(19,483 )	(2,995 )
Sales and marketing expenses		(115,621 )	(93,603 )	(61,770 )	(9,494 )
General and administrative expenses		(202,518 )	(256,007 )	(142,721 )	(21,936 )
Provision for doubtful accounts receivable and other receivable		3,892	(9,010 )	(17,514 )	(2,692 )
Transaction tax on assets transfer	10	(27,733 )	-	-	-
Research and development expenses		(103,110 )	(104,018 )	(81,748 )	(12,564 )
Impairment of long-lived assets	7,8	-	(399,094 )	(21,757 )	(3,344 )
Impairment of long-term investments (net the of portion of loss recognized in other comprehensive income of nil, nil and RMB3,290,000 (US\$506,000) during the years ended December 31, 2015, 2016 and 2017)	11	-	(18,240 )	(3,690 )	(567 )
Operating loss		(118,964 )	(922,591 )	(277,937 )	(42,719 )
Interest income		4,618	4,669	1,430	220
Interest expense		(13,158 )	(11,647 )	(18,665 )	(2,869 )
Other income/(loss)		2,991	5,336	(5,303 )	(815 )
Foreign exchange gain/(loss)		13,164	14,209	(11,043 )	(1,697 )
Loss before income taxes		(111,349 )	(910,024 )	(311,518 )	(47,880 )
Income tax benefit/(expense)	20	22,614	(4,229 )	(59,648 )	(9,168 )
Net loss		(88,735 )	(914,253 )	(371,166 )	(57,048 )

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Less: net loss attributable to noncontrolling interest	(44	)	(776	)	(2,005	)	(308	)	
Net loss attributable to the Company's shareholders	(88,691	)	(913,477	)	(369,161	)	(56,740	)	
Loss per share									
Basic	23	(0.22	)	(2.24	)	(0.87	)	(0.13	)
Diluted	23	(0.22	)	(2.24	)	(0.87	)	(0.13	)
Shares used in loss per share computations:									
Basic	23	407,149,509	408,189,722	425,589,746	425,589,746				
Diluted	23	407,149,509	408,189,722	425,589,746	425,589,746				

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**ChinaCache International Holdings Ltd.**

## Consolidated statements of COMPREHENSIVE LOSS (CONTINUED)

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

	Note	For the years ended December 31,			
		2015 RMB	2016 RMB	2017 RMB	US\$
Foreign currency translation		264	(293 )	714	110
Unrealized holding gain on available-for-sale investments	18	1,853	659	(4,195 )	(645 )
Amounts reclassified from accumulated other comprehensive income	18	-	(3,552 )	3,290	506
Total other comprehensive income/(loss) net of tax		2,117	(3,186 )	(191 )	(29 )
<b>Comprehensive loss</b>		(86,618)	(917,439)	(371,357)	(57,077)
Less: comprehensive loss attributable to noncontrolling interest		(44 )	(776 )	(2,005 )	(308 )
Comprehensive loss attributable to the Company's shareholders		(86,574)	(916,663)	(369,352)	(56,769)

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

**ChinaCache International Holdings Ltd.**

## Consolidated statements of cash flows

(Amounts in thousands of RMB and US\$)

	For the years ended December 31,			
	2015 RMB	2016 RMB	2017 RMB	US\$
Cash flows from operating activities:				
Net loss	(88,735 )	(914,253)	(371,166)	(57,046)
Depreciation of property and equipment	153,313	155,225	9,145	1,405
Amortization of intangible assets and land use right	4,298	3,869	2,371	365
Allowance for doubtful accounts and other receivables	(3,892 )	9,010	17,514	2,692
Impairment of long-lived assets	-	399,094	21,757	3,344
Impairment of long term investments	-	18,240	3,690	567
Loss/(gain) from disposal of property and equipment	137	2,028	(559 )	(86 )
Deferred tax (benefit) expense	(25,279 )	3,125	30,220	4,645
Interest expense	4,729	1,380	4,289	659
Foreign exchange (gain)/loss	(9,009 )	(14,151 )	11,018	1,693
Gain from sale of short term investments	-	(3,552 )	-	-
Share-based compensation	48,606	85,025	10,936	1,680
Changes in operating assets and liabilities:				
Accounts receivable	80,296	41,840	14,025	2,156
Prepaid expense and other current assets	(77,405 )	(1,095 )	(26,547 )	(4,080 )
Long term deposits and other non-current assets	(35,009 )	(1,221 )	58,274	8,957
Amounts due from related parties	-	-	-	-
Accounts payable	(50,227 )	101,392	60,938	9,366
Accrued employee benefits	1,048	1,085	(2,046 )	(314 )
Accrued expenses and other payables	789,445	(73,174 )	61,441	9,444
Income tax payable	(9,279 )	(456 )	286	44
Deferred government grant	(12,561 )	(591 )	(4,627 )	(711 )
Net cash provided by/(used in) operating activities	770,476	(187,180)	(99,041 )	(15,220)

**ChinaCache International Holdings Ltd.**

## Consolidated statements of cash flows (Continued)

(Amounts in thousands of RMB and US\$)

	For the years ended December 31,			
	2015 RMB	2016 RMB	2017 RMB	US\$
Cash flows from investing activities:				
Purchases of property and equipment and intangible assets	(90,172 )	(59,234 )	(15,236 )	(2,342 )
Cash paid for short term investment	(50,000 )	-	-	-
Cash paid for long term investment (Note 11)	(2,302 )	(2,242 )	(362 )	(56 )
Cash receipts from sales of short term investments	-	80,380	-	-
Cash paid for cloud infrastructure construction in progress (Note 10)	(290,345)	(222,292)	(73,697 )	(11,327)
Proceeds from disposal of property and equipment	470	998	-	-
Net cash used in investing activities	(432,349)	(202,390)	(89,295 )	(13,725)
Cash flows from financing activities:				
Proceeds from bank borrowings (Note 12)	-	29,311	411,745	63,284
Borrowing cost	-	-	(4,900 )	(753 )
Repayment of bank borrowings	(67,180 )	(7,680 )	(183,151)	(28,150)
Proceeds from employee share options exercised	16,993	7,579	-	-
Changes in restricted cash	68,191	-	-	-
Payments of capital lease obligations	(32,202 )	(74,453 )	(74,687 )	(11,479)
Payments for repurchases of ordinary shares	(93,891 )	(39,402 )	-	-
Investment from minority shareholder	1,292	-	-	-
Net cash provided by/(used in) financing activities	(106,797)	(84,645 )	149,007	22,902
Net increase/(decrease) in cash and cash equivalents	231,330	(474,215)	(39,327 )	(6,043 )
Cash and cash equivalents at beginning of the year	375,879	616,218	156,620	24,072
Effect of foreign exchange rate changes on cash	9,009	14,617	(10,584 )	(1,628 )
Cash and cash equivalents at end of the year (Note 4)	616,218	156,620	106,709	16,401

**ChinaCache International Holdings Ltd.**

Consolidated statements of cash flows (Continued)

(Amounts in thousands of RMB and US\$)

	For the years ended December 31,			
	2015	2016	2017	
	RMB	RMB	RMB	US\$
Supplemental disclosures of cash flow information:				
Income taxes (paid)/refunded	(13,319 )	3,709	395	61
Interest paid	(8,389 )	(10,267)	(16,416 )	(2,523 )
Interest received	4,618	4,669	1,430	220
Supplemental disclosures of non-cash activities:				
Acquisition of property and equipment included in accrued expenses and other payables	(32,241 )	(16,397)	(257,375)	(39,558)
Acquisition of property and equipment through capital leases	189,708	59,234	65,824	10,117

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

**ChinaCache International Holdings Ltd.**

## Consolidated statements of CHANGES IN shareholders' EQUITY/(DEFICIT)

(Amounts in thousands of RMB and US dollars US\$ except for number of shares)

	Attributable to ChinaCache								
	Number of ordinary shares	Ordinary shares	Additional paid-in capital	Treasury Stock	Statutory reserves	Accumulated deficit	Accumulated other comprehensive income	Noncontrolling interests	Total shareholders' equity/(deficit)
Balance at January 1, 2015	430,738,131	310	1,424,075	(41,940 )	1,326	(550,610 )	1,786	-	834,947
Net loss	-	-	-	-	-	(88,691 )	-	(44 )	(88,735 )
Other comprehensive loss									
- Foreign currency translation adjustment	-	-	-	-	-	-	264	-	264
- Unrealized holding gain on available-for-sale investment	-	-	-	-	-	-	1,853	-	1,853
Capital contributed by noncontrolling interest			787					505	1,292
Options and restricted shares award to employees (Note 17 (a) (b))	-	-	48,606	-	-	-	-	-	48,606
Repurchase of shares	(30,832,160 )	-	-	(93,891 )	-	-	-	-	(93,891 )
Exercise of employee stock options	8,776,032	-	-	20,166	-	(2,815 )	-	-	17,351
Restricted shares vested	9,291,500	-	-	21,390	-	(21,390 )	-	-	-
	163,904	-	-	-	-	-	-	-	-

Shares issued to depository bank (Note 23)									
Settlement of share options exercised and restricted shares vested with shares held by depository bank	(18,067,532 )	-	-	-	-	-	-	-	-
Balance at December 31, 2015	400,069,875	310	1,473,468	(94,275 )	1,326	(663,506 )	3,903	461	721,687
Net loss	-	-	-	-	-	(913,477 )	-	(776 )	(914,253 )
Other comprehensive loss									
- Foreign currency translation adjustment	-	-	-	-	-	-	(293 )	-	(293 )
- Unrealized holding gain on available-for-sale investment	-	-	-	-	-	-	659	-	659
- Amounts reclassified from accumulated other comprehensive income	-	-	-	-	-	-	(3,552 )	-	(3,552 )
Options and restricted shares award to employees (Note 17 (a) (b))	-	-	85,025	-	-	-	-	-	85,025
Repurchase of shares	(13,730,656 )	-	-	(39,402 )	-	-	-	-	(39,402 )
Exercise of employee stock options	1,325,241	1	3,938	4,122	-	(452 )	-	-	7,609
Restricted shares vested	33,762,181	23	(23 )	105,024	-	(105,024 )	-	-	-
Shares issued to depository bank (Note 23)	23,000,000	-	-	-	-	-	-	-	-
Settlement of share options exercised and	(35,087,422 )	-	-	-	-	-	-	-	-



restricted shares  
vested with shares  
held by  
depository bank

Balance at December 31, 2016	409,339,219	334	1,562,408	(24,531 )	1,326	(1,682,459 )	717	(315 )	(142,520)
Net loss	-	-	-	-	-	(369,161 )	-	(2,005 )	(371,166)
Other comprehensive income	-	-	-	-	-	-	-	-	-
- Foreign currency translation adjustment	-	-	-	-	-	-	6,942	-	6,942
- Unrealized holding gain on available-for-sale investment	-	-	-	-	-	-	(4,195 )	-	(4,195 )
- Amounts reclassified from accumulated other comprehensive income	-	-	-	-	-	-	(905 )	-	(905 )
Options and restricted shares award to employees (Note 17 (a) (b))	-	-	10,937	-	-	-	-	-	10,937
Restricted shares vested	20,555,835	4	(4 )	24,531	-	(24,531 )	-	-	-
Settlement of restricted shares vested with shares held by depository bank	(3,627,709 )	-	-	-	-	-	-	-	-
Balance at December 31, 2017	426,267,345	338	1,573,341	-	1,326	(2,076,151 )	2,559	(2,320 )	(500,907)
Balance at December 31, 2017 (US\$)		52	241,818	-	204	(319,099 )	393	(357 )	(76,989 )

The accompanying notes are an integral part of these consolidated financial statements



**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****1. ORGANIZATION**

ChinaCache International Holdings Ltd. (the “Company”) was incorporated under the laws of the Cayman Islands on June 29, 2005 and its principal activity is investment holding. The founders of the Company are Mr. Wang Song and his spouse Kou Xiaohong (the “Founders”).

The Company through its subsidiaries and variable interest entities noted below are principally engaged in the provision of content and application delivery total solutions in the People’s Republic of China (the “PRC”).

As of December 31, 2017, subsidiaries of the Company and variable interest entities (“VIEs”) where the Company is the primary beneficiary include the following:

	Date of incorporation	Place of incorporation	Percentage of ownership		Principal activities
Subsidiaries					
ChinaCache Network Technology (Beijing) Ltd. (“ChinaCache Beijing”)	August 25, 2005	The PRC	100	%	Provision of technical consultation services
ChinaCache North America Inc. (“ChinaCache US”)	August 16, 2007	United States of America	100	%	Provision of content and application delivery services
JNet Holdings Limited (“JNet Holdings”)	September 27, 2007	British Virgin Islands	100	%	Investment holding
ChinaCache Networks Hong Kong Ltd. (“ChinaCache HK”)	April 7, 2008	Hong Kong	100	%	Provision of content and application delivery services

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ChinaCache Xin Run Technology (Beijing) Co., Ltd. (“Xin Run”)	July 18, 2011	The PRC	99	%**	Construction of cloud infrastructure
Metasequoia Investment Inc. (“Metasequoia”)	March 28, 2012	British Virgin Islands	100	%	Investment holding
ChinaCache Ireland Limited (“ChinaCache IE”)	November 18, 2013	Ireland	100	%	Provision of content and application delivery services
Beijing Shou Ming Technology Co., Ltd. (“Beijing Shou Ming”)	August 15, 2014	The PRC	99	%**	Computer hardware, technology development
Beijing Shuo Ge Technology Co., Ltd. (“Beijing Shuo Ge”)	August 15, 2014	The PRC	99	%**	Mechanical equipment lease
Beijing Zhao Du Technology Co., Ltd. (“Beijing Zhao Du”)**2014	August 15, 2014	The PRC	99	%**	Mechanical equipment lease
ChinaCache Networks Limited (“ChinaCache UK”)	March 10, 2016	England and Wales	100	%	Provision of content and application delivery services
ChinaCache Assets LLC (“CCAL”)	August 10, 2016	United States of America	100	%	Real estate management
VIEs					
Beijing Blue I.T. Technologies Co., Ltd. (“Beijing Blue IT”)*	June 7, 1998	The PRC	-		Provision of content and application delivery services
Beijing Jingtian Technology Limited (“Beijing Jingtian”)*	September 1, 2005	The PRC	-		Provision of content and application delivery services

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**1. ORGANIZATION (CONTINUED)**

\* The equity interest of Beijing Blue IT and Beijing Jingtian are held by the Founders and two nominee shareholders of the Company, respectively (collectively the “Nominee Shareholders”).

On November 16, 2015, Xin Run received a capital injection of RMB1,292,000 (US\$202,000) from Tianjin Shuishan Technology Co., Ltd, a PRC Company wholly owned by the Founders. As a result, the percentage of the Company’s equity ownership in Xin Run and Xin Run’s wholly-owned subsidiaries, is 99% as of December 31, 2016 and 2017.

\*\*\* In July 2017, Xin Run transferred all of its equity interests in Beijing Zhao Du to a buyer (Note 10). However, due to the disputes disclosed in Note 26, the transfer is not yet closed.

The following is a summary of the various VIE agreements:

*Exclusive option agreements*

Pursuant to the exclusive option agreement amongst the Company and the Nominee Shareholders, the Nominee Shareholders irrevocably granted the Company or its designated party, an exclusive option to purchase all or part of the equity interests held by the Nominee Shareholders in Beijing Blue IT, when and to the extent permitted under PRC law, at an amount equal to either a) the outstanding loan amount pursuant to the loan agreement owed by the Nominee Shareholders or b) the lowest permissible purchase price as set by PRC law. Such consideration, if in excess of the outstanding loan amount, when received by the Nominee Shareholders upon the exercise of the exclusive option is required to be remitted in full to ChinaCache Beijing. Beijing Blue IT cannot declare any profit distributions or grant loans in any form without the prior written consent of the Company. The Nominee Shareholders must remit in full any funds received from Beijing Blue IT to ChinaCache Beijing, in the event any distributions are made by the VIEs pursuant to any written consents of the Company. This agreement was valid for ten years and expired on September 23, 2015. Such agreement was renewed for an additional ten years to September 23, 2025. Such agreement can be renewed for an additional ten years at the sole discretion of the Company, and the times of such renewals are

unlimited.

On January 20, 2016, in conjunction to the newly increased register capital of Blue IT, such agreements were updated and will expire on January 20, 2026. The agreement may be renewed for an additional 10 years at the Company's sole discretion, and the times of such renewals are unlimited.

A similar exclusive option agreement was signed by ChinaCache Beijing with Beijing Jingtian.

*Exclusive business cooperation agreements*

Pursuant to the exclusive business cooperation agreement between ChinaCache Beijing and the VIEs, ChinaCache Beijing is to provide exclusive business support, technical and consulting services including technical services, business consultations, access to intellectual property licenses, equipment or property leasing, marketing consultancy, system integration, product research and development and system maintenance in return for fees in an amount as determined and adjustable at the sole discretion of ChinaCache Beijing. The service fees charged to Beijing Blue IT are based on methods set forth in the technical support and service agreement and technical consultation and training agreement, as further discussed below. The service fees charged to Beijing Jingtian is based on 100% of Beijing Jingtian's net income.

This agreement was valid for ten years and expired on September 23, 2015. Such agreement was renewed for an additional ten years to September 23, 2025. Prior to this agreement's and subsequent agreements' expiration dates, ChinaCache Beijing can at its sole discretion renew at a term of its choice through written confirmation.

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**1. ORGANIZATION (CONTINUED)**

*Exclusive technical support and service agreement/Exclusive technical consultation and training agreement/Equipment leasing agreement*

Pursuant to these agreements between ChinaCache Beijing and Beijing Blue IT, ChinaCache Beijing is to provide research and development, technical support, consulting, training and equipment leasing services in return for fees, which is adjustable at the sole discretion of ChinaCache Beijing. The fees charged to Blue IT include an annual fixed amount and a variable quarterly amount which is determined based on the following factors:

- the number of ChinaCache Beijing's employees who provided the services pursuant to the business cooperation agreement to Beijing Blue IT during the quarter (the "Quarterly Services") and the qualifications of the employees;
- the number of hours ChinaCache Beijing's employees spent to provide the Quarterly Services;
- operating expenses incurred by ChinaCache Beijing to provide the Quarterly Services;
- nature and value of the Quarterly Services; and
- Beijing Blue IT's operating revenue for the quarter.

The original term of each of these three agreements was five years running from September 23, 2005, and each of the agreements was renewed in September 2010 for a five year term which expired on September 23, 2015. In September 2015, each of such agreements was renewed for an additional five years to September 23, 2020. The term of the equipment leasing agreement can be extended solely by ChinaCache Beijing by written notice prior to the expiration of the term, and the extended term shall be determined by ChinaCache Beijing.

The exclusive business cooperation agreement, exclusive technical support and service agreement, exclusive technical consultation and training agreement, and equipment leasing agreement are collectively referred to as "Service Agreements".

*Loan agreements*

The Company provided a loan facility of RMB10,000,000 to the Nominee Shareholders of Beijing Blue IT for the purpose of providing capital to Beijing Blue IT to develop its business. In addition, the Company also agreed to provide unlimited financial support to Beijing Blue IT for its operations and agree to forego the right to seek repayment in the event Beijing Blue IT is unable to repay such funding. The loan agreement between the Company and the Nominee Shareholders of Beijing Blue IT was valid for ten years and expired on September 23, 2015. Such agreement was renewed for an additional ten years to September 23, 2025. Such agreement can be extended for another ten years upon mutual written consent of the Company and the Nominee Shareholders of Beijing Blue IT. On January 20, 2016, the Nominee Shareholders of Beijing Blue IT entered into another loan agreement with the Company. Pursuant to this agreement, the Company provided an interest-free loan facility of RMB10,000,000 to the Nominee Shareholders of Beijing Blue IT for the purpose of subscribing for the capital increase of Beijing Blue IT. The term of the loan agreement is ten years and expires on January 20, 2026. The term of the loan agreement may be extended upon mutual written consent of the parties. On December 19, 2016, the Nominee Shareholders of Beijing Blue IT entered into another loan agreement with the Company. Pursuant to this agreement, the Company provided an interest-free loan facility of RMB20,000,000 to the Nominee Shareholders of Beijing Blue IT for the purpose of purchasing the increased capital of Beijing Blue IT. The term of the loan agreement is ten years and expires on December 19, 2026. The term of the loan agreement may be extended upon mutual written consent of the parties.



**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**1. ORGANIZATION (CONTINUED)**

*Loan agreements (continued)*

ChinaCache Beijing also provided a loan of RMB8,500,000 to the Nominee Shareholders of Beijing Jingtian for their investment in the registered share capital. In addition, the Company, through ChinaCache Beijing, agreed to provide unlimited financial support to Beijing Jingtian for their operations and agree to forego the right to seek repayment in the event this VIE are unable to repay such funding. The loan agreement between ChinaCache Beijing and the Nominee Shareholders of Beijing Jingtian is valid for ten years and expires on December 3, 2022. Such agreement can be extended upon mutual written consent of ChinaCache Beijing and the Nominee Shareholders of Beijing Jingtian.

*Power of attorney agreements*

The Nominee Shareholders entered into the power of attorney agreement whereby they granted an irrevocable proxy of the voting rights underlying their respective equity interests in the VIEs to ChinaCache Beijing, which includes, but are not limited to, all the shareholders' rights and voting rights empowered to the Nominee Shareholders by the company law and the Company's Article of Association. This agreement remains continuously valid, as long as the Nominee Shareholders continue to be the shareholders of the VIEs.

Subsequently, ChinaCache Beijing assigned the power of attorney agreement to ChinaCache Beijing's shareholders or a party designated by ChinaCache Beijing's shareholders, to whom it granted an irrevocable proxy of the voting rights underlying their respective equity interests in the VIEs, which includes, but are not limited to, all the shareholders' rights and voting rights empowered to the Nominee Shareholders by the company law and the Company's Article of Association.

*Share pledge agreements*

Pursuant to the share pledge agreement between ChinaCache Beijing and the Nominee Shareholders, the Nominee Shareholders have pledged all their equity interests in the VIEs to guarantee the performance of the VIEs' obligations under the Service Agreements.

If the VIEs breach their respective contractual obligations under the business cooperation agreements, ChinaCache Beijing, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. The Nominee Shareholders agreed not to transfer, sell, pledge, dispose of or otherwise create any new encumbrance on their equity interests in the VIEs without the prior written consent of ChinaCache Beijing. This agreement is continuously valid until all payments due under the above VIE agreements have been fulfilled by the VIEs.

Despite the lack of technical majority ownership, there exists a parent-subsidary relationship between the Company and the VIEs through the irrevocable power of attorney agreements, whereby the Nominee Shareholders effectively assigned all of their voting rights underlying their equity interest in the VIEs to the Company. In addition, the Company, either directly or through ChinaCache Beijing, obtained effective control over the VIEs through the ability to exercise all the rights of the VIEs' shareholders pursuant to the share pledge agreements and the exclusive option agreements. The Company demonstrates its ability and intention to continue to exercise the ability to absorb substantially all of the expected losses directly through the loan agreements. In addition, the Company also demonstrates its ability to receive substantially all of the economic benefits of the VIEs through ChinaCache Beijing using the Service Agreements. Thus, the Company is the primary beneficiary of the VIEs and consolidates the VIEs under by Accounting Standards Codification ("ASC") Subtopic 810-10 ("ASC 810-10") "Consolidation: Overall".

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**1. ORGANIZATION (CONTINUED)**

*Legal compliance*

Assessing the legal validity and compliance of these above noted arrangements are a precursor to the Company's ability to consolidate the results of operations and financial condition of its VIEs. In the opinion of the Company's management and PRC counsel, (i) the ownership structure of the VIEs are in compliance with existing PRC laws and regulations; (ii) each of the currently effective documents under the contractual arrangements among us, our PRC subsidiary, PRC consolidated variable interest entities and their shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect; and (iii) the Company's business operations are in compliance with existing PRC laws and regulations in all material respects.

However, there is significant consolidation judgment due to the existence of substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, the Company cannot be assured that PRC regulatory authorities will not ultimately take a contrary view to its opinion. If the current ownership structure of the Company and its contractual arrangements with its VIEs is found to be in violation of any existing or future PRC laws and regulations, the Company may be required to restructure its ownership structure and operations in the PRC. To the extent that changes to and new PRC laws and regulations prohibit the Company's VIE arrangements from also complying with the principles of consolidation, then the Company would no longer be able to consolidate and therefore would have to deconsolidate the financial position and results of operations of its VIEs. In the opinion of management, the likelihood of loss and deconsolidation in respect of the Company's current ownership structure or the contractual arrangements with its VIEs is remote based on current facts and circumstances.

There was no pledge or collateralization of the VIEs' assets. Creditors of the VIEs have no recourse to the general credit of the Company, who is the primary beneficiary of the VIEs, and such amounts have been parenthetically presented on the face of the consolidated balance sheets. The Consolidated VIEs operate the data centers and own facilities including data center buildings, leasehold improvements, fiber optic cables, computers and network equipment, which are recognized in the Company's consolidated financial statements. They also hold certain value-added technology licenses, registered copyrights, trademarks and registered domain names, including the official website, which are also considered as revenue-producing assets. However, none of such assets were recorded

on the Company's consolidated balance sheets as such assets were all acquired or internally developed with insignificant cost and expensed as incurred. In addition, the Company also hires data center operation and marketing workforce for its daily operations and such costs are expensed when incurred. The Company has not provided any financial or other support that it was not previously contractually required to provide to the VIEs during the periods presented.

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****1. ORGANIZATION (CONTINUED)**

Unrecognized revenue-producing assets held by the VIEs mainly include licenses, such as the Internet Content Provision License, the Value-Added Telecommunication Services Operating License, the Online Culture Operating Permit, and trademarks, patents, copy rights and the domain names. However, none of such assets was recorded on the Company's consolidated balance sheets as such assets were all acquired or internally developed with insignificant cost and expensed as incurred. Recognized revenue-producing assets held by the VIEs include core technology, trademarks and domain names. Unrecognized revenue-producing assets, including customer lists for provision of content and application delivery total solutions, as well as trademarks, are held by the Wholly Foreign Owned Enterprises ("WFOEs").

The following tables represent the financial information of the consolidated VIEs as of December 31, 2016 and 2017 and for the years ended December 31, 2015, 2016 and 2017 before eliminating the intercompany balances and transactions between the VIEs and other entities within the Group:

	As of December 31,		
	2016	2017	
	RMB	RMB	US\$
<b>ASSETS:</b>			
Current assets:			
Cash and cash equivalents	64,909	27,113	4,167
Accounts receivable (net of allowance for doubtful accounts of RMB63,266 and RMB80,612 (US\$12,390) as of December 31, 2016 and 2017, respectively)	115,774	76,359	11,736
Prepaid expenses and other current assets	51,205	45,007	6,917
Amounts due from inter-companies <sup>(1)</sup>	8,209	185,801	28,557
Total current assets	240,097	334,280	51,377
Non-current assets:			
Long term investments	10,503	10,103	1,553
Long term deposits and other non-current assets	36,470	7,345	1,129

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Total non-current assets	46,973	17,448	2,682
TOTAL ASSETS	287,070	351,728	54,059

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****1. ORGANIZATION (CONTINUED)**

	As of December 31,		
	2016	2017	
	RMB	RMB	US\$
<b>LIABILITIES:</b>			
<b>Current liabilities:</b>			
Short-term borrowings	29,311	9,960	1,531
Accounts payable	298,231	353,133	54,276
Accrued employee benefits	36,159	32,783	5,039
Accrued expenses and other current liabilities	9,386	29,728	4,569
Other payables	16,693	15,547	2,389
Income tax payable	6,121	6,268	963
Liabilities for uncertain tax positions	4,689	4,187	644
Amounts due to inter-companies <sup>(1)</sup>	281,400	499,375	76,753
Amounts due to subsidiaries held for sale <sup>(2)</sup>	12,606	737	113
Current portion of capital lease obligations	72,614	42,735	6,568
Deferred government grant	13,000	13,000	1,998
<b>Total current liabilities</b>	<b>780,210</b>	<b>1,007,453</b>	<b>154,843</b>
<b>Non-current liabilities:</b>			
Non-current portion of capital lease obligations	43,951	1,421	218
Deferred government grant	11,208	6,581	1,011
<b>Total non-current liabilities</b>	<b>55,159</b>	<b>8,002</b>	<b>1,229</b>
<b>Total liabilities</b>	<b>835,369</b>	<b>1,015,455</b>	<b>156,072</b>

(1) Amount due from/to inter-companies consist of intercompany receivables/payables to the other companies within the Group.

(2) Information with respect to subsidiaries held for sale is discussed in Note 10.

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For the Years Ended December 31,  
 2015      2016      2017  
 RMB'000   RMB'000   RMB'000   US\$'000

Net revenues				
-Third party customers	1,048,454	658,475	479,012	73,623
-Inter-companies	234,333	321,161	342,035	52,570
Net loss	(2,503 )	(627,544)	(88,547 )	(13,609)

For the Years Ended December 31,  
 2015      2016      2017  
 RMB'000   RMB'000   RMB'000   US\$'000

Net cash provided by/(used in) operating activities	398,301	(294,338)	173,626	26,686
Net cash used in investing activities	(81,448 )	(13,708 )	(20,822 )	(3,200 )
Net cash used in financing activities	(31,539 )	(53,798 )	(55,864 )	(8,586 )

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*(a) Basis of presentation*

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

*(b) Liquidity*

The Company experienced net loss of approximately RMB88,735,000, RMB914,253,000 and RMB 371,166,000 (US\$ 57,046,000) for the years ended December 31, 2015, 2016 and 2017, respectively, and negative cash flows from operations of approximately RMB187,180,000 and RMB99,039,000 (US\$15,220,000), respectively, for the years ended December 31, 2016 and 2017. As of December 31, 2017, the Company had net current liabilities of approximately RMB822,872,000 (US\$126,474,000). These conditions raised substantial doubt about the Company’s ability to continue as a going concern.

When preparing the consolidated financial statements as of December 31, 2017 and for the year then ended, the Company’s management concluded that a going concern basis of preparation was appropriate after analyzing the cash flow forecast for the next twelve months which indicate that the Company will have sufficient liquidity through April 2019. In preparing the cash flow analysis, management took into account of a) the advance of RMB368,000,000 (US\$56,561,000) to be received from a third party buyer pursuant to a sales and lease back framework contract signed for a cloud infrastructure building under construction, b) the credit facilities of RMB20,000,000 (US\$3,074,000) provided by a bank in PRC, c) a letter of intention signed with a third party for a facility of RMB300,000,000 (US\$46,109,000) for the construction payment of the Company’s cloud infrastructure, and d) improvement in the net cash inflow from the CDN operations as the Company controls its operating costs and negotiates with vendors for more favorable payment terms. As a result, management prepared the consolidated financial statements assuming the Company will continue as a going concern. However, there is no assurance that the measures above can be achieved as planned. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*(c) Principles of consolidation*

The consolidated financial statements include the financial statements of the Company, its subsidiaries and the VIEs for which the Company is the primary beneficiary. All significant inter-company transactions and balances between the Company, its subsidiaries and the VIEs are eliminated upon consolidation. Results of acquired subsidiaries or VIEs are consolidated from the date on which control is transferred to the Company.

*(d) Use of estimates*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Areas where management uses subjective judgment include, but are not limited to, estimating the useful lives of long-lived assets and intangible assets, impairment of long-term investments, long-lived assets and intangible assets, allowance for doubtful debts, accounting for deferred income taxes, and accounting for share-based compensation arrangements. The valuation of and accounting for the Company's financial instruments also require significant estimates and judgments provided by management. Changes in facts and circumstances may result in revised estimates. Actual results could differ from those estimates, and as such, differences may be material to the consolidated financial statements.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(e) Foreign currency*

The functional currency of the Company and each of its subsidiaries and VIEs is the Renminbi (“RMB”), except for ChinaCache US, CCAL, ChinaCache HK, Chinacache IE, and ChinaCache UK, which are the United States dollar (“US\$”), US\$, Hong Kong dollar (“HK\$”), Euro (“EUR”) and Great Britain Pound (“GBP”) respectively, as determined based on the criteria of Accounting Standards Codification (“ASC”) 830 (“ASC 830”) “*Foreign Currency Matters*”. The reporting currency of the Company is also the RMB. Transactions denominated in foreign currencies are re-measured into the functional currency at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are re-measured at the balance sheet date exchange rate. Exchange gains and losses are included in foreign exchange gains and losses in the consolidated statements of comprehensive loss.

*(f) Convenience translation*

Amounts in US\$ are presented for the convenience of the reader and are translated at the noon buying rate of US\$1.00 to RMB6.5063 on December 29, 2017 in the City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at such rate.

*(g) Cash and cash equivalents*

Cash and cash equivalents consists of cash on hand and demand deposits placed with banks or other financial institutions which are unrestricted as to withdrawal and use and have original maturities less than three months.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents also consist of cash and cash equivalents included in assets held for sale.

*(h)Accounts receivable and allowance for doubtful accounts*

Accounts receivable are carried at net realizable value. An allowance for doubtful accounts is recorded in the period when loss is probable based on an assessment of specific evidence indicating troubled collection, historical experience, accounts aging and other factors. An accounts receivable is written off after all collection effort has ceased.

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(i)Property and equipment*

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Optical Fibers	20 years
Computer equipment	3-15 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	10 years
Leasehold improvements	Over the shorter of lease term or the estimated useful lives of the assets
Freehold land in United States of America	Indefinite
Building	20-40 years

Repair and maintenance costs are charged to expense when incurred, whereas the cost of betterments that extend the useful life of property and equipment are capitalized as additions to the related assets. Retirement, sale and disposals of assets are recorded by removing the cost and related accumulated depreciation with any resulting gain or loss reflected in the consolidated statements of comprehensive loss.

Property and equipment that are purchased or constructed which require a period of time before the assets are ready for their intended use are accounted for as construction-in-progress. Construction-in-progress is recorded at acquisition cost, including installation costs. Construction-in-progress is transferred to specific property and equipment accounts and commences depreciation when these assets are ready for their intended use. The amounts of interest that would be capitalized were immaterial during the years ended December 31, 2015, 2016 and 2017.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(j) Land use right*

The land use right represent the amounts paid and relevant costs incurred for the right to use land in the PRC and are recorded at purchase cost less accumulated amortization. Amortization is provided on a straight-line basis over the terms of the respective land use right agreement.

*(k) Intangible assets*

Intangible assets are carried at cost less accumulated amortization and any impairment. Intangible assets with a finite useful life are amortized using the straight-line method over the estimated economic life of the intangible assets as follows:

Purchased software 5  
years

*(l) Long-lived assets (disposal groups) to be disposed of by sale*

The Company classifies long-lived assets and disposal groups as held for sale if their carrying amounts will be recovered principally through disposal by sale rather than through continuing use. Such long-lived assets and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should

indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn.

Property and equipment, land use right and intangible assets are not depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated balance sheets.

If circumstances arise that previously were considered unlikely and, as a result, an entity decides not to sell a long-lived asset or disposal group previously classified as held for sale, the asset or disposal group would be reclassified as held and used. The Company measures long-lived assets that are reclassified on an individually basis at the lower of the following:

- Its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation a. or amortization expense that would have been recognized had the asset or disposal group been continuously classified as held and used; and
- b. Its fair value at the date of the subsequent decision not to sell.

A disposal group qualifies as discontinued operation if it is a component of the Company that either has been disposed of, or is classified as held for sale, and the disposal represents a strategic shift that has (or will have) a major effect on the Company's operations and financial results.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(m) Impairment of long-lived assets*

The Company evaluates its long-lived assets or asset group, including intangible assets with finite lives, for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying amount of an asset or a group of long-lived assets may not be recoverable. When these events occur, the Company evaluates for impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss based on the excess of the carrying amount of the asset group over its fair value. For long-lived assets held for sale, assets are written down to fair value less cost to sell. Fair value is generally determined by discounting the cash flows expected to be generated by the assets, when the market prices are not readily available for the long-lived assets. Impairment charge of nil, RMB399,094,000 and RMB21,757,000 (US\$3,344,000) was recognized for the years ended December 31, 2015, 2016 and 2017, respectively.

*(n) Investments*

**Held to maturity investments**

All highly liquid investments with stated maturities of greater than 90 days but less than 365 days are classified as short-term investments. Investments that are expected to be realized in cash during the next 12 months are also included in short-term investments. The Company accounts for short-term investments in accordance with ASC Topic 320 ("ASC 320"), *Investments - Debt and Equity Securities*. The Company classifies the short-term investments in debt and equity securities as "held-to-maturity", "trading" or "available-for-sale", whose classification determines the respective accounting methods stipulated by ASC 320. Dividend and interest income for all categories of investments in securities are included in earnings. Any realized gains or losses, if any, on the sale of the short-term investments are determined on a specific identification method, and such gains and losses are reflected in earnings during the period in which gains or losses are realized.



The securities that the Company has positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost. For individual securities classified as held-to-maturity securities, the Company evaluates whether a decline in fair value below the amortized cost basis is other-than-temporary in accordance with the Company's policy and ASC 320. When the Company intends to sell an impaired debt security or it is more-likely-than-not that it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. In these instances, the other-than-temporary impairment loss is recognized in earnings equal to the entire excess of the debt security's amortized cost basis over its fair value at the balance sheet date of the reporting period for which the assessment is made. When the Company does not intend to sell an impaired debt security and it is more-likely-than-not that it will not be required to sell prior to recovery of its amortized cost basis, the Company must determine whether or not it will recover its amortized cost basis. If the Company concludes that it will not, an other-than-temporary impairment exists and that portion of the credit loss is recognized in earnings, while the portion of loss related to all other factors is recognized in other comprehensive loss.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(n) Investments (continued)*

**Available-for-sale investments**

Investments not classified as trading or as held-to-maturity are classified as available-for-sale securities. Such available-for-sale investments are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive loss in shareholders' deficit. Realized gains or losses are charged to earnings during the period in which the gain or loss is realized. If the Company determines a decline in fair value is other-than-temporary, the cost basis of the individual security is written down to its estimated fair value. The new cost basis will not be adjusted for subsequent recoveries in fair value. Determination of whether declines in value are other-than-temporary requires significant judgment. Subsequent increases and decreases in the fair value of available-for-sale securities will be included in other comprehensive loss except for an other-than-temporary impairment, which would be charged to current period earnings. Impairment of available-for-sale investments for the years ended December 31, 2015, 2016 and 2017 were nil, nil and RMB 3,290,000 (US\$506,000), respectively.

**Investment in limited partnerships**

Where consolidation is not appropriate, the Company applies the equity method of accounting that is consistent with ASC 323 "Investments - Equity Method and Joint Ventures" to limited partnerships in which the Company holds either (a) a five percent or greater interest or (b) less than a five percent interest when the Company has more than virtually no influence over the operating or financial policies of the limited partnership. The Company considers certain qualitative factors in assessing whether it has more than virtually no influence for partnership interests of less than five percent. For investments other than those described in (a) and (b) above, the Company applies the cost method of accounting that is consistent with ASC 325 "Investments – Other".

### **Cost method investment**

In accordance with ASC subtopic 325-20 (“ASC 325-20”), Investments-Other: Cost Method Investments, for investments which are not in-substance common stock and hence, do not have readily determinable fair values or investments in an investee over which the Company does not have significant influence, the Company carries the investment at cost and only adjusts for other-than-temporary declines in fair value and distributions of earnings that exceed the Company’s share of earnings since its investment. Management regularly evaluates the impairment of the cost method investments based on performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee’s cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the excess of the investment’s cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment. Impairment of cost method investment for the years ended December 31, 2015, 2016 and 2017 were nil, RMB18,240,000 and RMB400,000 (US\$61,000), respectively.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(o) Fair value of financial instruments*

The carrying amounts of financial assets and liabilities, such as cash and cash equivalents, restricted cash, accounts receivable, other receivables included in prepaid expenses and other current assets, short-term investments, short term borrowings, accounts payables, balances with related parties and other payables, approximate their fair values because of the short-term maturity of these instruments. The carrying amounts of long-term borrowings approximates its fair value since it bears interest rate which approximates market interest rates. Available-for-sale investments were initially recognized at cost and subsequently remeasured at the end of each reporting period with the adjustment in its fair value recognized in accumulated other comprehensive income. The Company, with the assistance of an independent third party valuation firm, determined the estimated fair value of its available-for-sale investments that are recognized in the consolidated financial statements.

*(p) Revenue recognition*

The Company provides a portfolio of content and application delivery total solutions within its one class of services, such as, web page content services; file transfer services; rich media streaming services; guaranteed application delivery; managed internet data services; cloud services; content bridging services; mobile internet solution; and value-added services to its customers that in turn improve the performance, reliability and scalability of their internet services and applications.

Consistent with the criteria of ASC 605, "Revenue Recognition", the Company recognizes revenue from sales of these services when there is a signed sales agreement with fixed or determinable fees, services have been provided to the customer and collection of the resulting customer's receivable is reasonably assured.

The Company's services are provided under the terms of a one-year master service agreement, which will typically accompany a one-year term renewal option with the same terms and conditions. Customers can choose at the outset of

the arrangement to either use the Company's services through a monthly fixed bandwidth or traffic volume usage and fee arrangement or choose a plan based on actual bandwidth or traffic volume used during the month at fixed pre-set rates. The Company recognizes and bills for revenue for excess usage, if any, in the month of its occurrence to the extent a customer's usage of the services exceeds their pre-set monthly fixed bandwidth usage and fee arrangements. The rates as specified in the master service agreements are fixed for the duration of the contract term and are not subject to adjustment.

The Company may charge its customers an initial set-up fee prior to the commencement of their services. To date these amounts have been insignificant, however, the Company's policy is to record these initial set-up fees as deferred revenue and recognize them as revenue ratably over the estimated life of the customer arrangement.

Effective in September 2012, 6% of value-added tax, or VAT, replaced the original 5% business tax in Beijing as a result of the PRC government's pilot VAT reform program, which applies to all services provided by ChinaCache Beijing and Beijing Jingtian and certain services provided by Beijing Blue IT.

Effective in June 2014, 6% of VAT replaced the original 3% business tax in Beijing as a result of the PRC government's pilot VAT reform program on telecom industry, which applies to all services provided by Beijing Blue IT.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***(q) Cost of revenues***

Cost of revenue consists primarily of depreciation of the Company's long-lived assets, amortization of acquired intangible assets, maintenance, purchase of bandwidth and other overhead expenses directly attributable to the provision of content and application delivery total solutions.

Effective since June 2014, all the services provided by the Company in Mainland China, including VIEs are subject to VAT. Such business tax, VAT (to the extent that is non-deductible) and other surcharges are accrued and charged to cost of revenues as the related exclusive business support, technical and consulting services are rendered.

***(r) Advertising expenditures***

Advertising expenditures are expensed as incurred. Advertising expenditures, included in sales and marketing expenses, amounted to approximately RMB678,000, RMB233,000 and RMB 200,000 (US\$31,000), for the years ended December 31, 2015, 2016 and 2017, respectively.

***(s) Research and development costs***

Research and development costs consist primarily of payroll and related personnel costs for minor routine upgrades and related enhancements to the Company's services and network. Costs incurred in the development of the Company's services are expensed as incurred. To date, the amount of costs qualifying for capitalization has been insignificant.

***(t) Government grant***

Government grant are provided by the relevant PRC municipal government authorities to subsidize the cost of certain research and development projects. The amount of such government grant is determined solely at the discretion of the relevant government authorities and there is no assurance that the Company will continue to receive these government grant in the future. Government grant are recognized when it is probable that the Company will comply with the conditions attached to them, and the grant are received. When the grant relates to an expense item, it is recognized as deferred government grant and released to the consolidated statements of comprehensive loss over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate, as other operating income. Where the grant relates to an asset, it is recognized as deferred government grant and released to the consolidated statements of comprehensive loss in equal amounts over the expected useful life of the related asset, when operational, as other operating income.

Government grant received by the Company also consist of unrestricted grant which are received on an unsolicited and unconditional basis to support the growth of the Company and do not relate to the Company's operating activities. Unrestricted grant are classified as non-operating income and recorded in other income on the consolidated statements of comprehensive loss upon receipt.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(u) Leases*

Leases are classified at the inception date as either a capital lease or an operating lease. The Company did not enter into any leases whereby it is the lessor for any of the periods presented. As the lessee, a lease is a capital lease if any of the following conditions exists: a) ownership is transferred to the lessee by the end of the lease term, b) there is a bargain purchase option, c) the lease term is at least 75% of the property's estimated remaining economic life, or d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date. A lease involving integral equipment is a capital lease only if condition (a) or (b) exists. A capital lease is accounted for as if there was an acquisition of an asset and an incurrence of an obligation at the inception of the lease.

All other leases are accounted for as operating leases wherein rental payments are expensed on a straight-line basis over the periods of their respective leases. The Company leases office space and employee accommodation under operating lease agreements. Certain of the lease agreements contain rent holidays. Rent holidays are considered in determining the straight-line rent expense to be recorded over the lease term. The lease term begins on the date of initial possession of the lease property for purposes of recognizing lease expense on a straight-line basis over the term of the lease. The excess of rent expense and rent paid, as the case may be for respective leases, is recorded as deferred rental included in the prepaid expenses and other current assets in the consolidated balance sheets.

*(v) Income taxes*

The Company follows the liability method in accounting for income taxes in accordance to ASC topic 740 ("ASC 740"), Income Taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Company records a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized.



The Company adopted ASC 740 to account for uncertainty in income taxes. ASC 740 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the consolidated financial statements. The Company has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of “interest expense” and “other expenses,” respectively, in the consolidated statements of comprehensive loss.

***(w) Share-based compensation***

Share options and restricted share units award granted to employees are accounted for under ASC 718 Compensation – Stock Compensation. In accordance with ASC 718, the Company determines whether share options or restricted share units award should be classified and accounted for as liability or equity award. All grants of share options and restricted share units award to employees classified as equity award are recognized in the financial statements over their requisite service periods based on their grant date fair values.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(w) Share-based compensation (continued)*

The Company has elected to recognize compensation expenses using the accelerated method for its share options and restricted share units granted. For restricted share awards granted with performance conditions, the Company commences recognition of the related compensation expense if it is probable the defined performance condition will be met. To the extent that the Company determines that it is probable that a different number of share-based awards will vest depending on the outcome of the performance condition, the cumulative effect of the change in estimate is recognized in the period of change. As disclosed in Note 2 (dd) with effect from January 1, 2017, forfeitures are recognized when they occur.

The Company, with the assistance of an independent valuation firm, determined the estimated fair values of the share options granted to employees and non-employees using the binomial option pricing model.

*(x) Loss per share*

In accordance with ASC 260, “*Earnings per Share*”, basic loss per share is computed by dividing net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted loss per share is calculated by dividing net loss attributable to ordinary shareholders as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of the ordinary shares issuable upon the conversion of the share options, using the treasury stock method. Ordinary share equivalents are excluded from the computation of diluted per share if their effects would be anti-dilutive.

*(y) Comprehensive loss*

Comprehensive loss is defined as the decrease in equity of the Company during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Comprehensive loss is reported in the consolidated statements of comprehensive loss. Accumulated other comprehensive income of the Company includes foreign currency translation adjustments related to ChinaCache US, CCAL, ChinaCache HK and ChinaCache IE, and ChinaCache UK whose functional currency are US\$, US\$, HK\$, EUR and GBP respectively, and the change in fair value of available-for-sale investments (Note 11) and their corresponding deferred tax impact, if any.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***(z) Segment reporting***

The Company follows ASC 280, “*Segment Reporting*.” The Company’s Chief Executive Officer or chief operating decision-maker reviews the consolidated financial results when making decisions about allocating resources and assessing the performance of the Company as a whole and hence, the Company has only one reportable segment. The Company operates and manages its business as a single segment through the provision of a single class of global services for accelerating and improving the delivery of content and applications over the Internet. As the Company’s long-lived assets are substantially all located in the PRC and substantially all the Company’s revenues are derived from within the PRC, no geographical segments are presented.

***(aa) Employee benefits***

The full-time employees of the Company’s PRC subsidiaries are entitled to staff welfare benefits including medical care, housing fund, unemployment insurance and pension benefits, which are government mandated defined contribution plans. These entities are required to accrue for these benefits based on certain percentages of the employees’ respective salaries, subject to certain ceilings, in accordance with the relevant PRC regulations, and make cash contributions to the state-sponsored plans out of the amounts accrued. The total amounts for such employee benefits, which were expensed as incurred, were RMB53,820,000, RMB53,669,000 and RMB44,416,000 (US\$6,397,000) for the years ended December 31, 2015, 2016 and 2017, respectively.

***(bb) Share repurchase program***

Pursuant to a Board of Directors’ resolution on December 18, 2014 (“2014 Share Repurchase Plan”), August 24, 2015 (“August 2015 Share Repurchase Plan”) and December 28, 2015 (“December 2015 Share Repurchase Plan”), the Company’s management is authorized to repurchase up to US\$10 million, US\$6 million and US\$5 million of the Company’s ADSs, respectively. Each of the share repurchase plan is effective for 12 months.

During the year ended December 31, 2016, the Company had repurchased 166,802 ADSs amounting to US\$1,185,000 (equivalent to RMB7,659,000) and 691,364 ADSs amounting to US\$4,912,000 (equivalent to RMB31,743,000) under the August 2015 Share Repurchase Plan and the December 2015 Share Repurchase Plan, respectively (2014:Nil and 2015:1,300,715 ADSs, US\$10,000,000 (RMB63,375,000) under the 2014 Share Repurchase Plan and 626,295 ADSs, US\$4,815,000 (RMB30,516,000) under the August 2015 Share Repurchase Plan). As of December 31, 2016, all the aforementioned repurchase plans have been completed. During the year ended December 31, 2017, no repurchase occurred.

The Company accounted for those shares repurchase as treasury stock at cost in accordance to ASC Subtopic 505-30 (“ASC 505-30”), *Treasury Stock*, and is shown separately in the shareholders’ deficit as the Company has not yet decided on the ultimate disposition of those ADSs acquired. When the Company uses the treasury stock to settle the exercise of share options and restricted share units vested, the difference between the proceeds received upon settlement and the repurchase price is debited into accumulated deficit. When the Company decides to retire the treasury stock, the difference between the original issuance price and the repurchase price is debited into accumulated deficit.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(cc)Recent accounting pronouncement*

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09 (“ASU 2014-09”), *Revenue from Contracts with Customers*. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is originally effective for the annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. ASU 2015-14, *Revenue from Contracts with Customers*, defers the effective date of ASU 2014-09 by one year. As a result, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 and interim periods therein. Early adoption is permitted to the original effective date. The Company adopted the new standard effective January 1, 2018, using the modified retrospective method. The Company has substantially completed the assessment over the impact of adopting this new guidance and does not expect the adoption will have significant impact on the Company’s consolidated financial statements.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(cc) Recent accounting pronouncement  
(continued)*

In February 2016, the FASB issued ASU No. 2016-02 (“ASU 2016-02”), *Leases*. ASU 2016-02 specifies the accounting for leases. For operating leases, ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. ASU 2016-02 is effective for public companies for annual reporting periods and interim periods within those years beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13 (“ASU 2016-13”), *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. The standard will replace “incurred loss” approach with an “expected loss” model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. The standard is effective for public business entities for annual periods beginning after December 15, 2019, and interim periods therein. Early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 (“ASU 2016-18”), *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard is effective for public business entities in the first quarter of 2018. Early adoption is permitted. The Company is currently evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.





**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(cc) Recent accounting pronouncement  
(continued)*

In January 2017, FASB issued ASU No. 2017-01 (“ASU 2017-01”), *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The ASU affects all companies and other reporting organizations that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation: Scope of Modification Accounting*. This standard provides clarity and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, *Compensation-Stock compensation*, to a change to the terms or conditions of a share based payment award. The updated guidance is effective for interim and annual periods beginning after December 15, 2017. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

*(dd) Comparative information*

Certain items in prior years’ consolidated financial statements have been reclassified to conform to the current period’s presentation to facilitate comparison.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**3. Concentration of risk**

*(a) Credit risk*

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, other receivables included in prepaid expenses, short-term investments and other current assets, available-for-sale investments and amounts due from related parties. As of December 31, 2016 and 2017, RMB118,835,000 and RMB91,587,000 (US\$14,077,000), respectively, were deposited with major financial institutions located in the PRC, RMB51,108,000 and RMB2,129,000 (US\$327,000), respectively, were deposited with in the major financial institutions located in the Hong Kong Special Administration Region, RMB1,218,000 and RMB253,000 (US\$39,000), respectively were held in major financial institutions located in Europe, RMB3,078,000 (US\$473,000) as of December 31, 2017 was deposited with major financial institutions located in the UK and RMB43,978,000 and RMB9,661,000 (US\$1,485,000), respectively were held in major financial institutions in the United States of America. Management believes that these financial institutions are of high credit quality and continually monitor the credit worthiness of these financial institutions. Historically, deposits in Chinese banks are secure due to the state policy on protecting depositors' interests. However, China promulgated a new Bankruptcy Law in August 2006 that came into effect on June 1, 2007, which contains a separate article expressly stating that the State Council may promulgate implementation measures for the bankruptcy of Chinese banks based on the Bankruptcy Law. Under the new Bankruptcy Law, a Chinese bank may go into bankruptcy. In addition, since China's concession to the World Trade Organization, foreign banks have been gradually permitted to operate in China and have been significant competitors against Chinese banks in many aspects, especially since the opening of the Renminbi business to foreign banks in late 2006. Therefore, the risk of bankruptcy of those Chinese banks in which the Company has deposits has increased. In the event of bankruptcy of one of the banks which holds the Company's deposits, it is unlikely to claim its deposits back in full since it is unlikely to be classified as a secured creditor based on PRC laws.

*(b) Business, supplier, customer, and economic risk*

The Company participates in a relatively young and dynamic industry that is heavily reliant and also susceptible to complementary and/or competitive technological advancements. The Company believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position, results of operations or cash flows:

Business Risk - Third parties may develop technological or business model innovations that address content delivery requirements in a manner that is, or is perceived to be, equivalent or superior to the Company's services. If (i) competitors introduce new products or services that compete with, or surpass the quality, price or performance of the Company's services, the Company may be unable to renew its agreements with existing customers or attract new customers at the prices and levels that allow the Company to generate reasonable rates of return on its investment.

Supplier Risk - Changes in key telecommunications resources suppliers and certain strategic relationships with telecom carriers. The Company's operations are dependent upon communications capacity provided by the third-party telecom carriers and third-party controlled end-user access network. There can be no assurance that the Company are adequately prepared for unexpected increases in bandwidth demands by its customers. The (ii) communications capacity the Company has leased may become unavailable for a variety of reasons, such as physical interruption, technical difficulties, contractual disputes, or the financial health of its third-party providers. Any failure of these network providers to provide the capacity the Company requires may result in a reduction in, or interruption of, service to its customers. For the years ended on December 31, 2015, 2016 and 2017, 95%, 91% and 86% of bandwidth resources in term of costs were leased from the two major PRC telecom carriers, China Telecom and China Unicom.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****3. Concentration of risk (CONTINUED)***(b) Business, supplier, customer, and economic risk (continued)*

Customer Risk - Revenue concentration on certain customers. The success of the Company's business going forward will rely in part on Company's ability to continue to obtain and expand business from existing customers while also attracting new customers. Although the Company has a diversified base of customers covering its one class of services, such as, web page content services; file transfer services; rich media streaming service; (iii) guaranteed application services; managed internet data services; cloud services; content bridging services; mobile internet solution; and value-added services, the Company does depend on a limited number of customers for a substantial portion of their revenue, and the loss of, or a significant shortfall in demand from, these customers could significantly harm the Company's results of operations. Details of the revenues for customers accounting for 10% or more of total revenues are as follows:

	Years as of December 31,			
	2015	2016	2017	
	RMB'000	RMB'000	RMB'000	US\$'000
Customer A	269,925	346,826	317,075	47,088
Customer B	113,929	94,974	118,970	18,285

Details of the accounts receivables for customers accounting for 10% or more of total accounts receivable are as follows:

	Years as of December 31,		
	2016	2017	
	RMB'000	RMB'000	US\$'000
Customer A	67,840	73,422	11,288
Customer C	*	17,625	2,709
Customer B	22,618	*	*

\*not greater than 10%

(iv) Emerging or unproven business models of customers. Many of the Company's existing and potential customers are pursuing emerging or unproven business models which, if unsuccessful, could lead to a substantial decline in demand for the Company's services, and the Company's growth and prospects may be materially and adversely affected.

(v) Political, economic and social uncertainties. The Company's operations could be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**3. Concentration of risk (CONTINUED)**

*(b) Business, supplier, customer, and economic risk (continued)*

Regulatory restrictions. The applicable PRC laws, rules and regulations currently prohibit foreign ownership of companies that provide content and application delivery services. Accordingly, the Company's subsidiary, ChinaCache Beijing is currently ineligible to apply for the required licenses for providing content and application (vi) delivery services in China. As a result, the Company operates its business in the PRC through its VIEs, which holds the licenses and permits required to provide content and application delivery services in the PRC. The PRC Government may also choose at any time to block access to the Company's customers' content which could also materially impact the Company's ability to generate revenue.

*(c) Currency convertibility risk*

Substantially all of the Company's businesses are transacted in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People's Bank of China. However, the unification of the exchange rates does not imply the convertibility of RMB into US\$ or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

*(d) Foreign currency exchange rate risk*

From July 21, 2005, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The depreciation/(appreciation) of the RMB against US\$ was approximately 6.1%, 6.8% and (5.8)% in the years ended December 31, 2015, 2016 and 2017, respectively. Most of revenues and costs of the Company are denominated in RMB, while a portion of cash and cash equivalents, short-term financial assets and investments denominated in U.S. dollars. Any significant revaluation of RMB may materially and adversely affect the

Company's cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, the ADS in US\$.

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****4. Cash and Cash equivalents**

	December 31,		
	2016	2017	
	RMB'000	RMB'000	US\$'000
Cash and cash equivalents on the consolidated balance sheets	134,924	106,708	16,401
Cash and cash equivalents included in assets held for sale (Note 10)	21,696	1	-
Cash and cash equivalents on the consolidated statements of cash flows	156,620	106,709	16,401

**5. ACCOUNTS RECEIVABLE, NET**

Accounts receivable and allowance for doubtful accounts consist of the following:

	December 31,		
	2016	2017	
	RMB'000	RMB'000	US\$'000
Accounts receivable	254,508	242,344	37,248
Less: allowance for doubtful accounts	(63,921 )	(81,301 )	(12,496)
	190,587	161,043	24,752

As of December 31, 2016 and 2017, all accounts receivable were due from third party customers.

An analysis of the allowance for doubtful accounts is as follows:



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December 31,  
 2016 2017  
 RMB'000RMB'000US\$'000

Balance, beginning of year	54,638	63,921	9,825
Additions for the current year	10,273	18,432	2,833
Recovery	(990 )	(1,052 )	(162 )
Balance, end of year	63,921	81,301	12,496

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****6. Prepaid expenses and other current assets**

Prepaid expenses and other current assets consist of the following:

	<b>December 31,</b>		
	2016	2017	
	RMB'000	RMB'000	US\$'000
Prepaid expense for bandwidth and servers (i)	2,087	4,308	662
Staff field advances	6,012	525	81
Capital lease deposits	23,809	34,490	5,301
Prepaid discount (ii)	-	129,700	19,935
Other deposit and receivables	38,594	30,422	4,674
Prepaid tax	-	13,539	2,081
	70,502	212,984	32,734

Prepaid expense for bandwidth and servers represents the unamortized portion of prepayments made to the i) Company's telecom operators and certain technology companies, who provide the Company with access to bandwidth and network servers.

- ii) The balance as of December 31, 2017 included refundable commission fee of RMB99,700,000 (US\$15,324,000) paid to an agent and prepaid discount of RMB30,000,000 (US\$4,611,000) made to an buyer for the pending sales of certain cloud infrastructure that were held for sale as of December 31, 2016 and 2017 (Note 10).

**7. PROPERTY AND EQUIPMENT, NET**

Property and equipment, including those held under capital leases, consists of the following:

	December 31,		
	2016	2017	
	RMB'000	RMB'000	US\$'000
At cost:			
Optical fibers	13,100	13,100	2,013
Computer equipment (i)	856,150	928,293	142,676
Furniture and fixtures	33,971	10,612	1,631
Leasehold improvements	19,277	18,769	2,885
Motor vehicles	10,215	10,157	1,561
Buildings (i)	19,446	58,150	8,937
Freehold land	4,562	4,275	657
	956,721	1,043,356	160,360
Less: accumulated depreciation	(568,781)	(587,032)	(90,225)
Less: impairment	(387,940)	(402,998)	(61,939)
	-	53,326	8,196

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****7. PROPERTY AND EQUIPMENT, NET (CONTINUED)**

(i) The balances as of December 31, 2017 includes completed buildings of RMB39,927,000 (US\$6,137,000) and computer equipment of RMB6,150,000 (US\$945,000) transferred from assets held for sale (Note 10).

For the years ended December 31, 2015, 2016 and 2017, depreciation expenses were RMB153,313,000, RMB155,225,000 and RMB9,145,000 (US\$1,405,000), respectively, and were included in the following captions:

	For the years ended December 31,			
	2015	2016	2017	
	RMB'000	RMB'000	RMB'000	US\$'000
Cost of revenue	131,102	130,724	8,090	1,243
Sales and marketing expenses	49	138	4	1
General and administrative expenses	9,191	11,799	1,050	161
Research and development expenses	12,971	12,564	1	-
	153,313	155,225	9,145	1,405

The Company accounted for the leases of certain computer equipment and optical fibers as capital leases that transfer to the Company substantially all the benefits and risks incidental to the ownership of assets. The carrying amounts of the Company's property and equipment held under capital leases at respective balance sheet dates were as follows:

	December 31,		
	2016	2017	
	RMB'000	RMB'000	US\$'000
At Cost:			
Optical fibers	13,100	13,100	2,013
Computer equipment	243,570	163,599	25,145

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Building	-	-	-
	256,670	176,699	27,158
Less: accumulated depreciation	(89,945 )	(43,407 )	(6,672 )
Less: impairment	(166,725)	(133,292)	(20,486)
	-	-	-

Depreciation of property and equipment held under capital leases were RMB34,074,000, RMB48,473,000 and nil for the years ended December 31, 2015, 2016 and 2017, respectively.

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****8. INTANGIBLE ASSETS**

The following table presents the Company's intangible assets as of the respective balance sheet dates:

	December 31,		
	2016	2017	
	RMB'000	RMB'000	US\$'000
Purchased software, net	10,898	-	-
Addition	4,699	993	153
Reclassified from assets held for sale (Note 10)	-	4,258	654
Less: amortization	(3,869 )	(1,216)	(187 )
Less: impairment	(11,728)	(3,870)	(595 )
	-	165	25

The estimated annual amortization expense for each of the five succeeding fiscal years is as follow:

For the years ending December 31,	Amortization	
	RMB'000	US\$'000
2018	57	9
2019	57	9
2020	51	8
2021	-	-
2022	-	-

**9. LAND USE RIGHT**

**December 31**201~~6~~017RMB~~0~~0000US\$'000

Land use right	-	34,057	5,234
Less: accumulated amortization	-	(1,155 )	(177 )
	-	32,902	5,057

In 2013, the Company paid RMB51,678,000 to acquire a land use right of approximately 39,000 square meters of land in Beijing Shunyi District, on which the Company developed a cloud infrastructure. According to the land use right contract, the Company has a 50-year use right over the land, which is used as the basis for amortization.

In December 2015, the land use right was reclassified and included in assets held for sale therefore no amortization was recognized since then. In December 2017, land use right, excluding land use right held by Beijing Shuo Ge and Beijing Zhao Du, was transferred out from the assets held for sale and re-designated as assets held for use (Note 10). The Company re-measured the amortization expense that would have been recognized had the land use right been continuously classified as held and used. Amortization expense for land use right for the years ended December 31, 2015, 2016 and 2017 was RMB1,044,000, nil and RMB1,155,000 (US\$177,000), respectively.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**10. Assets held for sale / Liabilities held for sale**

On November 27, 2015, the Company entered into definitive sale and purchase agreements to dispose of 60% equity interest in its subsidiary, Xin Run, to three parties, including a 38% interest to a company owned by the Founders (the "2015 Agreement"). Xin Run owns and operates ChinaCache's Atecsys Cloud Data Center ("Atecsys") and is expected to build China's first Internet Exchange. As a result, assets and liabilities subject to the purchase and sale agreements were classified as held for sale in the Company's December 31, 2015 consolidated balance sheet.

On March 6, 2017, the Company entered into a new definitive agreement to sell 79% of its equity interest in Xin Run to a group of investors for RMB221 million in cash before fees and expenses, including 52.67% interest to two companies owned by the Founders (the "2017 Agreement"). The completion of the transaction was subject to customary closing conditions, including obtaining requisite governmental registration. The transaction was approved by the Board of Directors of the Company, acting upon the unanimous recommendation of its audit committee, consisting of independent and disinterested directors. The Company terminated the 2015 Agreement.

Assets and liabilities classified as held for sale are required to be recorded at the lower of carrying value or fair value less any costs to sell. As of December 31, 2015 and 2016, the carrying value of Xin Run's net assets were less than fair value less costs to sell, and accordingly, no adjustment to the asset value was necessary. Xin Run did not meet the criteria to be classified as discontinued operations because it not comprise a major component of the Company's operations.

On December 28, 2017, the Board of Directors approved to terminate the 2017 Agreement. As a result, all of the assets and liabilities of Xun Run and its subsidiaries were reclassified as held and used as of December 31, 2017, with the exception of two subsidiaries under Xin Run, Beijing Shuo Ge and Beijing Zhao Du, which continued to qualify as assets held for sale under existing arrangements with buyers. On March 23, 2018, the Company finalized the termination agreement with relevant parties.



Beijing Shuo Ge and Beijing Zhao Du hold cloud infrastructure and the related land use right and equipment to be sold via the transfer of the Company's equity interests in the subsidiaries to the buyers. The Company received advance payments from the buyers upon the execution of the relevant sales documents.

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****10. Assets held for sale / Liabilities held for sale (continued)**

The major classes of assets and liabilities held for sale were as follows:

	<b>December 31</b>		
	2016	2017	
	RMB'000	RMB'000	US\$'000
Cash and cash equivalents	21,696	1	-
Accounts receivable, net	1,721	-	-
Prepaid expenses and other current assets (i)	147,490	15,478	2,379
Amounts due from ChinaCache Beijing and Beijing Blue IT	18,063	737	113
Property and equipment (ii)	21,541	550,606	84,627
Intangible assets, net	5,532	-	-
Land use right, net	48,966	14,909	2,292
Deferred tax assets	26,553	-	-
Accrued tax on intercompany transactions	17,205	-	-
Cloud infrastructure construction in progress (ii)	977,194	-	-
Assets held for sale	1,285,961	581,731	89,410
Accounts payable	5,416	-	-
Accrued employee benefits	3,460	-	-
Other payables (iii)	1,206,946	-	-
Accrued expenses and other current liabilities	41,413	1,863	286
Income tax payable	2,919	-	-
Liabilities for uncertain tax positions	4,813	-	-
Amounts due to the Company	53,169	2,025	331
Liabilities held for sale	1,318,136	3,888	597

The balance as of December 31, 2016 included refundable commission fee of RMB99,700,000 and prepaid discount i) of RMB30,000,000 that were reclassified out and included in prepaid expenses and other current assets as of December 31, 2017 (Note 6).

**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****10. Assets held for sale / Liabilities held for sale (continued)**

As of December 31, 2016, the Company capitalized direct costs of RMB977,194,000 that were directly attributable to the development of the cloud infrastructure. During the year ended December 31, 2017, additional costs of RMB39,398,000 (US\$6,055,000) were capitalized for buildings completed during the year. Total costs incurred directly attributable to the development of the cloud infrastructure was RMB1,016,592,000 (US\$157,178,000) as of December 31, 2017. Of which, RMB550,606,000 (US\$84,627,000) capitalized for completed buildings held under ii) Beijing Shuo Ge and Beijing Zhao Du was transferred to assets held for sale - property and equipment whereas costs of other completed buildings in the aggregate of RMB39,927,000 (US\$6,137,000) and costs of other completed equipments in the aggregate of RMB6,150,000 (US\$945,000) were transferred to property and equipment, net (Note 7). The remaining RMB416,352,000 (US\$63,992,000) capitalized to date for construction in progress was re-designated as cloud infrastructure construction in progress.

iii) The balance as of December 31, 2016 included advances of RMB997,000,000 from buyers of Beijing Shuo Ge and Beijing Zhao Du which was transferred to other payables as of December 31, 2017 (Note 14).

The operating results of the subsidiaries held for sale during the three years ended December 31, 2017 that are not presented within discontinued operations are summarized as follow:

	For the years ended December 31,			
	2015	2016	2017	
	RMB'000	RMB'000	RMB'000	US\$'000
Net revenue	-	(2,442 )	-	-
Loss before income taxes	(57,010 )	(107,399 )	679	104

Loss before income taxes for the three years ended December 31, 2017 included transaction tax on assets transfer of \*RMB27,733,000, nil and nil, respectively. Loss before income taxes attributable to the noncontrolling interest for the three years ended December 31, 2017 was nil, RMB1,074,000 and RMB7,000 (US\$1,000), respectively.



**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****11. LONG TERM INVESTMENTS**

Long term investments consisted of the following:

	December 31,		
	2016	2017	
	RMB'000	RMB'000	US\$'000
Cost investments:			
PRC Fund	10,103	10,103	1,553
United States Fund	19,683	20,045	3,081
Investment in Flashapp Inc. ("Flashapp")	12,240	12,240	1,881
Investment in ordinary shares of an unlisted company in PRC ("Investee A")	6,000	6,000	922
Investment in preferred shares of an unlisted company in PRC ("Investee B")	400	400	61
Available-for-sale investments:			
Investment in redeemable preferred shares of an unlisted company in PRC ("Investee C")	1,716	1,716	611
Investment in convertible borrowings of an unlisted company in Cayman Islands ("Investee D")	3,973	3,973	264
Less: accumulated impairment	(19,956)	(24,329)	(3,739)
Total	34,159	30,148	4,634

Cost investments

In 2016, the Company made an additional RMB1,842,000 investment in the United States Fund. In 2017, the Company made an additional RMB 361,000 (US\$53,000) investment in the United States Fund. Given that the Company holds less than five percent interest in each fund, the Company has accounted for such investments using the cost method.

In 2013, the Company entered into an agreement with Flashapp, an unlisted company in Cayman Island to purchase 13,971,428 Series A Preferred Shares for RMB12,240,000. The Company has the contingent redemption right on or after five years from the issuance date to request redemption of all its Series A Preferred Shares holders, at a redemption price equal to 120% of its original issuance price. The Board of Directors of Flashapp shall consist of five persons, where the Company, as a majority of Series A Preferred Shares may appoint two directors. The Company, through the directors appointed, has the ability to exercise significant influence over the operating and financial policies of Flashapp and hence, Flashapp is a related party of the Company (Note 21). However, the Series A Preferred Shares are not in-substance common stock and therefore the Company has accounted for the investment as cost method investment carried at cost. In 2016, the Company believed that there was a decline in value that was other-than-temporary and recorded RMB12,240,000 (US\$1,763,000) in “impairment of long term investments” in the consolidated statement of comprehensive loss.

On August 25, 2014, the Company entered into an agreement with an unlisted company in the PRC (“Investee A”) to acquire 6.25% interest for RMB6,000,000 (US\$967,000). The Company has accounted for the investment as cost method investments carried at cost. In 2016, the Company believed that there was a decline in value that was other-than-temporary, and recorded RMB6,000,000 (US\$864,000) in “impairment of long term investments” in the consolidated statement of comprehensive loss.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**11. LONG TERM INVESTMENTS (CONTINUED)**

Available-for-sale investments

Investment in investee C was fully impaired in 2013.

On February 19, 2014, the Company entered into an agreement with an unlisted company in Cayman Islands (“Investee D”) to issue a convertible loan of RMB3,068,000 at an interest rate of US prime rate plus 2% for 2 years. The Company has the right to request conversion of all its convertible loan upon Investee D’s successful Series A financing, at a price less than 25% of its Series A financing price. The Company has accounted for the investment of convertible loan as an available-for-sale investment where such investment will be carried at fair value, with unrealized gains and losses reported as other comprehensive income/(loss) in the consolidated statements of comprehensive loss until realized. In 2016, the Company agreed to extend the terms of the convertible loan to August 19, 2017 and expected to exercise its conversion option upon the completion of Series A financing. In 2017, the company believed that there was a decline in value that was other-than-temporary, and recorded RMB3,290,000 (US\$506,000) in “impairment of long term investments” in the consolidated statement of comprehensive loss.

**12. BORROWINGS**

**(a) Short-term borrowings**

Short-term borrowings consisted of the following:

December 31,	
2016	2017
RMB'000	RMB'000/US\$'000

Bank loan 29,311 9,960 1,531

On July 21, November 8 and December 21, 2016, the Company entered into short-term loan agreements with Bank A in PRC for credit loan of RMB9,371,000 (US\$1,350,000), RMB9,940,000 (US\$1,432,000) and RMB10,000,000 (US\$1,440,000) with an interest rate of 5.655% per annum and a maturity term of twelve months, respectively. All of these loans were fully repaid in 2017.

On November 14, 2017, the Company entered into short-term loan agreement with Bank A in PRC for credit loan of RMB9,960,000 (US\$1,531,000), with an interest rate of 7.395% per annum and a maturity term of twelve months.

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## CHINACACHE INTERNATIONAL HOLDINGS LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015, 2016 AND 2017

## 12. BORROWINGS (CONTINUED)

*(b) Long-term borrowings*

December 31,  
201~~6~~017  
RMB'000 US\$'000

Long-term bank loan	-	209,598	32,215
Long-term other borrowing	-	34,622	5,321
Less: current portion	-	(32,642)	(5,017)
Total	-	211,578	32,519

On October 30, 2017, the Company obtained a three-year credit facility of RMB240,000,000 (US\$34,567,000) from Bank B in PRC, at 6.667% per annum. The credit facility includes RMB150,000,000 (US\$21,604,000) for working capital and RMB90,000,000 (US\$12,963,000) for capital expenditure. The credit facility is secured by Xin Run's assets, while Mr. Wang Song, the Co-Founder and director of the Company, takes joint-and-several liability. The Company paid RMB2,400,000 (US\$369,000) in December 2017 as borrowing cost to obtained the facility. On November 7, 2017, the first RMB150,000,000 (US\$21,604,000) was drawn down and used as working capital. On December 13, 2017, the second RMB23,000,000 (US\$3,535,000) was drawn down and used for capital expenditure. The borrowing cost paid for the facility was allocated to the two tranches of draw down and the remaining facility on a pro rata basis. Borrowing costs allocated to the actual draw down were presented as deductions of the loan carrying value. The borrowing costs are recognized over the lives of the term loans as interest expense, using the effective interest rate method.

On December 14, 2017, the Company obtained a five-year credit facility of RMB220,000,000 (US\$33,813,000) from Bank C in PRC, at 6.175% per annum. The credit facility includes RMB220,000,000 (US\$33,813,000) for working capital. The credit facility is secured by Xin Run's assets, while Mr. Wang Song and Ms. Kou Xiaohong, the Founders and directors of the Company, take joint-and-several liability. The Company paid RMB2,600,000 (US\$400,000) as borrowing cost to obtained the facility. On December 21, 2017, the first RMB40,000,000 (US\$6,148,000) was drawn

down and used as working capital. The borrowing cost paid for the facility was allocated to the draw down and the remaining facility on a pro rata basis. Borrowing cost allocated to the actual draw down was presented as deduction of the loan carrying value. The borrowing cost is recognized over the life of the term loan as interest expense using the effective interest rate method.

On September 7, 2017, the Company obtained a three-year borrowing of RMB38,784,000 (US\$5,961,000) from a financial institution in the PRC, at 4.900% per annum. The borrowing is secured by Xin Run's assets. The Company paid RMB1,000,000 (US\$154,000) as borrowing cost recognized over the borrowing term as interest expense using the effective interest rate method.

Future installment payment schedule according to the borrowing agreements are as follows:

	December 31, 2017	
	RMB'000	US\$'000
2018	50,639	7,783
2019	88,376	13,583
2020	145,094	22,301
Total	284,109	43,667

**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****13. ACCRUED EXPENSES AND OTHER CURRENT liabilities**

Accrued expenses and other current liabilities consisted of the following:

	December 31,		
	2016	2017	
	RMB'000	RMB'000	US\$'000
Advance from customers	10,128	10,361	1,593
Other accrued expenses	19,656	26,876	4,131
Other tax payables	5,765	2,045	314
	35,549	39,282	6,038

**14. OTHER PAYABLES**

Other payables consisted of the following:

	December 31,		
	2016	2017	
	RMB'000	RMB'000	US\$'000
Payables for purchase of property and equipment	16,397	257,375	39,558
Other Payables (i)	14,277	997,000	153,236
	30,674	1,254,375	192,794

(i) The balance as of December 31, 2017 includes advances of RMB997,000,000 (US\$153,000,00) from buyers of Beijing Shuo Ge and Beijing Zhao Du (Note 10).

## 15. DEFERRED GOVERNMENT GRANT

Deferred government grant consisted of the following:

	December 31,		
	2016	2017	
	RMB'000	RMB'000	US\$'000
Beginning	24,799	24,208	3,721
Received	11,450	-	-
Recognized as income during the year	(12,041)	(4,628)	(711)
	24,208	19,580	3,010
Less: current portion	13,000	13,000	1,998
Ending	11,208	6,580	1,012

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****15. DEFERRED GOVERNMENT GRANT (CONTINUED)**

During the years ended December 31, 2016 and 2017, the Company received RMB11,450,000 and nil of government grants, respectively, from the relevant PRC government authorities. The government grant received is required to be used in research and development projects and refundable until the intended projects pass government inspection.

During the years ended December 31, 2016 and 2017, a certain government grant complied with the attached conditions. Hence, relevant government grants of RMB12,041,000 and RMB4,627,000 (US\$711,000) respectively, was recognized in the consolidated statements of comprehensive loss in other operating income during the years ended December 31, 2016 and 2017, respectively.

**16. CAPITAL LEASE OBLIGATIONS**

Certain computer equipment and optical fibers were acquired through capital leases entered into by the Company. Future minimum lease payments under non-cancellable capital lease arrangements are as follows:

	December 31, 2017	
	RMB'000	US\$'000
2018	43,587	6,699
2019	1,439	221
Total minimum lease payment	45,026	6,920
Less: amount representing interest	(870 )	(134 )
Present value of remaining minimum lease payment	44,156	6,786
Less: current portion	42,735	6,568
Non current portion	1,421	218



**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**17. SHARE-BASED COMPENSATION**

In order to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of the Company's business, the Company adopted a stock option plan in 2007 (the "2007 Plan"). Under the 2007 Plan, the Company may grant options to its employees, directors and consultants to purchase an aggregate of no more than 14,000,000 ordinary shares of the Company, subject to different vesting requirements. The 2007 Plan was approved by the Board of Directors and shareholders of the Company on October 16, 2008. On May 28, 2009, the Company adopted a new stock option plan (the "2008 Plan") which allows the Company to grant options to its employees, directors and consultants to purchase an aggregate of no more than 8,600,000 ordinary shares of the Company, subject to different vesting requirements. On May 20, 2010, the Company adopted a new stock option plan (the "2010 Plan") which allows the Company to grant options to its employees, directors and consultants to purchase an aggregate of no more than 9,000,000 ordinary shares of the Company, subject to different vesting requirements. On June 20, 2011, the Company adopted a new stock option plan (the "2011 Plan") which allows the Company to grant options to its employees, directors and consultants to purchase an aggregate of no more than 22,000,000 ordinary shares of the Company, subject to different vesting requirements. On July 2, 2012, the Company approved amendments to the 2011 Plan which provide, in effect, that the maximum aggregate number of ordinary shares that may be issued pursuant to all awards (the "Award Pool") under the 2011 Plan shall be equal to five percent of the total issued and outstanding ordinary shares as of July 2, 2012; provided that, the ordinary shares reserved in the Award Pool shall be increased automatically if and whenever the unissued ordinary shares reserved in the Award Pool accounts for less than one percent of the total then issued and outstanding ordinary shares, as a result of which increase the unused ordinary shares reserved in the Award Pool immediately after each such increase shall equal to five percent of the then issued and outstanding ordinary shares.

The 2007 Plan, 2008 Plan, 2010 Plan and 2011 Plan (collectively, the "Option Plans") will be administered by the Compensation Committee as set forth in the Option Plans (the "Plan Administrator"). The board of directors of a committee designated by the board will administer the plan to execute option agreements with those persons selected by the Plan Administrator and issue ordinary shares of the Company upon exercise of any options so granted pursuant to the terms of an option agreement.

The 2007 and 2008 Option Plans contain the same terms and conditions. All options granted under the 2007 and 2008 Option Plans have a term of nine years from the option grant date and have two different vesting schedules: 1) vest 100% on the stated vesting commencement date in the grantee's option agreement; or 2) vest 50% on the second

anniversary of the stated vesting commencement date and 25% on the third and fourth anniversaries of the stated vesting commencement date. All options granted under the 2010 Option Plan have a term of seven to ten years from the option grant date and have three different vesting schedules: 1) vest 100% on the stated vesting commencement date in the grantee's option agreement; 2) vest 25% on the first, second, third and fourth anniversaries of the stated vesting commencement date; or 3) vest 25% on the first anniversary of the stated vesting commencement date and 6.25% every quarter for each of the second, third and fourth anniversaries of the stated vesting commencement date. All options granted under the 2011 Option Plan have a term of six to ten years from the option grant date and have four different vesting schedules: 1) vest 100% on the stated vesting commencement date in the grantee's option agreement; or 2) vest 25% on the first, second, third and fourth anniversaries of the stated vesting commencement date; or 3) vest 25% on the first anniversary of the stated vesting commencement date and 6.25% every quarter for each of the second, third and fourth anniversaries of the stated vesting commencement date; or 4) vest one-third on the first, second and third anniversaries of the stated vesting commencement date.



**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****17. SHARE-BASED COMPENSATION (CONTINUED)**

During the years ended December 31, 2015, 2016 and 2017, the Company granted nil, nil and 15,080,000 options, respectively, to a combination of employees and directors of the Company at exercise prices ranging from US\$0.07 to US\$0.53. As of December 31, 2017, options to purchase 25,113,357 of ordinary shares were outstanding and options to purchase 7,294,209 ordinary shares were available for future grant under the option plans.

The binomial option pricing model was applied in determining the estimated fair value of the options granted to employees and non-employees. The model requires the input of highly subjective assumptions including the estimated expected stock price volatility, the expected price multiple at which employees are likely to exercise share options. For expected volatilities, the Company has made reference to the historical price volatilities of ordinary shares of several comparable companies in the same industry as the Company. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury Bills yield in effect at the time of grant.

**(a) Options Granted to Employees**

The following table summarized the Company's employee share option activity under the Option Plans:

	Number of options	Weighted average Exercise price (US\$)	Weighted average remaining contractual term (Years)	Aggregate intrinsic value (US\$'000)
Outstanding, January 1, 2016	13,760,054	0.26	5.91	3,358
Vested and expected to vest at January 1, 2016	9,521,520	0.21	5.98	2,920

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Exercised	(1,325,241 )	0.24		
Forfeited	(1,496,736 )	0.39		
Outstanding, December 31, 2016	10,938,077	0.25	4.59	76
Vested and expected to vest at December 31, 2016	10,938,077	0.25		76
Exercisable at December 31, 2016	10,318,816	0.22	4.48	76
Granted	15,080,000	0.07		
Forfeited	(904,720 )	0.27		
Outstanding, December 31, 2017	25,113,357	0.14	7.26	586
Vested and expected to vest at December 31, 2017	25,113,357	0.14		586
Exercisable at December 31, 2017	16,918,975	0.22	6.14	312

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****17. SHARE-BASED COMPENSATION (CONTINUED)****(a) Options Granted to Employees (continued)**

The aggregated intrinsic value of share options outstanding and exercisable at December 31, 2017 was calculated based on the closing price of the Company's ordinary shares on December 31, 2017 of US\$1.69 per ADS (equivalent to US\$0.11 per ordinary share). The total intrinsic value of share options exercised during the years ended December 31, 2015, 2016 and 2017 was RMB29,241,000, RMB3,132,000 and nil, respectively.

As of December 31, 2017, there was RMB2,099,000 (US\$323,000) of unrecognized share-based compensation cost related to share options issued to employees, which are expected to be recognized following the accelerated method over the remaining vesting periods of different tranches, ranging from 2 years to 4 years.

The Company calculated the estimated fair value of the options granted in 2017 using the binomial option pricing model with the following assumptions:

	2017
Suboptimal exercise factor	2.2-2.8
Risk-free interest rates	2.38 %
Expected volatility	74.77 %
Expected dividend yield	0 %
Weighted average fair value of share option	0.042

The total fair value of options vested during the years ended December 31, 2015, 2016 and 2017 was RMB3,098,000, RMB590,000, and RMB2,054,000 (US\$316,000), respectively.

(b) *Restricted Share Units Award Granted to Employees*

On December 23, 2014, the Company issued 11,265,520 units of restricted share units to the employees and directors under the 2011 Plan. The restricted share units shall become vested in each year of 2014, 2015, 2016 and 2017, respectively.

On December 11, 2015, the Company issued 40,106,656 units of restricted share units to the employees and directors under the 2011 Plan. The restricted share units shall become vested in each year of 2016, 2017 and 2018, respectively.

As of December 31, 2017, there was RMB1,859,000 (US\$286,000) of unrecognized share-based compensation cost, related to unvested restricted share units which is expected to be recognized over a weighted-average period of 3 years.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****17. SHARE-BASED COMPENSATION (CONTINUED)****(b) Restricted Share Units Award Granted to Employees (continued)**

The following table summarized the Company's restricted shares award issued under the 2011 Plan:

	Number of ordinary shares	Weighted average grant date fair value (US\$)
Outstanding, January 1, 2016	44,406,588	0.43
Vested	(34,645,085 )	0.43
Forfeited	(2,743,280 )	0.44
Outstanding, December 31, 2016	7,018,223	0.46
Expected to vest at December 31, 2016	7,018,223	0.46
Granted	16,813,344	0.07
Vested	(20,555,835 )	0.16
Forfeited	(1,935,168 )	0.45
Outstanding, December 31, 2017	1,340,564	0.14
Expected to vest at December 31, 2017	1,340,564	0.14

The cost of the restricted share units is determined using the fair value (determined based on the fair market value of the Company's ordinary shares on the grant date, or if the grant date is not a trading day then the immediately preceding trading date), net of expected forfeitures. The aggregate fair value of the unvested restricted share units for the years ended December 31, 2016 and 2017 was RMB22,268,000 and RMB 1,187,448 (US\$183,000), respectively. The total fair value of restricted share units vested during the years ended December 31, 2016 and 2017 was RMB103,433,000 and RMB 21,398,788 (US\$3,289,000), respectively.

(c)

*Options Granted to Non-employees*

The aggregated intrinsic value of share options outstanding and exercisable at December 31, 2017 was calculated based on the closing price of the Company's ordinary shares on December 31, 2017 of US\$1.69 per ADS (equivalent to US\$0.11 per ordinary share). As of December 31, 2017, the Company had options issued to non-employees outstanding to purchase an aggregate of 873,000 shares with an exercise price below the closing price of the Company's ordinary shares on December 31, 2017, resulting in an aggregate intrinsic value of RMB416,000 (US\$64,000).

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****17. SHARE-BASED COMPENSATION (CONTINUED)****(d) *Restricted Share Award Granted to a Non-employee***

On December 31, 2016, the Company granted restricted share units of 454,912 shares to a former employee, which were immediately vested. The fair market value of the Company's ordinary shares on the grant date of RMB1,320,000 (US\$194,000) was recorded in the "general and administrative expense" in the consolidated statement of comprehensive loss.

A total compensation expense relating to all options and restricted share units recognized for the years ended December 31, 2015, 2016 and 2017 is as follows:

	For the years ended December 31,			
	2015	2016	2017	
	(RMB)'000	(RMB)'000	(RMB)'000	(US\$)'000
Cost of revenues	3,670	5,961	490	75
Sales and marketing expenses	2,882	2,753	254	39
General and administration expenses	38,796	72,483	9,630	1,480
Research and development expenses	3,258	3,828	562	86
	48,606	85,025	10,936	1,680

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****18. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The movement of accumulated other comprehensive income is as follows:

	Foreign currency translation	Unrealized/ (realized) holding gain on available- for-sale investments	Total
	RMB'000	RMB'000	RMB'000
	<i>Note</i>		
Balance as of January 1, 2016	105	3,798	3,903
Other comprehensive (loss)/income before reclassification	(293 )	659	366
Amounts reclassified from accumulated other comprehensive income	<i>i)</i> -	(3,552 )	(3,552 )
Balance as of December 31, 2016	(188 )	905	717
Other comprehensive income/(loss) before reclassification	2,748	(4,195 )	(1,447 )
Amounts reclassified from accumulated other comprehensive income	-	3,290	3,290
Balance as of December 31, 2017	2,560	-	2,560
Balance as of December 31, 2017, in US\$	393	-	393

The amount reclassified out of accumulated other comprehensive income in 2016 represented realized gain on the available-for-sale investment on the date of redemption, which was then recorded in other income in the consolidated statements of comprehensive income. The amount reclassified was determined on the basis of specific identification.

**19. MAINLAND CHINA EMPLOYEE CONTRIBUTION PLAN**

As stipulated by the regulations of the PRC, full-time employees of the Company in the PRC participate in a government-mandated multiemployer defined contribution plan organized by municipal and provincial governments.



Under the plan, certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The Company is required to make contributions to the plan based on certain percentages of employees' salaries. The total expenses for the plan were RMB53,820,000, RMB53,669,000 and RMB 44,416,000 (US\$6,397,000) for the years ended December 31, 2015, 2016 and 2017, respectively.

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**20.**

**INCOME TAXES**

*Enterprise income tax*

*Cayman Islands*

The Company is a tax exempt company incorporated in the Cayman Islands and conducts substantially all of its business through its subsidiaries and VIEs.

*United States of America*

ChinaCache North America, Inc. and CCAL was registered in California, United States of America in 2007 and 2016 respectively. For the years ended December 31, 2015, 2016 and 2017, the entity is subject to both California State Income Tax (8.84%) and Federal Income Tax (graduated income tax rate up to 34%) on its taxable income under the current laws of the state of California and United States of America.

On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act (“the Act”). The reduction of the corporate income tax rate to 21% has been reflected in deferred income tax accounting as of December 31, 2017.

*Hong Kong*

ChinaCache Networks (Hong Kong) Limited, the Company's wholly owned subsidiary incorporated in Hong Kong, is subject to Hong Kong corporate income tax at a rate of 16.5% on the estimated assessable profits arising in Hong Kong.

*The PRC*

The Company's subsidiaries and the VIEs that are each incorporated in the PRC are subject to Corporate Income Tax ("CIT") on the taxable income as reported in their respective statutory financial statements adjusted in accordance with the new PRC Enterprise Income Tax Laws ("PRC Income Tax Laws") effective from January 1, 2008. Pursuant to the PRC Income Tax Laws, the Company's PRC subsidiaries and the VIEs are subject to a CIT statutory rate of 25%.

Under the PRC Income Tax Laws, an enterprise which qualifies as a High and New Technology Enterprise ("the HNTE") is entitled to a preferential tax rate of 15% provided it continues to meet HNTE qualification standards on an annual basis. ChinaCache Beijing qualifies as an HNTE and is entitled for a preferential tax rate of 15% from 2016 to 2018 if it continues to qualify on an annual basis. The HNTE certificate of ChinaCache Beijing is expiring in 2019 and there exists uncertainties with the reapplication outcome. Beijing Blue IT qualifies as an HNTE and is entitled for a preferential tax rate of 15% from 2015 to 2017 if it continues to qualify on an annual basis. The HNTE certificate of ChinaCache Blue IT is expiring in 2018 and there exists uncertainties with the reapplication outcome.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**20. INCOME TAXES (CONTINUED)**

*Enterprise income tax (continued)*

In accordance with the PRC Income Tax Laws, enterprises established under the laws of foreign countries or regions but whose “place of effective management” is located within the PRC are considered PRC tax resident enterprises and subject to PRC income tax at the rate of 25% on worldwide income. The definition of “place of effective management” refers to an establishment that exercises, in substance, overall management and control over the production and business, personnel, accounting, properties, etc. of an enterprise. As of December 31, 2017, no applicable detailed interpretation or guidance has been issued to define “place of effective management”. Furthermore, as of December 31, 2017, the administrative practice associated with interpreting and applying the concept of “place of effective management” is unclear. Based on the assessment of facts and circumstances available at December 31, 2017, management believes none of its non-PRC entities are more likely than not PRC tax resident enterprises. It is possible the assessment of tax residency status may change in the next twelve months, pending announcement of new PRC tax rules in the future. The Company will continue to monitor its tax status.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****20. INCOME TAXES (CONTINUED)**

Loss before income tax expense consists of:

	For the years ended December 31,			
	2015	2016	2017	
	RMB'000	RMB'000	RMB'000	US\$'000
Non-PRC	(2,302 )	(39,075 )	(25,380 )	(3,901 )
PRC	(109,047)	(870,949)	(286,137)	(43,978)
	(111,349)	(910,024)	(311,517)	(47,879)

The income tax expense (benefit) comprises:

	For the years ended December 31,			
	2015	2016	2017	
	RMB'000	RMB'000	RMB'000	US\$'000
Current	2,665	1,104	29,428	4,523
Deferred	(25,279)	3,125	30,220	4,645
	(22,614)	4,229	59,648	9,168

A reconciliation of the differences between the statutory tax rate and the effective tax rate for EIT for the year ended December 31, 2015, 2016 and 2017 is as follows:

For the years ended December 31,

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	2015	2016	2017	
	RMB'000	RMB'000	RMB'000	US\$'000
Loss before income tax expense	(111,349)	(910,024)	(311,517)	(47,879)
Income tax computed at PRC statutory tax rate of 25%	(27,838 )	(227,506)	(77,880 )	(11,970)
Preferential tax rates	3,335	68,787	15,992	2,458
International rate differences	(1,745 )	(361 )	7,702	1,184
Additional 50% tax deduction for qualified research and development expenses	(9,531 )	(9,915 )	(8,795 )	(1,352 )
Non-deductible expenses	18,564	25,611	12,751	1,960
Effect of changes in tax rates on deferred taxes	(1,406 )	2,203	(86,069 )	(13,229)
Changes in unrecognized tax benefits	(1,939 )	(1,316 )	(502 )	(77 )
Changes in the valuation allowance	(1,949 )	146,726	196,449	30,194
Other permanent difference	(105 )	-	-	-
Income tax expense (benefit)	(22,614 )	4,229	59,648	9,168

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****20. INCOME TAXES (CONTINUED)**

The components of deferred taxes are as follows:

	For the years ended December 31,		
	2016	2017	
	(RMB'000)	(RMB'000)	(US\$'000)
Deferred tax assets:			
- Allowance for doubtful accounts	9,349	11,927	1,833
- Deferred revenue	3,631	3,595	553
- Accruals	6,764	21,102	3,243
- Tax losses	55,122	159,782	24,558
- Property and equipment	2,451	3,424	526
- Intangible assets	615	2,001	308
- Long-term investment impairment	900	1,500	231
- Impairment loss for long-lived assets	68,318	68,508	10,529
- Unrealized profit	-	71,760	11,029
Less: valuation allowance	(147,150 )	(343,599 )	(52,810 )
Total Deferred tax assets	-	-	-

Valuation allowances have been provided where, based on all available evidence, management determined that deferred tax assets are not more likely than not to be realizable in future years.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**20. INCOME TAXES (CONTINUED)**

As of December 31, 2017, the Company has net operating tax losses carried forward from its PRC subsidiaries, as per filed tax returns, of RMB466,318,692 (US\$71,672,000), which will expire between 2018 and 2022.

*Unrecognized Tax Benefits*

As of December 31, 2016 and 2017, the Company recorded an unrecognized tax benefit of RMB21,558,000 and RMB95,475,000 (US\$14,674,000), respectively, of which RMB6,725,000 and RMB51,225,000 (US\$7,873,000), respectively, are presented on a net basis against the deferred tax assets related to tax loss carry forwards on the consolidated balance sheets. The unrecognized tax benefit is mainly related to under-reported income and transfer pricing for certain subsidiaries and VIEs. The amount of unrecognized tax benefits will change in the next 12 months, pending clarification of current tax law or audit by the tax authorities, however, an estimate of the range of the possible change cannot be made at this time. As of December 31, 2016 and 2017, unrecognized tax benefits of RMB18,591,000 (US\$2,857,000), if ultimately recognized, will impact the effective tax rate. The Company recorded penalty of RMB2,206,000, reversal of penalty of RMB658,000 and RMB14,708,000 (US\$2,261,000) and interest expense of RMB1,619,000, RMB868,000 and RMB2,249,000 (US\$346,000) for the years ended December 31, 2015, 2016 and 2017, respectively.

As of December 31, 2017, the Company's tax years ended December 31, 2007 through 2018 remain open for statutory examination by tax authorities.

A roll-forward of accrued unrecognized tax benefits is as follows:

	December 31,	
	2016	2017



RMB'000RMB'000US\$'000

Beginning balance	18,165	16,745	2,574
Increase based on tax positions related to the current year	-	74,419	11,438
Decrease of tax positions related to prior year	(1,420)	(502)	(77)
Reclassified from liabilities held for sale (Note 10)	-	4,813	740
Ending balance	16,745	95,475	14,675

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****21. RELATED PARTY BALANCES AND TRANSACTIONS**

In addition to the information disclosed elsewhere in the financial statements, the principal related parties with which the Company had transactions during the years presented are as follows:

<b>Name of Related Parties</b>	<b>Relationship with the Company</b>
Mr. Wang Song	The Co-Founder and Director of the Company
Ms. Kou Xiaohong	The Co-Founder and Director of the Company
Flashapp	A company under the significant influence of the Company

The Company had the following related party balances as of December 31, 2015 and 2016 and related party transactions during the year then ended:

	Ms. Kou Xiaohong	Flashapp	Total
Balance as of January 1, 2015	(18 )	-	(18 )
Service charge by Flash app	-	(81 )	(81 )
Service fee paid to Flash app	-	81	81
Balance as of December 31, 2015	(18 )	-	(18 )
Service charge by Flash app	-	-	-
Service fee paid to Flash app	-	-	-
Balance as of January 1, 2016 and December 31 2016 and 2017	(18 )	-	(18 )
Balance as of December 31, 2017 (US\$'000)	(3 )	-	(3 )

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**22. RESTRICTED NET ASSETS**

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Company's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiaries.

In accordance with the PRC Regulations on Enterprises with Foreign Investment and the articles of association of the Company's PRC subsidiaries, a foreign-invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A foreign-invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign-invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. ChinaCache Beijing was established as a foreign-invested enterprise and, therefore, is subject to the above mandated restrictions on distributable profits. As of December 31, 2016 and 2017, the Company had appointed RMB1,326,000 and RMB1,326,000 (US\$202,000), respectively in its statutory reserves.

Foreign exchange and other regulations in the PRC may further restrict the Company's VIEs from transferring funds to the Company in the form of dividends, loans and advances. Amounts restricted include paid-in capital and statutory reserves of the Company's PRC Subsidiaries and the equity of VIEs, as determined pursuant to PRC generally accepted accounting principles. As of December 31, 2017, restricted net assets of the Company's PRC subsidiaries and VIEs were RMB72,323,000 (US\$10,417,000).

**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****23. LOSS PER SHARE**

Basic and diluted loss per share for each of the periods presented are calculated as follows:

	For the Year Ended December 31,			
	2015 (RMB'000)	2016 (RMB'000)	2017 (RMB'000)	(US\$'000)
Numerator:				
Net loss attributable to ordinary shareholders:	(88,691 )	(913,477 )	(369,161 )	(56,739 )
Denominator:				
Number of shares outstanding, opening	413,147,475	400,165,607	421,522,374	421,522,374
Weighted average number of shares issued	1,423,986	20,702,130	4,067,372	4,067,372
Weighted average number of shares repurchased	(7,421,952 )	(12,678,015 )	-	-
Weighted-average number of shares outstanding – Basic	407,149,509	408,189,722	425,589,746	425,589,746
Weighted-average number of shares outstanding – Diluted	407,149,509	408,189,722	425,589,746	425,589,746
Loss per share				
-Basic	(0.22 )	(2.24 )	(0.87 )	(0.13 )
-Diluted	(0.22 )	(2.24 )	(0.87 )	(0.13 )

The effects of share options have been excluded from the computation of diluted loss per share for the years ended December 31, 2015, 2016 and 2017 as their effects would be anti-dilutive.

During the years ended December 2015, 2016 and 2017, the Company issued 163,904, 23,000,000 and nil treasury stock to its share depositary bank which will be used to settle share option awards upon their exercise. No consideration was received by the Company for this issuance of ordinary shares. These ordinary shares are legally issued and outstanding but are treated as escrowed shares for accounting purposes and therefore, have been excluded

from the computation of loss per share. Any ordinary shares not used in the settlement of share option awards will be returned to the Company.

During 2017, treasury stock was used to settle 3,627,709 units of restricted share units vested, respectively (2016: exercise of share options 1,325,241 and restricted share units vested 33,762,181, 2015: exercise of share options 8,776,032 and restricted share units vested 9,291,500).

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**24. FAIR VALUE MEASUREMENT**

The Company applies ASC topic 820, “*Fair Value Measurements and Disclosures*”. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 requires disclosures to be provided on fair value measurement.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 — Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

In accordance with ASC 820, the available-for-sale investment of the mutual fund is classified within Level 1 as the Company measures the fair value using quoted trading prices that are published on a regular basis. The

available-for-sale investment in convertible loan of investee D is classified within Level 3 and determined based on option pricing model using the discount curve of market interest rates. The fair value of the investment was determined by management with the assistance of an independent third party valuation firm.

	Investment in the Investee D RMB'000
Fair value at January 1, and December 31, 2016	3,973
Other than temporary impairment	(3,973 )
Fair value at December 31, 2017	-
Fair value at December 31, 2017 (US\$'000)	-

The Company's valuation techniques used to measure the fair value was derived from management's assumptions of estimations. Changes in the fair value of the available-for-sale investment will be recorded in other comprehensive income/(loss).

**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****25. COMMITMENTS AND CONTINGENCIES****(a) Operating Leases**

The Company leases facilities in the PRC under non-cancelable operating leases expiring on different dates. Total rental expense under all operating leases was RMB22,100,000, RMB21,962,000 and RMB 23,396,000 (US\$3,596,000) for the years ended December 31, 2015, 2016 and 2017, respectively.

As of December 31, 2017, the Company had future minimum lease payments under non-cancelable operating leases with initial terms of one-year or more in relation to office premises consist of the following:

	December 31, 2017	
	RMB'000	US\$'000
2018	20,458	3,144
2019	19,309	2,968
	39,767	6,112

**(b) Purchase Commitments**

As of December 31, 2017, the Company had outstanding purchase commitments in relation to bandwidth and cloud infrastructure of RMB188,203,000 (US\$28,926,000).

**(c) Contingencies**



In July 2017, a claim was raised by a construction company of the cloud infrastructure against Xin Run, for the alleged non-payment of construction fees of RMB73,900,000 (US\$10,644,000) and the relating interest. Management believes that the claims are without merit and intends to defend the claims vigorously. Considering the preliminary status of the trial, Management cannot reasonably predict the result and potential financial impact of this pending claim, if any.

In August 2017, one of the Company's PRC subsidiary, Xin Run, initiated a lawsuit against Beijing Federation of Supply and Marketing Cooperatives, or BFSMC, in Beijing, arising out of the Company's sale of data center to BFSMC. Xin Run sought the payment of RMB105,600,000 (US\$16,230,000) and the related interest in the remaining outstanding purchase price from BFSMC. In September 2017, BFSMC filed the statement of defense and made various counterclaims against the Company, claiming damages in the total amount of approximately RMB50,500,000 (US\$7,762,000). In October 2017, a subsidiary of BFSMC filed an additional claim against the Company for damages in the total amount of approximately RMB30,000,000 (US\$4,611,000). Thereafter the Company filed a motion to dismiss BFSMC's counterclaim arguing that the court does not have the jurisdiction. In April 2018, the Company was notified by the court that its motion was dismissed and that under court order, BFSMC may put a hold against Xin Run's bank deposits and other assets for approximately RMB50,500,000 (US\$7,762,000). Management is of the view that these proceedings are at a preliminary stage, therefore it is impossible at this stage to properly evaluate the outcome. Therefore, no provision has been made for this case.

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**26.**

**SUBSEQUENT EVENT**

In addition to the information disclosed elsewhere in the financial statements, there are the following subsequent events:

On April 10, 2018, the Company and a third party entered into a sales and lease back framework contract for cloud infrastructure under construction. According to the contract, the Company would receive an advance of RMB368,000,000 (US\$56,561,000) in July 2018 and the Company shall deliver the cloud infrastructure by the end of October 2018. Interest at market rate would be charge if there is delay in the Company's delivery.

On April 23, 2018, the Company received a letter of intention signed by a third party regarding a facility of RMB300,000,000 (US\$46,109,000) for the construction of the cloud infrastructure with a term of two years.

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****27. CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY****ConDENSED BALANCE SHEETS**

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”))

	As of December 31,		
	2016	2017	
	RMB	RMB	US\$
<b>ASSETS:</b>			
Current assets:			
Cash and cash equivalents	24,463	1,141	175
Prepaid expenses and other current assets	1,505	1,647	253
Total current assets	25,968	2,788	428
Non-current assets:			
Long term investments	19,684	20,045	3,081
Investments in subsidiaries and consolidated VIEs	(183,170 )	(514,022 )	(79,005 )
Total non-current assets	(163,486 )	(493,977 )	(75,924 )
<b>TOTAL ASSETS</b>	<b>(137,518 )</b>	<b>(491,189 )</b>	<b>(75,496 )</b>
<b>LIABILITIES AND SHAREHOLDERS’ DEFECIT:</b>			
Current liabilities:			
Accrued expenses and other payables	4,687	7,398	1,137
Total current liabilities	4,687	7,398	1,137
Total liabilities	4,687	7,398	1,137
Shareholders’ deficit:			
	334	338	52

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Ordinary shares (US\$0.0001 par value; 1,000,000,000 and 1,000,000,000 shares authorized; 409,339,219 and 426,267,345 shares issued and outstanding as of December 31, 2016 and 2017, respectively)

Additional paid-in capital	1,562,408	1,573,341	241,817
Treasury stock	(24,531 )	-	-
Statutory reserves	1,326	1,326	204
Accumulated deficit	(1,682,459)	(2,076,151)	(319,099)
Accumulated other comprehensive income	717	2,559	393
Total shareholders' deficit	(142,205 )	(498,587 )	(76,633 )
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT</b>	<b>(137,518 )</b>	<b>(491,189 )</b>	<b>(75,496 )</b>

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**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****27. CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY (CONTINUED)**

## CONDENSED statements of COMPREHENSIVE LOSS

(Amounts in thousands of RMB and US\$)

	For the years ended December 31,			
	2015 RMB	2016 RMB	2017 RMB	US\$
General and administrative expenses	(7,726 )	(21,314 )	(10,986 )	(1,689 )
Impairment of long term investments	-	(12,240 )	(3,290 )	(506 )
Operating loss	(7,726 )	(33,554 )	(14,276 )	(2,195 )
Interest income	15	18	-	-
Other income	3,376	6,593	14,384	2,211
Foreign exchange gain/(loss)	13,284	14,209	(11,043 )	(1,697 )
Share of losses from subsidiaries and consolidated VIEs	(97,640)	(900,743)	(358,226)	(55,058)
Loss before income taxes	(88,691)	(913,477)	(369,161)	(56,739)
Income tax expense	-	-	-	-
Net loss	(88,691)	(913,477)	(369,161)	(56,739)
Foreign currency translation	264	(293 )	2,748	422
Unrealized gain/(loss) from available-for-sale investments	1,853	659	(4,195 )	(645 )
Amounts reclassified from accumulated other comprehensive income	-	(3,552 )	3,290	506
Total other comprehensive income/(loss), net of tax	2,117	(3,186 )	1,843	283
Comprehensive loss	(86,574)	(916,663)	(367,318)	(56,456)



**CHINACACHE INTERNATIONAL HOLDINGS LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2015, 2016 AND 2017****27. CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY (CONTINUED)****CONDENSED STATEMENTS OF CASH FLOWS**

(Amounts in thousands of RMB and US\$)

	For the years ended December 31,			
	2015	2016	2017	US\$
	RMB	RMB	RMB	US\$
Net cash used in operating activities	(4,528 )	(15,395)	(22,514)	(3,461)
Cash flows from investing activities:				
Cash paid for long term investments	(1,302 )	(1,842 )	-	-
Cash received from sale of short term investment	-	26,828	-	-
Net cash (used in)/provided by investing activities	(1,302 )	24,986	-	-
Cash flows from financing activities:				
Proceeds from employee share options exercised	16,993	5,427	-	-
Cash received from an off-shore subsidiary	42,946	-	-	-
Payment for repurchase of ordinary shares	(93,891)	(39,402)	-	-
Net cash used in financing activities	(33,952)	(33,975)	-	-
Net decrease in cash and cash equivalents	(39,782)	(24,384)	(22,514)	(3,461)
Cash and cash equivalents at beginning of the year	73,408	46,363	24,463	3,760
Effect of foreign exchange rate changes on cash	12,737	2,484	(808 )	(124 )
Cash and cash equivalents at end of the year	46,363	24,463	1,141	175

**CHINACACHE INTERNATIONAL HOLDINGS LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015, 2016 AND 2017**

**27. CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY (CONTINUED)**

*(a)*

***Basis of presentation***

The condensed financial information of the Company has been prepared using the same accounting policies as set out in the Company's consolidated financial statements except that the Company used the equity method to account for investment in its subsidiaries and VIEs. The Company records its investment in its subsidiaries and VIEs under the equity method of accounting. Such investment is presented on the balance sheets as "Investment in subsidiaries" and share of their income as "Share of losses from subsidiaries and Consolidated VIEs" on the statements of comprehensive loss. The PRC subsidiary and VIEs have restrictions on their ability to pay dividends to the Company under PRC laws and regulations (Note 22). The subsidiaries and VIEs did not pay any dividends to the Company for the years presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted by reference to the consolidated financial statements.

*(b)*

***Commitments***

The Company does not have significant commitments or long-term obligations as of any of the periods presented.