



# BLUE ORCA CAPITAL

“Primary research is crucial and not as many people do it as you think.”

-Jim Chanos

*THIS RESEARCH REPORT EXPRESSES SOLELY OUR OPINIONS. We are short sellers. We are biased. So are long investors. So is GDS. So are the banks that raised money for the Company. If you are invested (either long or short) in GDS, so are you. Just because we are biased does not mean that we are wrong. Use BOC Texas, LLC's research opinions at your own risk. This report and its contents are not intended to be and do not constitute or contain any financial product advice. Because this document has been prepared without consideration of any specific clients' investment objectives, financial situation or needs, and no information in this report should be construed as recommending or suggesting an investment strategy. Investors should seek their own financial, legal and tax advice in respect of any decision regarding any securities discussed herein. You should do your own research and due diligence before making any investment decisions, including with respect to the securities discussed herein. We have a short interest in GDS's stock and therefore stand to realize significant gains in the event that the price of such instrument declines. Please refer to our full disclaimer located on the last page of this report.*

COMPANY: GDS Holdings Limited | NASDAQ: GDS  
INDUSTRY: Telecommunications Infrastructure

Price (as of close  
07/30/2018):  
\$ 34.75

Market Cap:  
\$4.37 billion

Daily Volume:  
1 mm shares

Blue Orca  
Valuation:  
\$4.32 per ADR

GDS Holdings Limited (“GDS” or the “Company”) is a US-listed developer and operator of data centers in China. GDS’s stock was up 400%+ in the last year until a recent pullback. Measured off its July 2018 highs, GDS was valued at an absurd 80x EV/ TTM EBITDA, even though its interest payments now exceed its reported gross profits. Investors have indulged GDS’s staggering debt burden because of the belief in its supposedly impressive growth.

But our research indicates that in reality, GDS is borrowing crippling amounts of debt to enrich insiders by acquiring data centers from undisclosed related parties which are not nearly as valuable as the Company claims. We believe that since becoming a public Company, GDS has borrowed recklessly to siphon off at least **RMB 696 million** to insiders by inflating the purchase price of undisclosed related party acquisitions.

We have also discovered evidence of unrelated data center operators selling a substantial amount of empty cabinet space in a building which is supposedly exclusively operated and 94% utilized by GDS. In our opinion, this indicates that GDS is inflating the size of its service area, its utilization rates and therefore its reported revenues and EBITDA. In our model, we assume that the Company has overstated utilization of its data centers by 20% and that its growth is largely illusory. After adjustment, we value GDS’s shares at **\$4.32, 87.6% below its last traded price**. Yet even this valuation, in our opinion, is likely conservative. Given management’s shattered credibility, its crushing debts, and evidence that the Company is inflating the value and performance of its data centers, we think GDS’s equity could easily be worth **\$0.00**.

1. **Overstating Area in Service and Utilization of a Flagship Data Center.** We decided to test the Company’s claims in a market where it purports to be strongest. GDS claims that its Guangzhou 1 data center (“GZ1”) fully occupies the **entire** six floors of the G6 data center building in the Guangzhou Innovation Park. **GDS claims that 100% of the space in the G6 building is “committed” and 94% is currently utilized**, making it one of GDS’s flagship data centers in one of GDS’s strongest markets. Yet we spoke with two different independent companies which claim to be operating data centers (and making cabinets available for lease) in the same building, which would be impossible if GDS’s claims were accurate. One operator, [GZIDC](#) told us over a recorded phone call that it leased out 1.5 floors of the G6 building and operated at ~60% utilization. GZIDC followed up our inquiry by sending a quote offering to rent us a significant amount of space in the very same data center GDS claims to exclusively operate at 94% utilization. GZIDC also, at our request, sent us **pictures of rows of empty cabinets in the G6 building**. This would be impossible if GDS’s representations regarding the data center were true. We think such evidence shows that GDS is overstating the area in service and utilization rates of one of its flagship data centers, which in turn suggests it is overstating reported revenues and profits across its portfolio.

2. **Inflating the Purchase Price of Undisclosed Related Party Acquisitions.** Our due diligence of SAIC filings and other publicly available information databases in the PRC indicates (in our opinion) that in 3 of GDS's 4 major post-IPO transactions, GDS not only acquired data centers from undisclosed related parties, but overstated the purchase price of such acquisitions in its SEC filings. In our opinion, this is a near textbook case of independent evidence showing that unscrupulous insiders looted RMB 696 million from the public Company. We note that such transactions took place **only months after GDS's IPO**, indicating, in our opinion, that GDS was eager to transfer newly raised public money to insiders. This behavior is reminiscent of the worst offenders of the China-Hustle era of 2010-2011.
- a. **Shenzhen 5 Data Center Acquisition.** In June 2017, GDS supposedly purchased Shenzhen Yaode Data Services ("Shenzhen Yaode"), which operates a Shenzhen datacenter ("SZ5"), for RMB 312 million from a "third party." However, publicly available SAIC filings show that two GDS employees also served as the acquisition target's (Shenzhen Yaode's) director and supervisor **prior to the acquisition**. Put simply, we found the same individuals on both sides of the transaction, indicating that this was an undisclosed related party acquisition from sellers secretly connected to GDS. Furthermore, publicly available SAIC filings in China state that the true purchase price of the transaction was only RMB 500,000, not RMB 312 million as the Company stated in its SEC filings. We believe that GDS overstated the purchase price by **624x** and presume that insiders likely looted part or all of the difference.
  - b. **Weiteng Network (Guangzhou 2) Data Center Acquisition.** In October 2017, GDS acquired Guangzhou Weiteng Network Technology, which owned a data center in Guangzhou ("GZ2"), supposedly for RMB 234 million. Yet Weiteng Network's SAIC filings state that it was sold to GDS for only RMB 72 million, **indicating that GDS inflated the reported value of the acquisition in its SEC filings by 3.25x!** Furthermore, GDS failed to disclose that Weiteng Network and its datacenter (GZ2) was built and owned by Shenzhen Ningguanghong Technology ("SNT"). SNT's filings, available in the PRC, stated that the fair value of Weiteng Network and its data center was only RMB 70.4 million and that the PP&E value of the project was only RMB 168 million, not RMB 320 million as GDS claimed in its SEC filings. Such filings indicate, in our opinion, that GDS not only overstated the purchase price of the acquisition, but also inflated the value of the acquired PP&E. Furthermore, we found a number of overlapping connections prior to the acquisition between GDS, the acquisition target and its sellers, **including common registered phone numbers and email addresses**. Entities with the same registered email addresses and phone numbers, in our view, are likely connected through common ownership or control; and such connections indicate that the acquisition was an undisclosed related party transaction.
  - c. **Weiteng Data (Guangzhou 3) Data Center Acquisition.** In May 2018, GDS consummated the acquisition of another data center (GZ3), purportedly for RMB 262 million. Although GDS is coy about the name of the acquired entity and the seller, we think SAIC filings clearly show that the acquired entity was Weiteng Data. Yet Weiteng Data's SAIC files state that GDS purchased it for only RMB 40 million, indicating that the Company overstated the purchase price by RMB 220 million, or **6.6x!** In addition, online corporate records indicate that **prior to the acquisition**, Weiteng Data shared the same registered phone number as a GDS subsidiary and another related party seller. The web of common registered email addresses and phone numbers between GDS, the acquisition target and the sellers, indicate, in our opinion, that this was yet another undisclosed related party acquisition.
3. **Serial Capital Raising and Crushing Debts for Offshore Cash?** Since its IPO, GDS has been a serial capital raiser, issuing equity and debt despite ample cash on its balance sheet. GDS claims to need such money to grow. Yet GDS discloses that it keeps over **65% of its cash balance off-shore (and only 24% of its total cash in RMB)**, where it would be essentially useless if the purpose of raising such cash was to buy and build data centers in **China**. Why does a business that operates **exclusively** in China keep **65% of its cash off-shore?** Why does GDS borrow at interest rates up to 9.7% in China, only to have most of its cash sit in foreign currencies earning less than 0.6% interest? Cash held offshore is easily looted by insiders but useless for building a data center in China or operating its business. The Company's debt levels are so crushing that its interest costs now exceed its gross profits in Q1 2018. GDS's net debt to reported LTM

EBITDA stands at 9.4x, which is far more leverage than almost every other publicly listed IDC provider, even the fast-growing ones. That GDS has incurred such debts only for the cash to sit idly offshore earning less than 0.6% or to be siphoned off in undisclosed related party transactions is a significant red flag reminiscent of other US-listed Chinese companies which collapsed in the China Hustle era.

4. **Mounting Balance of Unbilled Receivables.** In FY 2017, GDS reported that “unbilled receivables” comprised **70% of its accounts receivables and 16% of total sales**. In our years of experience, we have never seen a Company claim that such a significant portion of revenues are not even papered by an invoice to customers. It is inexplicable, given that GDS’s proportion of unbilled receivables has almost doubled since its IPO. To our knowledge, no other publicly traded IDC comp discloses such material balances of unbilled receivables in the ordinary course of business, making GDS a significant outlier. In our opinion, this mounting balance corroborates other evidence of overstated revenues, because such unbilled receivables are more difficult to audit and verify.
5. **Mounting Balance of Payables.** Since going public, the Company’s reported days payable outstanding have ballooned from 205 to 470 days. To put that in context, if GDS’s financials are true, on average it takes the Company **almost 16 months to pay its suppliers**. This strains credulity. Strip out acquisition related payables, and GDS’s DPOs are still 353. We believe that inflated payables are a tell-tale sign of fabricated profits, and support evidence that the Company overstates the utilization rates of its data centers.

## VALUATION

We believe that the evidence presented in this report indicates that GDS’s area in service and utilization rates are lower than the Company claims in its SEC filings. First, we conducted a case study on one of GDS’s flagship data centers in one of its strongest markets. GDS claims to operate the entire data center at a 94% utilization rate, with 100% of the space **already committed to customers**. To state the obvious, if GDS is telling the truth to U.S. investors, it should operate the entire building, and there should be no space available at the data center to lease.

Yet two independent companies stated that they also operated portions of the data center, suggesting GDS does not have the entire building as it claims. Furthermore, one operator offered to lease us a material amount of cabinet space, which again, would be impossible if GDS already had commitments for the entire data center. In our opinion, such evidence directly undermines GDS’s claims regarding the area in service and the utilization of this flagship asset.

There is never just one cockroach. We think it’s fair to assume that if the Company is overstating utilization at one facility, it is likely doing so at other facilities. If utilization and area in service are overstated, then so are reported revenues and profits.

There is other evidence to suggest that the Company’s revenues are overstated. GDS is a clear outlier among publicly listed IDC providers in that it claims 70% of its accounts receivables are comprised of unbilled receivables. This amounted to 16% of GDS’s FY 2017 reported revenues, a staggering amount. Compared to other publicly listed IDC providers, GDS appears to be a major outlier.

Unbilled receivables, we believe, are ripe for abuse because without a direct invoice to the customer they are more difficult to audit. It is our suspicion that the balance of unbilled receivables represents the amount of overstatement of revenues from overstated utilization and/or area in service.

Accordingly, in our model, even though we give credit to the Company’s reported EBITDA margin of 30% (which we believe is also inflated), by assuming that GDS’s actual utilization is 20% less than reported (which is supported by the unbilled receivables and primary due diligence), we forecast that GDS’s actual EBITDA for FY 2018 will be RMB 551 million.

**Estimated GDS FY2018 EBITDA**

|  | FY2018 E       |
|--|----------------|
| Reported Area in Service (sqm) <sup>1</sup>    | 103,475        |
| Reported Utilization Rate <sup>1</sup>         | 64.7%          |
| Utilization Rate Discount                      | -20.0%         |
| Estimated Utilization Rate                     | 51.8%          |
| Estimated Area Utilized (sqm)                  | 53,559         |
| MSR (Monthly Revenue / Sqm / RMB) <sup>1</sup> | 2,858          |
| Revenue (RMB'000)                              | 1,836,848      |
| FY2018E EBITDA Margin                          | 30.0%          |
| <b>Estimated GDS EBITDA (RMB'000)</b>          | <b>551,054</b> |

1: As of Q1 2018

Source: Blue Orca Model based on our Estimates and Due Diligence

Investors have indulged GDS's debt burden and pushed its stock to absurd valuations because of the belief in its supposedly impressive growth. But our research indicates that in reality, GDS is borrowing crippling amounts of debt only to siphon off a portion of the cash to insiders and acquire data centers which are not nearly as valuable as the Company claims in its SEC filings.

There are more reasons to question the Company's supposed borrow-spend-grow model. Over 65% of GDS's cash balance is kept off-shore, making it useless to a Company operating exclusively in China which is supposedly buying and building data centers exclusively in the PRC. Such off-shore cash only makes it easier for insiders to siphon money through self-dealing transactions. Why is the Company paying up to 9.7% interest to borrow money in China only for the Company to collect 0.6% or less in interest on a cash balance kept where it cannot be used to grow or operate a PRC business?

Accordingly, we believe that GDS's growth story, which has made it a market darling, is likely illusory. We think it is smarter to compare the Company on an EV/adjusted EBITDA multiple to slower growing data center operators. For our model, we therefore assign a generous forward multiple of 20x.

But it is not so simple because overstating the price of related party acquisitions is reminiscent of the worst US-listed Chinese companies which collapsed in the China hustle era of 2010-2011. In the months after its IPO, GDS reported six data center acquisitions for a total consideration of RMB **1.18 billion**. Based on our review of SAIC filings and other publicly available records, we believe that GDS inflated the value of such acquisitions by at least RMB **696 million**, and that is without being able to verify 3 of the 6 transactions. SAIC filings and other publicly available public records indicate, in our opinion, that 3 of the 4 major post-IPO acquisitions were undisclosed related party acquisitions.

**Overpaid for Post-IPO Acquisitions**

| Year of Acquisition | Data Center Company | Data Center | Reported Consideration (RMB M) | Actual Consideration (RMB M) | Overpayment | Consideration Overstatement |
|---------------------|---------------------|-------------|--------------------------------|------------------------------|-------------|-----------------------------|
| 2017                | Shenzhen Yaode      | SZ5         | 312.0                          | 0.5                          | 311.5       | 624.0 x                     |
| 2017                | Weiteng Network     | GZ2         | 234.0                          | 72.0                         | 162.0       | 3.3 x                       |
| 2018                | Weiteng Data        | GZ3         | 262.2                          | 40.0                         | 222.2       | 6.6 x                       |
| 2018                | Not Disclosed       | BJ4         | 25.5                           | ?                            | ?           | ?                           |
| 2018                | Not Disclosed       | BJ5         | 26.0                           | ?                            | ?           | ?                           |
| 2018                | Not Disclosed       | SH11        | 320.0                          | ?                            | ?           | ?                           |
| Total               |                     |             | 1,179.7                        |                              | 695.7       |                             |

Source: GDS Filings, Presentations, SAIC Filings

\* Actual Consideration based on stated purchase price in local SAIC filings

Such transactions show a contempt for the basic values required to be a public company, so we also apply a 25% governance discount on this multiple. Taking our EBITDA forecast together with what we believe is a more accurate utilization rate, we then apply this multiple to reach our valuation.

#### Blue Orca Valuation

|  |               |
|--|---------------|
| GDS FY2018E EBITDA (RMB'000) <sup>1</sup>        | 551,054       |
| EV / EBITDA Multiple <sup>2</sup>                | 20.0 x        |
| Corporate Governance Discount                    | -25.0%        |
| Adjusted EV / EBITDA Multiple                    | 15.0 x        |
| EV (RMB M)                                       | 8,266         |
| Net Debt (RMB M) <sup>3</sup>                    | 4,628         |
| Equity Value (RMB M)                             | 3,638         |
| Outstanding Ordinary Shares                      | 1,007,069,664 |
| Equity Value per share (RMB)                     | 3.61          |
| Number of ordinary share / ADR                   | 8.0           |
| Adjusted ADR Valuation (RMB)                     | 28.90         |
| <b>Blue Orca ADR Valuation (\$) <sup>4</sup></b> | <b>4.32</b>   |
| Current trading price (\$) <sup>5</sup>          | 34.75         |
| <b>Downside</b>                                  | <b>-87.6%</b> |

1: See p.4 for EBITDA calculation

2: Median of the Comps group (Sales Growth < 30%)

3: As of March 2018

4: USD / RMB = 0.1496

5: As of July 30, 2018

Source: Blue Orca Calculation

GDS's debt burden is so significant that in Q1 2018, its interest payments exceeded even the gross profits reported in its SEC filings. Based on the evidence in this report, we believe that such financials are not credible. **The profits may be fake or inflated, but the debt is real.**

After subtracting net debt, we value GDS's ADR's at **\$4.32 per share, an 87.6% downside from its last traded price**. Our valuation shows, given GDS's crippling debts, the sensitivity of its share price to small tweaks in the basic assumptions about the Company's growth, utilization, and trading multiple. We also think our model is likely conservative.

Given management's shattered credibility, GDS's crushing debts, and evidence that the Company is inflating the performance and value of its data centers, we could easily see GDS's equity going to **\$0.00**.



## OVERSTATING SERVICE AREA AND UTILIZATION AT A FLAGSHIP DATA CENTER

GDS tells investors that it has more than 50% of the carrier-neutral data center market in Shanghai and Shenzhen/Guangzhou.<sup>1</sup> We decided to test the Company's claims in Guangzhou, one of the cities it claims to be the strongest.

A case study of one of GDS's flagship data centers indicates, in our opinion, that GDS is overstating its reported area in service and utilization rates, suggesting the Company on a whole generates less revenues and profits than it claims in its SEC filings.

GDS acquired the GZ1 datacenter and its parent entity, Guangzhou Weiteng Construction Co. Ltd ("Guangzhou Weiteng"), for RMB 129.5 million in May 2016, six months before the Company's IPO. At the date of acquisition, the GZ1 data center had just commenced operations.

### BUSINESS COMBINATION

On May 19, 2016, the Company acquired all of the equity interests in Guangzhou Weiteng Construction Co., Ltd. ("WTENG") from a third party for cash consideration of RMB129,500, of which RMB 25,900 is outstanding as of June 30, 2016 and payable on May 19, 2017.

WTENG is a limited liability company organized and existing under the PRC law and owns a data center project in Guangzhou. At the date of acquisition, the data center has just commenced its operations.

Source: [GDS Prospectus](#)

According to GDS, GZ1 is a **six-floor data center** located in the **G6 building**, No. 31 Kefeng Road, in the South China Advanced Materials Innovation Park Co., Guangzhou (the "Guangzhou Innovation Park").

广州一号数据中心 | GZ1 Data Center

广州一号数据中心位于广州市科丰路31号G6号，楼高6层，2016年开始运营。

GZ1 is a six-floor data center located in the G6 building, No. 31 Kefeng Road, Guangzhou. It commenced operations in 2016.



Source: [http://www.sohu.com/a/105083602\\_354987](http://www.sohu.com/a/105083602_354987)

GDS claims that GZ1 has had a customer commitment rate of 100% since acquisition and that its utilization rate reached 94% at the end of Q1 2018. According to GDS, this makes GZ1 one of its nine self-developed "stabilized data centers," a term the Company uses to categorize its best data centers with utilization rates above 80%.

<sup>1</sup> RBC Capital Markets Report, "Datacenter Download," June 29, 2018.

**GZ1 Commitment rate and Utilization Rate**

| sqm              | 1H 2016 | FY 2016 | FY 2017 | Q1'18 |
|------------------|---------|---------|---------|-------|
| Area in service  | 6,608   | 6,608   | 6,521   | 6,521 |
| Area committed   | 6,608   | 6,608   | 6,521   | 6,521 |
| Commitment rate  | 100%    | 100%    | 100%    | 100%  |
| Area utilized    | 3,777   | 4,238   | 5,889   | 6,109 |
| Utilization rate | 57%     | 64%     | 90%     | 94%   |

Source: GDS Public Filings and Presentations

The G6 data center is supposedly one of the Company's best assets in one of its strongest markets.



## Self-Developed Data Centers In Service

As at 31/03/18

|                       | Shanghai      |               |               |               |               |             | Shenzhen  |           |           |             |             | Guangzhou |           | Beijing   |           |           | Chengdu   |               |
|-----------------------|---------------|---------------|---------------|---------------|---------------|-------------|-----------|-----------|-----------|-------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|---------------|
|                       | KS1           | SH1           | SH2           | SH3           | SH4           | SH5 Phase 1 | SZ1       | SZ2       | SZ3       | SZ4 Phase 1 | SZ5 Phase 1 | GZ1       | GZ2       | BJ1       | BJ2       | BJ3       | CD1       |               |
| Ready For Service     | 2H10          | 2H11          | 2H15          | 2H16          | 2H17          | 1H18        | 2H14      | 1H16      | 2H16      | 2H17        | 1H17        | 1H16      | 2H17      | 2H15      | 2H17      | 2H17      | 1H17      |               |
| Type                  | Purpose-Built | Purpose-Built | Purpose-Built | Purpose-Built | Purpose-Built | Converted   | Converted | Converted | Converted | Converted   | Converted   | Converted | Converted | Converted | Converted | Converted | Converted | Purpose-Built |
| Tenure                | Owned         | Leased        | Leased        | Leased        | Leased        | Leased      | Leased    | Leased    | Leased    | Leased      | Leased      | Leased    | Leased    | Leased    | Leased    | Leased    | Leased    | Owned         |
| Area In Service (SqM) | 6,546         | 6,432         | 7,712         | 7,950         | 8,394         | 2,042       | 4,286     | 4,308     | 2,678     | 4,677       | 5,000       | 6,521     | 6,131     | 2,435     | 6,177     | 4,260     | 6,287     |               |
| Area Committed (SqM)  | 6,490         | 6,223         | 7,663         | 7,882         | 5,705         | 2,042       | 4,278     | 4,038     | 2,140     | 4,555       | 5,000       | 6,521     | 6,131     | 2,429     | 5,344     | 4,260     | 6,287     |               |
| Commitment Rate       | 99.2%         | 96.8%         | 99.4%         | 99.1%         | 68.0%         | 100%        | 99.8%     | 93.7%     | 79.9%     | 97.4%       | 100%        | 100%      | 100%      | 99.8%     | 86.5%     | 100%      | 100%      |               |
| Area Utilized (SqM)   | 6,289         | 5,673         | 6,933         | 4,960         | 209           | 0           | 4,278     | 3,319     | 1,624     | 233         | 5,000       | 6,109     | 6,131     | 2,363     | 971       | 3,498     | 1,538     |               |
| Utilization Rate      | 96.1%         | 88.2%         | 89.9%         | 62.4%         | 2.5%          | 0%          | 99.8%     | 77.0%     | 60.6%     | 5.0%        | 100%        | 93.7%     | 100%      | 97.1%     | 15.7%     | 82.1%     | 24.5%     |               |

Source: [GDS IQ 2018 Presentation](#)

The lease agreement included as an exhibit to GDS's prospectus confirms that Guangzhou Weiteng's data center is located in the G6 building in the Guangzhou Innovation Park **and that GDS purports to lease the entire building**. According to the lease, which expires in July 2029, the leasable area of the property is 15,531 sqm.<sup>2</sup>

<sup>2</sup> The address listed on translation of the lease agreement in GDS's SEC filings contains a typographical error. It states that the lease is for No.3 Kefeng Road, but the registered address of the lessor and the G6 building is actually No.31 Kefeng Road.

**Tenement Lease Agreement**

**Lessor** (hereinafter referred to as "Party A"): Guangzhou South China Advanced Materials Innovation Park Co., Ltd.

**Lessee** (hereinafter referred to as "Party B"): Guangzhou Weiteng Construction Co., Ltd.

As a private high-tech business incubator operated and managed by Party A, South China Advanced Materials Innovation Park, with the service objects of scientific and technological enterprises in the new material industry and relevant industries, provides the resident enterprises with office, R&D, pilot plant test, production and business sites, shared facilities as well as marketing, technology R&D, investment and financing, business incubation, application of science and technology projects and other entrepreneur services to reduce the entrepreneurial risks and initial costs and cultivate successful science and technology enterprises. Party A and Party B reach the following contract terms on the matter that Party B leases Party A's property on the basis of equality, voluntariness and consensus.

**Article 1: Leased property**

Party A agrees to rent out the property of G6 building in South China Advanced Materials Innovation Park, No.3 Kefeng Road, Science City, Guangzhou High-Tech Industrial Development Zone (the specific position is shown in Appendix 1: *Property Use Plan*) to Party B.

Party B confirms to have made due diligence for the ownership and supporting facilities of above property and made field investigation and measurement of the property status and actual use area before signing the Contract; if Party A is not obliged to take any action to meet such requirements, Party B will complete relevant matters independently (including but not limited to completing relevant works and handling relevant procedures) to meet such requirements. Party B hereby agrees to lease above property according to its current status.

Both parties confirm that the leasable area of the property is 15531m<sup>2</sup>, including the inner construction area and shared common construction area and shall be used as the basis for any cost measured by area (including but not limited to rent, property management fee and shared utilities) within the leasehold relation between both parties; any other measurement, surveying and mapping and registration results for above property do not affect confirmation of the leasable area by both parties. Even if there is discrepancy between the results and the leasable area, Party A may not return and Party B may not pay additional costs (including but not limited to rent, property management fee

*Source: [GDS Prospectus Exhibit 10.23](#)*

Not only does GDS claim to lease the entire G6 data center in its SEC filings, but for its SEC disclosures regarding utilization of GZ1 to be true, this must be the case.

Blue prints for the G6 data center, [available online](#), show that the building has 6 floors. The first floor is for power, cooling and certain power distribution room, leaving five floors remaining to host server cabinets.

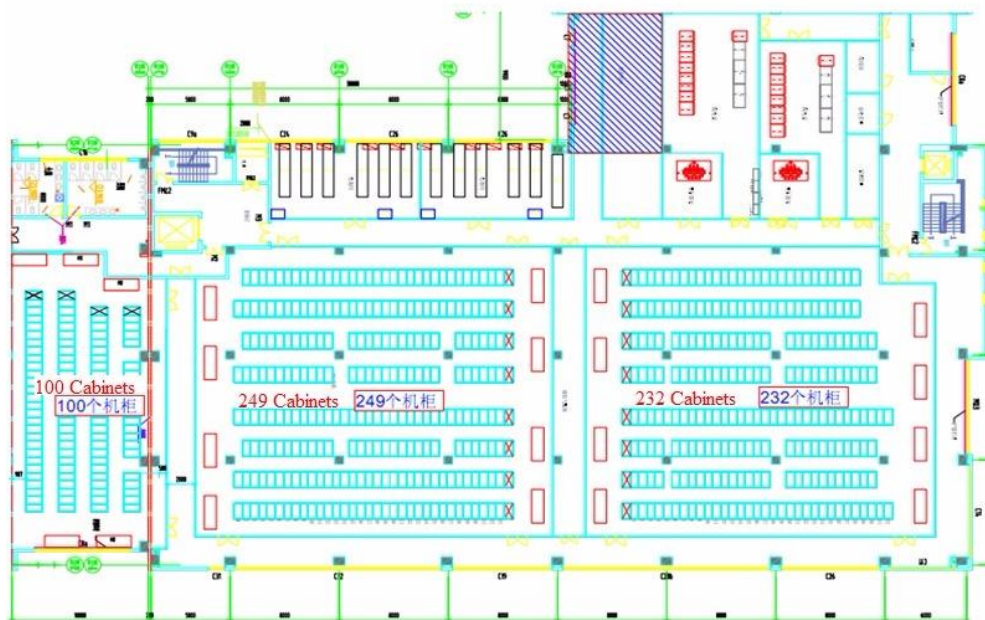
**Layout of G6 Building (GDS' GZ1 Data Center)**

|    |  |
|----|--|
| 6F | Server Rooms (~600 Cabinets per floor) |
| 5F | Server Rooms (~600 Cabinets per floor) |
| 4F | Server Rooms (~600 Cabinets per floor) |
| 3F | Server Rooms (~600 Cabinets per floor) |
| 2F | Server Rooms (~600 Cabinets per floor) |
| 1F | Lobby and Cooling Room                 |

*Source: Floor Layout of G6 Building*

The blue prints online show a sample layout of one of the server floors, which can accommodate 581 cabinets per floor across three different sections or server modules.





Source: <http://news.idcquan.com/scqb/88667.shtml>

When we called a GDS representative, she stated on a recorded phone call that the Company fits on average **one cabinet per 2.5 square meters of utilizable space**. Based on our analysis of other IDC providers, this ratio is typical for the industry. If GDS’s SEC filings are true, and it operates 6,521 square meters of utilizable space out of the G6 building, we calculate that it would require at least 4.5 floors of the 5 floors available.

**Required Number of Floors in G6 Building**

|   |            |
|---|------------|
| Area in Service reported by GDS (sqm)           | 6,521      |
| Sqm per cabinet                                 | 2.5        |
| Estimated total number of cabinets              | 2,608      |
| Number of cabinets per floor based on blueprint | 581        |
| <b>Required number of floors</b>                | <b>4.5</b> |

Source: GDS Q1 2018 Presentation, Blue Orca Calculation

Just to confirm our assumptions, we called a GDS sales associate in China, who again claimed that GDS operated the entire G6 building and that it was almost fully utilized.

*Blue Orca: Do you own this data center? Or did you rent it from others?*

***GDS Sales Rep: It is ours***

...

*Blue Orca: Do you mean that the entire G6 building is yours?*

***GDS Sales Rep: Yes and it is fully occupied.***

...

*Blue Orca: And only 5<sup>th</sup> floor has some space to rent out. Correct?*

***GDS Sales Rep:*** Right. The 5<sup>th</sup> floor has some space which is not big and just over 30 cabinets. Not a whole lot.

*Source: Recorded Phone Call to GDS Sales Representative*

GDS claims in its SEC filings to lease the entire G6 building. It repeated the claim to us when we called to confirm. And we calculate that for its stated capacity and utilization rates to be true, that must be the case.

Yet we spoke with **two supposedly independent data center service operators** which claimed to occupy space in that same G6 building. If other data center operators occupy part of the space, then the Company is overstating its purported area in service. One operator offered to lease out a significant amount of empty space to us. If GDS was telling the truth, then this would be impossible as the building is supposedly 100% committed and almost fully (94%) utilized.

First, we contacted GZIDC, an independent operator of data centers in China, because it has a picture of the G6 building on its website.



*Source: <https://www.gzidc.com/idc.php>*

We called a sales representative of GZIDC to inquire about renting data center space, and he stated that GZIDC currently operates a data center on **1 and a half floors of the G6 building**. The representative confirmed that the G6 building, just as GDS claims, has 6 floors. Five floors, according to the sales rep, are designed as a data center to accommodate services. Each floor has two sections which can accommodate roughly 300 cabinets per section (600 per floor). According to the sales rep, GZIDC leases **three sections on two floors to customers**.

GZIDC followed up our inquiry by sending us a **quotation** offering to rent available space in the data center in the G6 building. Put simply, GZIDC is advertising to rent us a significant amount of space in the same data center that GDS tells US investors is 100% committed and 94% utilized.

Quotation

## 报价单

客户名称: [REDACTED] 有限公司 报价日期: 2018年 [REDACTED]

联系人: [REDACTED] 联系电话: [REDACTED] 邮箱: [REDACTED]

机房: 华新园机房、地址: 广州市黄埔区科丰路 31 号华南新材料创新园 G6 栋

Server Room: South China Advanced Materials Innovation Park Server Room  
报价明细 Address: G6 building, No. 31 Kefeng Road, South China Advanced Materials  
Innovation Park, Huangpu District, Guangzhou

方案一: 接入 BGP 智能多线路。

| 项目      | 单价                | 数量         | 合计 (元)               | 备注         |
|---------|-------------------|------------|----------------------|------------|
| 机柜租用    | ¥ 65000 元/年       | [REDACTED] | ¥ [REDACTED] 000 元/年 |            |
| BGP 多线路 | ¥ [REDACTED] /M/月 | [REDACTED] | ¥ [REDACTED] 00 元/年  |            |
| IP 地址   | 免费送 IP            | [REDACTED] | ¥ 0                  | [REDACTED] |
| 合计      |                   |            | [REDACTED] 元/年       |            |

方案说明: BGP 为多线单 IP, 自适应用户电信、联通、移动等多线访问, 效果更稳定, 使用及管理方便。

## 报价说明

1. 以上报价均为含税报价。
2. 报价有效期为: 30 天。

Quoting Company: GZIDC

报价单位: 广东金万邦科技投资有限公司

Source: Quotation from [GZIDC](#)

To accompany the quote, GZIDC also sent us a PowerPoint brochure advertising the data center space in the G6 building. This brochure contained technical specifications for the G6 building and a blueprint of the server floors.

## 数据中心概况



G6外景图

### G6栋机房基本信息

|      |  |
|------|--|
| 机房等级 | 国际T3+, 国内5星                                    |
| 建筑面积 | 15500m <sup>2</sup> /栋, 一期供31000m <sup>2</sup> |
| 层高   | 一楼6米, 二至六楼4.5米                                 |
| 承重   | 模块机房1000KG; 辅助区1600KG                          |
| 电梯   | 货梯承重2T, 深2500*宽1500*高2500,                     |
| 出口带宽 | 400G   |
| 机柜数量 | 4000个  |

### G6 Building Information

|                    |   |
|--------------------|---|
| Server room level  | International T3+, domestic 5 stars                                   |
| Building area      | 15500m <sup>2</sup> /building, the first phase is 31000m <sup>2</sup> |
| Story height       | 6 meters on the first floor and 4.5 meters on the second to six floor |
| Load bearing       | Module server room 1000KG; auxiliary area 1600KG                      |
| elevator           | The freight elevator bears 2T, deep 2500* wide 1500* high 2500,       |
| Export bandwidth   | 400G  |
| Number of cabinets | 4000  |

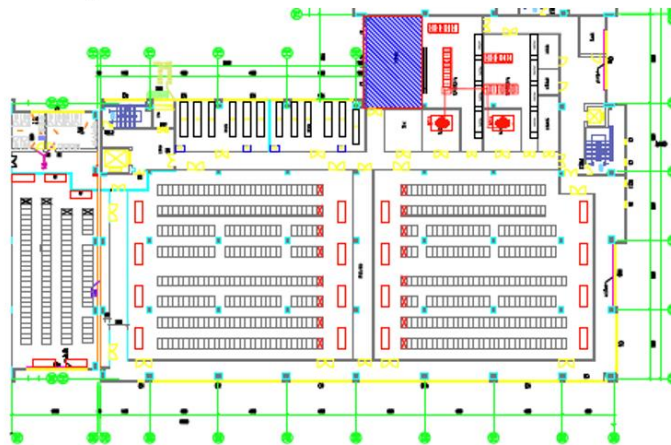
**GZIDC**  
新一代数据中心

Source: GZIDC PowerPoint Brochure Advertising Space in G6 Data Center Building

Note that the GZIDC PowerPoint brochure contains a blue print which matches the blue prints available online for the G6 building.

## G6 5层IDC

G6 5单层2500平米, 分三个模块机房, 共计600个机柜  
 每层独立双路配电  
 双路UPS  
 N+2风冷精密空调  
 G6 5 single layer 2,500 square meters, divided into three modular server rooms, a total of 600 cabinets  
 Independent double-channel power distribution  
 Dual UPS  
 N+2 air-cooled precision air conditioner



**GZIDC**  
新一代数据中心

Source: GZIDC PowerPoint Brochure Advertising Space in G6 Data Center Building



According to our recorded phone call with a GZIDC sales representative, the utilization rate of GZIDC's sections is around 60%. This representative also stated that half of one of GZIDC's floors is vacant, and that the vacant area can fit around 300 cabinets. This interview suggests that the utilization rate at the G6 building is considerably lower than the 94% claimed by GDS to U.S. investors.

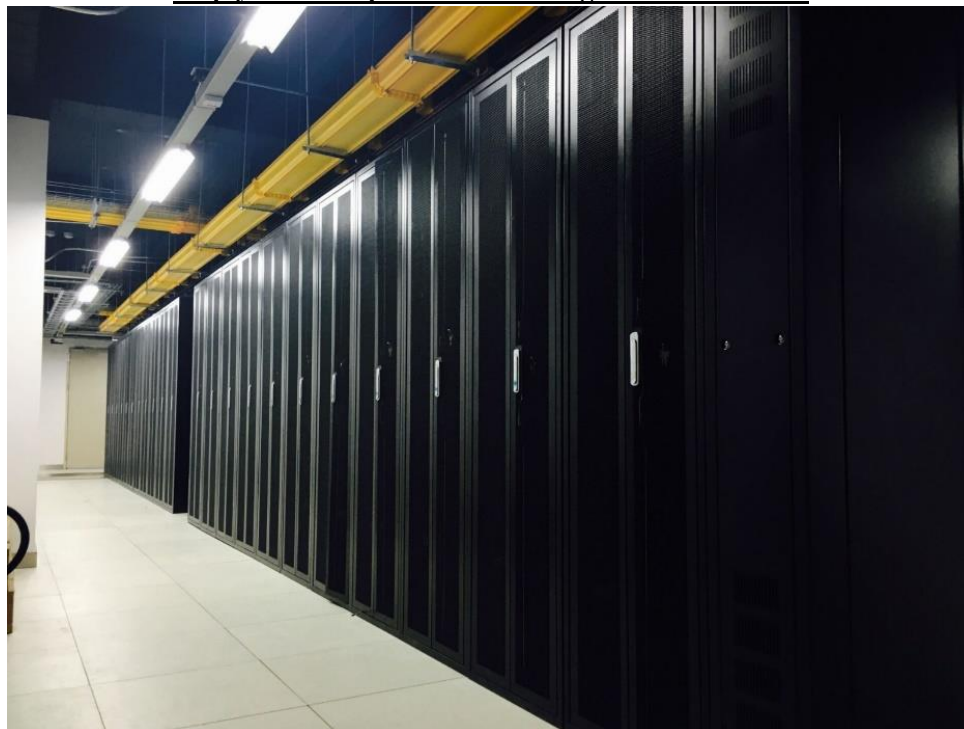
To confirm that indeed the building had ample empty space available to rent, GZIDC, at our request, sent us **pictures of empty cabinet space in the G6 building!** The sales representative said these pictures were taken a week ago (late July 2018).

**Empty Cabinet Space in G6 Building: Available to Rent**

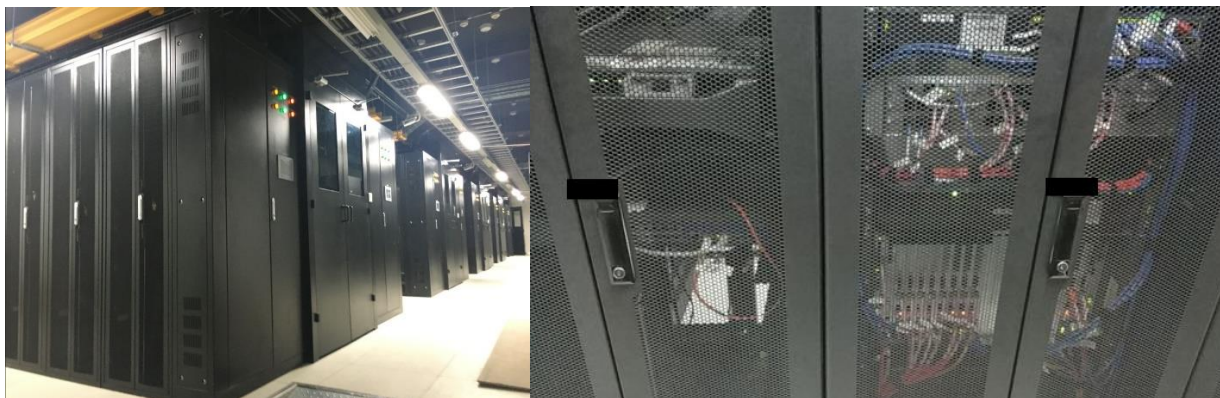


*Source: GZIDC Sales Representative (July 2018)*

**Empty Cabinet Space in G6 Building: Available to Rent**



*Source: GZIDC Sales Representative (July 2018)*

**Empty Cabinet Space Available to Rent vs. Occupied Cabinet Space in G6 Building. See the Difference?**

*Source: GZIDC Sales Representative (July 2018)*

**Empty Cabinet Space in G6 Building: Available to Rent**

*Source: GZIDC Sales Representative (July 2018)*

From the pictures, we can see rows of empty server cabinets. In our opinion, these images, together with our recorded phone conversations and accompanying marketing materials from GZIDC, are powerful evidence that GDS is lying when it tells US investors that the G6 building is 100% committed and 94% utilized.

We considered the possibility that GZIDC rented space from GDS, or was a sub-lessor, even though GDS never admits in any public filing that it subleases to other data center operators. When we asked the GZIDC sales representative about GDS, he said GZIDC leases the empty floor space from China Mobile and characterized GDS as a **competitor**.



In addition, we spoke with another data center provider, [Big One](#), which also claims to operate a data center out of the G6 building.

When we called Big One, a representative told us that Big One operates a data center out of the G6 building and it is almost full. Notably, Big One also sent us a marketing brochure offering space available in the G6 building. This presentation also included a blue print of the floor plan in the G6 building.

## 数据中心概况


  
 大一互联  
 WWW.BIGONE.COM.CN



G3外景图




G6外景图

G3/G6 Server Room Information

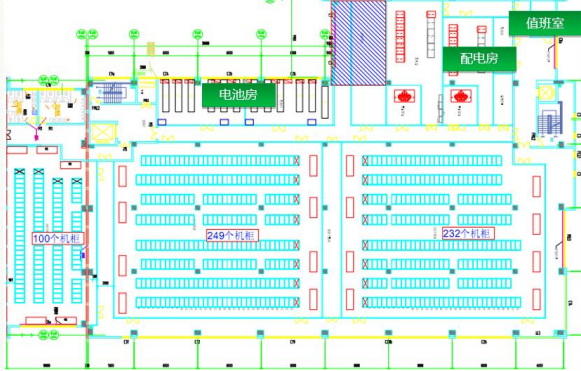
| G3/G6机房基本信息 |  |
|-------------|--|
| 机房等级        | 国际T3+, 国内5星                                    |
| 建筑面积        | 15500m <sup>2</sup> /栋, 一期供31000m <sup>2</sup> |
| 层高          | 一楼6米, 二至六楼4.5米                                 |
| 承重          | 模块机房1000KG; 辅助区1600KG                          |
| 电梯          | 货梯承重2T, 深2500*宽1500*高2500.                     |
| 出口带宽        | 一期200G   |
| 机柜数量        | 一期5000个  |

*Source: Big One Marketing Presentation*

### 机房整体设计


  
 大一互联  
 WWW.BIGONE.COM.CN

二至六层为机房区, 为该建筑的核心区域, 配置的供配电、空调模块、监控模块, 每层机房区域都有一套独立的配电和UPS系统。



G6 Modular Server Room Floor Plan
G6 六层模块机房平面图

*Source: Big One Marketing Presentation*

Big One, like GZIDC, provided marketing materials detailing technical aspects of the space available in the G6 building and sent us a quotation offering to rent available space in the data center.

### 大一互联IDC产品报价表

#### Big One IDC Product Price List

|  |                                       |              |       |                          |      |                           |
|--|---------------------------------------|--------------|-------|--------------------------|------|---------------------------|
| 客户信息   | 公司名称                                  | ██████████公司 | 客户代表  | ██████████               |      |                           |
|  | 所属部门                                  |              | 公司职务  |                          |      |                           |
|  | 联系电话                                  |              | 邮箱地址  |                          |      |                           |
| 大一互联   |                                       |              |       |                          |      |                           |
| 大一互联   | 报价日期                                  | 201807██     | 有效日期  | 201807██                 |      |                           |
|  | 客户经理                                  | ██████████   | 所属部门  | 营销中心                     |      |                           |
|  | 联系电话                                  | ██████████   | 邮箱地址  | ██████████@bigone.com.cn |      |                           |
| IDC产品  |                                       |              |       |                          |      |                           |
| 产品名称   | 机房名称                                  | 数量           | 价格单位  | 单价                       | 总价   | 备注                        |
| 机柜租用   | 华新园机房                                 | 10           | 元/柜/月 | 5000                     | 5000 | 百度腾讯首选机房24*365全年无休服务(G6栋) |
| Cabinet rental   | Guangzhou Innovation Park Data Center | 10           | 元/柜/月 | 5500                     | 5500 | 钻石五星级机房24*365全年无休服务       |
| BGP带宽  |                                       | 50           | 元/M/月 | 150                      | 7500 | T3+机房24*365全年无休服务         |
| 备注：1、我们在广州有13个互联网数据中心机房所有的资源都来自省骨干网出口带宽；<br>2、合作客户：腾讯、360、央视 CCTV、百度、优酷、搜狐、广州政府部门机构、盛大游戏、中信集团、华为、新浪网、美团网、TCL、阿里巴巴、美国苹果、IBM、网宿、世纪互联、京东、等等 |                                       |              |       |                          |      |                           |

*Source: Big One Sales Representative*

Big One is another example of an unaffiliated entity which claims to operate a data center out of the G6 building, which should, if GDS's disclosures are true, be operated exclusively by the Company. Based on our due diligence, we believe that GZIDC and Big One lease out at two floors (perhaps three) in the G6 building.

|    | Occupancy                              | Data Center Operator |
|----|--|----------------------|
| 6F | Server Rooms (~600 Cabinets per floor) | Big One              |
| 5F | Server Rooms (~600 Cabinets per floor) | GZIDC                |
| 4F | Server Rooms (~600 Cabinets per floor) | GZIDC   GZIDC        |
| 3F | Server Rooms (~600 Cabinets per floor) | GDS?                 |
| 2F | Server Rooms (~600 Cabinets per floor) | GDS?                 |
| 1F | Lobby and Cooling Room                 |                      |

*Source: Blue Orca Estimate of G6 Building Based on Due Diligence Calls, and Quotes from Competing Providers*

For GDS's SEC filings regarding the utilized space to be true, its data center must occupy all five server room floors of the G6 building. Yet GZIDC and Big One also claim to operate floors out of the very same building, and GZIDC provided ample evidence of empty server cabinets, suggesting that GDS is overstating the area in service and the utilization rate of a flagship asset. If GDS was telling the truth, then we wouldn't be sent pictures of empty space in the building with an offer to rent out rows of empty cabinets.

If GDS is overstating the amount of square footage it operates out of the GZ1 data center and/or the utilization rate of its space, we believe that it is reasonable to assume that GDS is overstating its service area and utilization at other data centers as well. This has drastic implications for the value of its business.

We performed a basic sensitivity analysis to show just how critical GDS's reported utilization rates are to its financial performance. Historically, on average 30% of GDS's COGS have been power, which we assume is a variable cost. If we assume that the other 70% of its COGS are fixed costs which do not fluctuate based on occupancy rates, we calculate that if GDS's true utilization rate is **5% less than it claims in its SEC filings**, GDS would have a 0% operating margin.

**Sensitivity Analysis of Utilization Rate (LTM Q1 18)**

| Utilization Rate | Reported    | -5%         | -10%        | -20%        | -30%        |
|------------------|-------------|-------------|-------------|-------------|-------------|
| <i>RMB'000</i>   |             |             |             |             |             |
| Revenue          | 1,828,348   | 1,736,931   | 1,645,513   | 1,462,678   | 1,279,844   |
| Cost of revenue  | (1,403,157) | (1,382,110) | (1,361,062) | (1,318,968) | (1,276,873) |
| Gross profit     | 425,191     | 354,821     | 284,451     | 143,711     | 2,971       |
| Operating profit | 77,973      | 7,603       | (62,767)    | (203,507)   | (344,247)   |
| EBITDA           | 516,267     | 445,897     | 375,527     | 234,787     | 94,047      |
| Net profit       | (368,521)   | (438,891)   | (509,261)   | (650,001)   | (790,741)   |
|                  |             |             |             |             |             |
| Gross margin     | 23%         | 20%         | 17%         | 10%         | 0%          |
| Operating margin | 4%          | 0%          | -4%         | -14%        | -27%        |
| EBITDA margin    | 28%         | 26%         | 23%         | 16%         | 7%          |
| Net margin       | -20%        | -25%        | -31%        | -44%        | -62%        |

Source: Company Filings, Blue Orca Calculation

Assumption: 1. Breakdown of cost of revenue: Variable (power) vs. Fixed (D&A and other): 30% vs 70%

2. SG&A, interest and other expenses are fixed costs

GDS's debts are real, and many of its costs are fixed. Small changes to its occupancy therefore have a toxic ripple effect on its financial performance. GZIDC told us that the utilization rate of their section of the G6 building was 60%, much lower than GDS's reported 94% utilization rate for the data center. Our sensitivity analysis shows that if GDS's true utilization rate is only 20% lower than stated, the Company would operate at a **negative 14% operating margin**.

We conclude, based on our analysis of one of GDS's flagship data centers, that the Company's area in service and its reported utilization rate are materially lower than it claims in its SEC filings. If that is the case, then it is smart to assume GDS's revenues and profits are also lower than reported.

## INFLATING THE PURCHASE PRICE OF UNDISCLOSED RELATED PARTY ACQUISITIONS

One of the hallmarks of US-listed Chinese companies which have collapsed amid evidence of fraud is the use of undisclosed related party transactions to funnel shareholder money to insiders, typically by overstating the value of an acquired asset or entity secretly purchased from insiders.

We believe that GDS is no different. Despite punishing debt levels, the Company continues to tap debt and equity markets, supposedly to fund the construction and acquisition of new data centers in China.

Since its IPO, GDS has announced six acquisitions for a total consideration of RMB 1.2 billion. Two such acquisitions were tiny (BJ4 and BJ5), with less than RMB 26 million in consideration. We could not find information for the Shanghai acquisition in May 2018 (SH 11).

But our due diligence of independent public records in China, including SAIC filings, indicates that in 3 of the 4 major post IPO acquisitions (SZ5, GZ2 and GZ3), GDS not only purchased data centers from what we believe are undisclosed related parties but overstated the purchase price of the transactions by an aggregate RMB **696 million!**

### Over paid for Post-IPO Acquisitions

| Year of Acquisition | Data Center Company | Data Center | Reported Consideration (RMB M) | Actual Consideration (RMB M) | Overpayment | Consideration Overstatement |
|---------------------|---------------------|-------------|--------------------------------|------------------------------|-------------|-----------------------------|
| 2017                | Shenzhen Yaode      | SZ5         | 312.0                          | 0.5                          | 311.5       | 624.0 x                     |
| 2017                | Weiteng Network     | GZ2         | 234.0                          | 72.0                         | 162.0       | 3.3 x                       |
| 2018                | Weiteng Data        | GZ3         | 262.2                          | 40.0                         | 222.2       | 6.6 x                       |
| 2018                | Not Disclosed       | BJ4         | 25.5                           | ?                            | ?           | ?                           |
| 2018                | Not Disclosed       | BJ5         | 26.0                           | ?                            | ?           | ?                           |
| 2018                | Not Disclosed       | SH11        | 320.0                          | ?                            | ?           | ?                           |
| Total               |                     |             | 1,179.7                        |                              | 695.7       |                             |

Source: GDS Filings, Presentations, SAIC Filings

\* Actual Consideration based on stated purchase price in local SAIC filings

In our opinion, GDS likely exaggerated the reported purchase price of these related party acquisitions because insiders simply looted the difference from the public Company. Not only is this egregious behavior on par with the worst of the China Hustle era, but in our opinion, it shows that rather than borrow to fund supposedly impressive growth; GDS is incurring crippling debts in part to unjustly enrich insiders at the expense of creditors and shareholders.

Once lenders become aware of GDS's scheme, we believe the capital markets will be closed to the Company, and its purported borrow-spend-grow business model, along with its share price, will collapse.

### 1) Shenzhen 5 Data Center Acquisition

On June 29, 2017, GDS reported that it acquired a Shenzhen data center and its parent entity ("Shenzhen 5" or ("SZ5") for RMB 312 million from a "third party."

*Effect of Acquisition of SZ5*

On June 29, 2017, we consummated an acquisition of all the equity interests in a target group from a third party for an aggregate contingent purchase price of RMB312.0 million (US\$48.0 million), of which RMB69.8 (US\$10.7 million) was paid as of December 31, 2017. As of December 31, 2017, we expected that all specified conditions would be met and we would be obligated to settle the full amount of the purchase price under the share purchase agreement of RMB312.0 million (US\$48.0 million). The target group owns a data center project in Shenzhen, China. As of the date of the acquisition, the data center had just commenced its operations. After the acquisition, this target group had a net revenue of RMB42.1 million (US\$6.5 million) and a net loss of RMB23.9 million (US\$3.7 million) for the period from June 30, 2017 to December 31, 2017, which is included in our results of operations for the year ended December 31, 2017.

Source: [GDS FY 2017 20-F](#), p. 103

GDS's 2017 annual report reveals that the acquired entity was Shenzhen Yaode Data Services 深圳耀德数据服务有限公司 (“Shenzhen Yaode”), which operates the acquired datacenter, SZ5.

Weiteng Construction, Weiteng Network, Shenzhen Yaode, EDC Shanghai Waigaoqiao and Zhangbei Yuntong operate the GZ1, GZ2, SZ5, SH1/SH2 and HB1 data centers, respectively. Other data centers are

Source: [GDS FY 2017 20-F](#), p. 81

According to Shenzhen Yaode's SAIC filings, **prior to the acquisition**, Shenzhen Yaode's director was an individual named **Huang Juan**, and its supervisor was **Zeng Jialin**.

(4) 公司执行董事由“黄隽, [REDACTED]”变更为“黄伟, [REDACTED]”;

The company's (Shenzhen Yaode) director changed from Huang Juan to Huang Wei

(5) 公司监事由“曾嘉琳, [REDACTED]”变更为“张妮娜, [REDACTED]” 18

The company's (Shenzhen Yaode) supervisor changed from Zeng Jialin to Zhang Nina

(6) 公司总经理由“张耀之, [REDACTED]”变更为“黄伟, [REDACTED]”。

特此决议。

原股东签名 (盖章)

新股东签名 (盖章)

Signature of new shareholder:  
Beijing Wanguo Chang'an Science & Technology (GDS subsidiary)

Shenzhen Yaode  
June 26, 2017

深圳耀德数据服务有限公司  
2017年6月26日

Source: [Shenzhen Yaode SAIC Filings](#)

Yet SAIC filings show that these same two individuals also worked for a GDS subsidiary, Guangzhou Shi Wan Guo Yun Lan Data Technology Co. Ltd. (“WGYL”).



**Guangzhou Shi Wan Guo Yun Lan Data Technology Co., Ltd. (WGYL)**  
**广州市万国云蓝数据科技有限公司** 在營 (开业) 企业

统一社会信用代码: 91440101MA59E91U7G  
 法定代表人: 陈怡琳  
 登记机关: 广州市黄埔区市场和监督管理局  
 成立日期: 2016年08月17日 Date of Incorporation: Aug 17, 2016

| 序号 | 股东名称 Shareholder | 股东类型 | 证照/证件类型 | 证照/证件号码 | 详情 |
|----|------------------|------|---------|---------|----|
| 1  | RDTJ LIMITED     | 法人股东 | 其他      | 2368918 |    |

共查询到 1 条记录 共 1 页

变更信息: Director, Supervisor, Manager, Joint Management Committee member

| 序号        | 变更事项 Amended Item          | 变更前内容 Before                        | 变更后内容 After     | 变更日期 Date of Amendment |
|-----------|----------------------------|-------------------------------------|-----------------|------------------------|
| 6         | 董事、监事、经理及联合管理委员会 委员        | 黄伟、曾嘉琳<br>Huang Juan<br>Zeng Jialin | 黄伟、张妮娜          | 2017年6月27日             |
| Legal Rep | 法定代表人变更                    | 曾嘉琳<br>Zeng Jialin                  | 黄伟              | 2017年6月27日             |
| 8         | 注册资本(金)变更                  | 50.0万人民币                            | 2250.0万美元       | 2017年5月30日             |
| 9         | 财务负责人 Financial Controller |                                     | 曾嘉琳 Zeng Jialin | 2016年8月7日              |

Source: SAIC website

SAIC records show that from 2016, GDS subsidiary WGYL employed Zeng Jialin as its financial controller and legal representative, and Huang Juan as its supervisor.

WGYL was incorporated on August 17, 2016, and was listed as GDS's subsidiary in its FY 2017 20-F. SAIC records, available online, show that WGYL was 100% owned by RTDJ Limited, a Hong Kong company controlled by GDS's chairman.

**RTDJ owns 100% WGYL**

**广州市万国云蓝数据科技有限公司** 在營 (开业) 企业 **WGYL**

统一社会信用代码: 91440101MA59E91U7G  
 法定代表人: 陈怡琳  
 登记机关: 广州市黄埔区市场和监督管理局  
 成立日期: 2016年08月17日

基础信息 | 行政许可信息 | 行政处罚信息 | 列入经营异常名录信息 | 列入严重违法失信企业名单 (黑名单) 信息

营业执照信息

- 统一社会信用代码: 91440101MA59E91U7G
- 企业名称: 广州市万国云蓝数据科技有限公司
- 类型: 有限责任公司(港澳台法人独资)
- 法定代表人: 陈怡琳
- 注册资本: 2850.000000万美元
- 成立日期: 2016年08月17日
- 营业期限自: 2016年08月17日
- 营业期限至: 2046年08月09日
- 登记机关: 广州市黄埔区市场和监督管理局
- 核准日期: 2018年06月13日
- 登记状态: 在營 (开业) 企业
- 住所: 广州高新技术产业开发区科丰路31号自编一栋华南新材料创新园G2栋108-1
- 经营范围: 数据处理和存储服务;信息系统集成服务;信息技术咨询服务;软件开发;计算机技术开发、技术服务;网络技术的研究、开发;信息技术服务;计算机网络系统工程服务;计算机和辅助设备修理;计算机及通讯设备租赁;计算机信息安全产品设计;软件服务;

股东及出资信息 股东及出资信息截止2014年2月28日, 2014年2月28日之后工商只公示股东姓名, 其他出资信息由企业自行公示。

| 序号 | 股东名称 Shareholder     | 股东类型 | 证照/证件类型 | 证照/证件号码 | 详情 |
|----|----------------------|------|---------|---------|----|
| 1  | RDTJ LIMITED<br>RDTJ | 法人股东 | 其他      | 2368918 |    |

共查询到 1 条记录 共 1 页

Source: <http://www.gsxt.gov.cn>

\* WGYL's amendments showed no change of its shareholder



Huang Wei Director of RDTJ

存案 Filed



公司註冊處  
Companies Registry

公司秘書及董事辭職通知書  
Notice of Resignation of  
Company Secretary and Director

表格  
Form **ND4**

公司編號 Company Number

2368918

註 Note

1 公司名稱 Company Name

RDTJ LIMITED

表格  
Form **ND2A**

公司編號 Company Number

2368918

3 委任公司秘書／董事(自然人) Appointment of Company Secretary / Director (Natural Person)

(如委任超過一名自然人為公司秘書／董事，請用續頁 B 填報 Use Continuation Sheet B if more than 1 natural person is appointed as company secretary / director)

委任日期 Date of Appointment

24

5

2017

日 DD

月 MM

年 YYYY

上述董事或候補董事在獲得這次委任時，是否已經是這公司的現任候補董事或董事？  
Is this director or alternate director already an existing alternate director or director in this company at the time of this appointment?

是 Yes

否 No

提示  
Advisory Note

所有公司董事均應閱讀公司註冊處編製的《董事責任指引》，並熟悉該指引所概述的董事一般責任。  
All directors of the company are advised to read 'A Guide on Directors' Duties' published by the Companies Registry and acquaint themselves with the general duties of directors outlined in the Guide.

出任董事職位同意書 Consent to Act as Director \*請刪去不適用者 Delete whichever does not apply

本人同意擔任公司的董事／候補董事\*，並確認本人已年滿 18 歲。  
I consent to act as director / alternate director\* of this company and confirm that I have attained the age of 18 years.

簽署 Signed : HUANG WEI 黃偉

01 4 1

Source: <https://www.icris.cr.gov.hk>

In June 2017, GDS disclosed that prior to the SZ5 acquisition, its subsidiary WGYL had borrowed RMB 644 million to repay outstanding loans.

On June 16, 2017, our subsidiary Guangzhou Wan Guo Yun Lan Data Technology Co., Ltd. entered into a facility agreement with DBS Bank (China) Limited, Shanghai Branch and Standard Chartered Bank (China) Limited, Shenzhen Branch, pursuant to which the banks agreed to make available to the subsidiary loan facilities in a total amount of RMB644.0 million for repayment of borrower's outstanding loan and financing borrower's Shenzhen data center, SZ5. The interest rate

Source: [GDS FY 2017 20-F](#), p. 113

Records show that GDS's WGYL employed two individuals in key positions who at the same time worked for the target company, Shenzhen Yaode, **prior to the acquisition**. **In short, these two individuals were on both sides of the deal (buyer and target)**. We believe that such overlapping connections clearly demonstrate that the SZ5 acquisition was an undisclosed related party acquisition.

There are other connections between the supposedly independent sellers of the acquisition target and the Company. SAIC filings stated that the sellers were two entities which each owned 50% of Shenzhen Yaode: Yaode Investment Management (Shenzhen) Enterprise (Limited Partnership) ("Yaode Investment") and Shenzhen Rui De En Investment Enterprise (Limited Partnership) ("RDN").

| 深圳耀德数据服务有限公司股东会决议  |         |      | Shenzhen Yaode Shareholder Resolution |              |               |
|--------------------|---------|------|---------------------------------------|--------------|---------------|
| 转让前股权结构:           |         |      | Before equity transfer:               |              |               |
| 股东名称               | 出资额     | 出资比例 | Name of Shareholder                   | Contribution | Contribution% |
| 耀德投资管理(深圳)企业(有限合伙) | 5000 万元 | 50%  | Yaode Investment                      | RMB 50M      | 50%           |
| 深圳市瑞德恩投资企业(有限合伙)   | 5000 万元 | 50%  | RDN                                   | RMB 50M      | 50%           |

Source: Shenzhen Yaode SAIC Filings

Corporate records indicate that Huang Juan, the same individual who worked for Company subsidiary WGYL and for the acquisition target Shenzhen Yaode, was also a partner at one of the sellers, RDN, from May 2016 to November 2017.



**深圳市瑞德恩投资企业(有限合伙)** 存续 Shenzhen Rui De En Investment Enterprise (Limited Partnership) ("RDN")

电话: 0755-2937\*\*\*\* 官网: 暂无

邮箱: \*\*\*@qq.com 地址: 深圳市前海深港合作区前海一路1号A栋201室(入驻深圳市前)

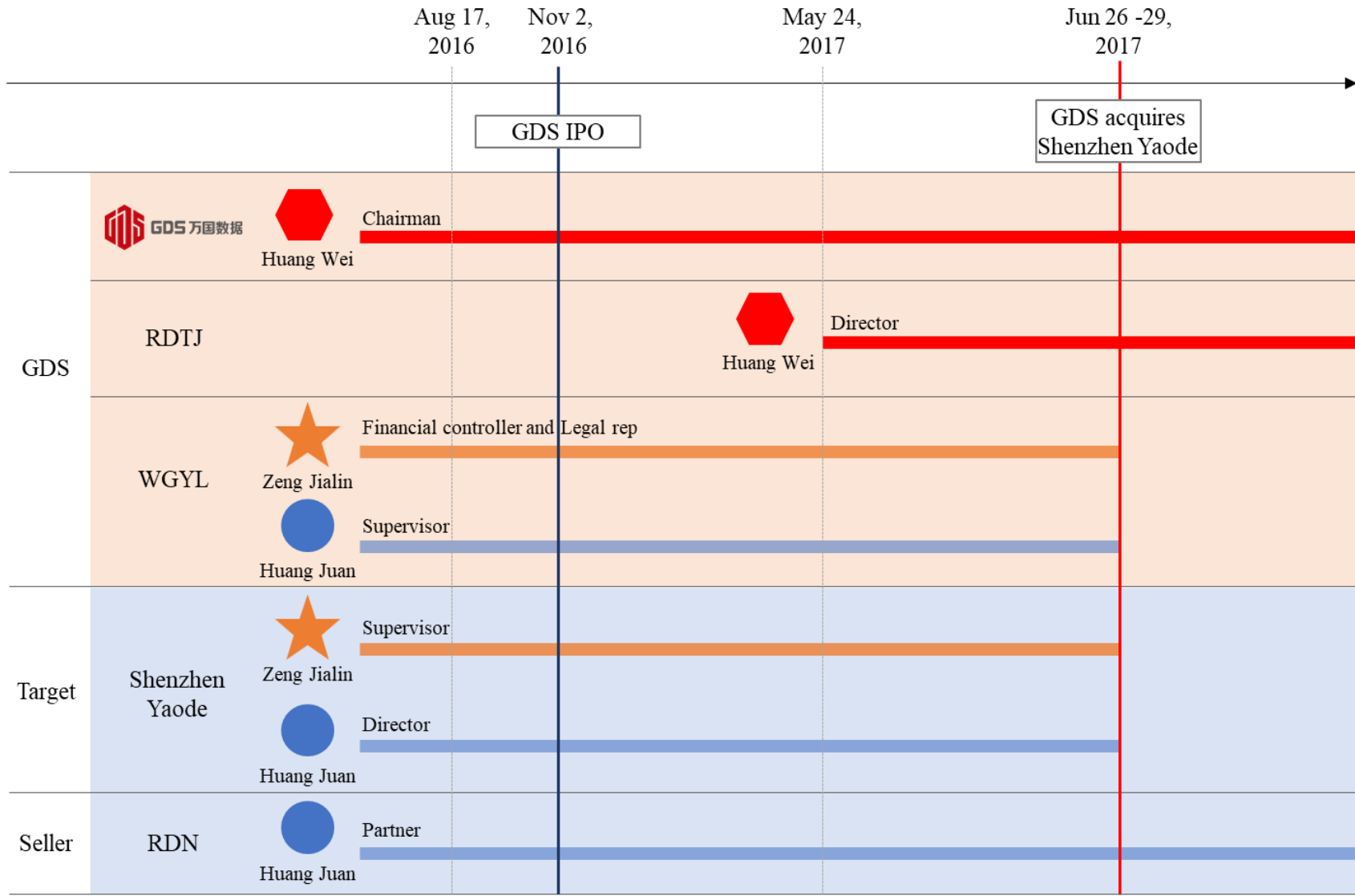
| 变更记录 3 |            | Amendment Date  | Amended Item  | Before  | After |
|--------|------------|---|---|---|-------|
| 序号     | 变更日期       | 变更项目  | 变更前   | 变更后   |       |
| 1      | 2017-11-20 | Change Investor<br>投资人变更 (包括出资额、出资方式、出资日期、投资人名称等)<br>带有*标记的为法定代表人 | Name: Huang Juan [exit]<br>名称:黄堯,出资额:990,出资比例:99【退出】<br>名称:李佳,出资额:10,出资比例:1 | Name: Liu Wanzhao<br>名称:刘万照*,出资额:990,出资比例:99【新增】<br>名称:李佳,出资额:10,出资比例:1 |       |
| 2      | 2017-11-20 | 章程备案<br>Partner   | 1900-01-01  | 2017-11-14  |       |
| 3      | 2016-05-27 | 合伙人   | 曾嘉琳【退出】<br>黄堯   | Zeng Jialin [exit]<br>Huang Juan<br>李佳【新增】<br>黄堯                        |       |

Source: [Online Company Database](#)

The same individual was an employee of a GDS subsidiary at the same time he/she was a partner in the limited partnership which sold SZ5 to the Company.

The timeline on the next page summarizes the evidence showing that prior the transaction, the same individuals were on both sides of the deal (buyer and seller). Far from being an independent third party, such connections strongly indicate, in our opinion, that the acquisition was an undisclosed related party transaction.

## Shenzhen 5 Acquisition



SAIC filings also indicate that the Company significantly inflated the value of the acquisition, leading us to believe that Company insiders used the undisclosed related party transaction to simply loot public money for personal gain.

GDS stated in its SEC filings that it acquired Shenzhen Yaode and the rights to the data center it operates (SZ5) for RMB 312 million.<sup>3</sup>

Yet SAIC filings show that on June 21, 2017, Shenzhen Yaode's shareholders agreed to transfer 100% of their shareholdings to GDS's subsidiary, Beijing Wanguo Chang'an Science & Technology, for a total consideration of **only RMB 500,000**.

#### 深圳耀德数据服务有限公司股东会决议

会议时间：2017年6月21日  
会议地点：公司会议室  
会议内容：股权转让及各项变更事宜  
参加人员：全体股东

#### Shenzhen Yaode Shareholder Resolution

Date of meeting: June 21, 2017

经公司股东会讨论研究并决定，一致同意通过以下事项：

(1) 股东深圳市瑞德恩投资企业(有限合伙)将其持有公司50%的股权以25万元人民币的价格转让给受让方北京万国长安科技有限公司。一致同意股东耀德投资管理(深圳)企业(有限合伙)将其持有公司50%的股权以25万元人民币的价格转让给受让方北京万国长安科技有限公司。其他股东放弃优先购买权。(公司注册资本：10000万元人民币，实收资本：0元人民币)

转让前股权结构：

| 股东名称               | 出资额     | 出资比例 |
|--------------------|---------|------|
| 耀德投资管理(深圳)企业(有限合伙) | 5000 万元 | 50%  |
| 深圳市瑞德恩投资企业(有限合伙)   | 5000 万元 | 50%  |

转让后股权结构：

| 股东名称         | 出资额      | 出资比例 |
|--------------|----------|------|
| 北京万国长安科技有限公司 | 10000 万元 | 100% |

Agreed to let RDN transfer its 50% ownership of company (Shenzhen Yaode) to Beijing Wanguo Chang'an Science & Technology (GDS subsidiary) for RMB 0.25 million.  
Agreed to let Yaode Investment transfer its 50% ownership of company (Shenzhen Yaode) to Beijing Wanguo Chang'an Science & Technology for RMB 0.25 million.  
Other shareholder waived their preemptive right.

(Shenzhen Yaode's registered capital: RMB 100 million. Paid-in capital: RMB 0)

Before ownership transfer:

| Shareholder name | Contribution | Contribution% |
|------------------|--------------|---------------|
| Yaode Investment | RMB 50M      | 50%           |
| RDN              | RMB 50M      | 50%           |

After ownership transfer

| Shareholder name                             | Contribution | Contribution% |
|--|--------------|---------------|
| Beijing Wanguo Chang'an Science & Technology | RMB 100M     | 100%          |

Source: Shenzhen Yaode SAIC Filings

SAIC filings clearly state that Shenzhen Yaode's sellers, RDN (50%) and Yaode Investments (50%), transferred their shares to the Company's subsidiary for RMB 500,000, **not RMB 312 million as the Company stated in its SEC filings**.

The consideration was so small because Shenzhen Yaode's paid-in-capital was RMB 0 at the time. Shenzhen Yaode's SAIC files state that it was incorporated in April 2016, but that its founding shareholders did not contribute any capital to the entity at incorporation. Capital contributions, oddly, were to be made some time before December 2019.

<sup>3</sup> The Company claims that with respect to the SZ5 acquisition, it paid RMB 70 million as of December 31, 2017, and stated in its FY 2017 20-F filing that it expects to pay the remainder of the consideration. No time frame was given for the payment of the contingent consideration (or even the contingent amount), so it is possible that some of the announced purchase price has yet to be paid.

### 第三章 注册资本

第十二条 公司股东认缴的注册资本总额为人民币10000万元，股东认缴出资情况如下：

股东姓名或名称：深圳市瑞德恩投资企业（有限合伙）

认缴出资额：人民币 5000万元

出资比例：50.0%

出资方式：货币

股东姓名或名称：耀德投资管理（深圳）企业（有限合伙）

认缴出资额：人民币 5000万元

出资比例：50.0%

出资方式：货币

第十三条 经全体股东一致约定，股东认缴出资额分期缴付：首期缴纳人民币0万元，2019年12月31日前全部缴付到位。

Share subscription are to be paid in installments: First payment is RMB 0. Contribute the full amount by December 31, 2019

Source: Shenzhen Yaode Registration

Financial statements in Shenzhen Yaode's 2016 SAIC filings also show that shareholder equity was RMB 0.

#### Shenzhen Yaode 2016 Company Asset Information

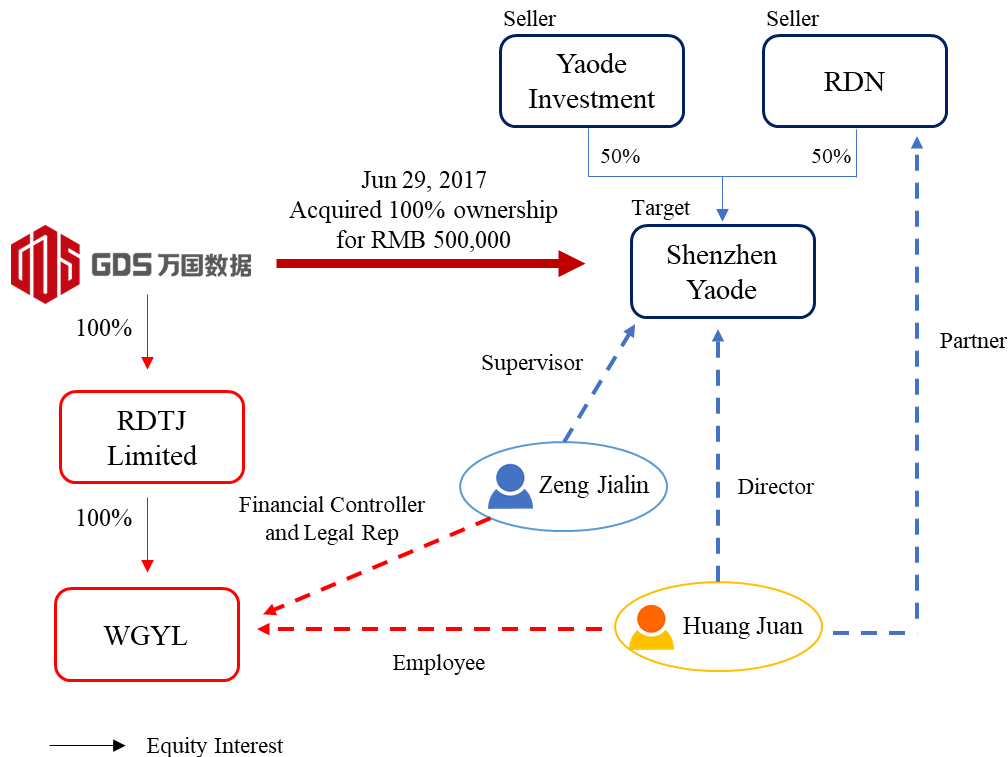
##### 深圳耀德数据服务有限公司 2016年度企业资产状况信息

|   |                                  |               |             |
|---|----------------------------------|---------------|-------------|
| 1 | 资产总额 Total Assets                | 40.940000 万元  | RMB 409,400 |
| 2 | 所有者权益合计 Total Shareholder Equity | 0.000000 万元   | RMB 0       |
| 3 | 销售(营业)收入                         | 0.000000 万元   |             |
| 4 | 其中主营业务收入                         | 0.000000 万元   |             |
| 5 | 利润总额                             | -0.060000 万元  |             |
| 6 | 净利润                              | -0.060000 万元  |             |
| 7 | 纳税总额                             | 0.000000 万元   |             |
| 8 | 负债总额                             | -41.000000 万元 |             |

Source: Shenzhen Yaode SAIC Filings

In sum, SAIC filings indicate that the Company acquired Shenzhen Yaode, an entity with minimal paid in capital and zero shareholder equity, for RMB 500,000, not RMB 312 million as the Company claimed in its SEC filings. That the acquisition appears to be an undisclosed related party transaction suggests, in our opinion, that insiders likely inflated the purchase price to simply loot shareholder money.

## Shenzhen 5 Acquisition



Source: SAIC Filings, PRC Online Record Database

### 2) Guangzhou 2 Acquisition

On October 9, 2017, the Company acquired a target group of companies that owned a data center project in Guangzhou (“GZ2”), supposedly for RMB 234 million. Like the SZ5 acquisition discussed above, SAIC filings indicate that the real purchase price of the acquisition was substantially less than GDS claimed in its SEC filings.

On October 9, 2017, the Company consummated an acquisition of all equity interests in a target group from a third party for a cash consideration of RMB233,984, of which RMB184,153 was paid up to December 31, 2017 and the remaining consideration payable was recorded in accrued expenses and other payables.

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

Source: [GDS FY2017 20-F](#), p. F-35

The Company was coy about the identity of the acquired companies, but from its 20-F it is clear that the acquired company which operated the GZ2 data center was a PRC entity Guangzhou Weiteng Network Technology 广州市维腾网络科技有限公司 (“Weiteng Network”).

On October 29, 2017, our subsidiary EDSUZ (HK) Limited entered into a facility agreement with United Overseas Bank Limited, pursuant to which the bank agreed to make available to the subsidiary loan facilities in a total amount up to USD25.0 million for payment of 75% of the consideration for the acquisition under the share purchase agreement dated September 27, 2017 to purchase all the equity interests in Raojin Limited, or Raojin and Weiteng Network, or the GZ2 Acquisition and funding the ISRA Required Balance (as defined in the facilities) on the first utilization date or the general corporate purposes and working capital purposes of GDS

Source: [GDS FY2017 20-F](#), p. 115



control GDS Shanghai, GDS Beijing and its subsidiaries, including EDC Shanghai Waigaoqiao, GDS Suzhou, Kunshan Wanyu, Weiteng Construction, Beijing Wanguo Yixin Science & Technology Co., Ltd., or Beijing Yixin, Zhangbei Yuntong Data Network Science & Technology Co., Ltd., or Zhangbei Yuntong, Shenzhen Yaode Data Services Co., Ltd., or Shenzhen Yaode, Shenzhen Jinyao Science & Technology Co., Ltd., or Shenzhen Jinyao, Guangzhou Weiteng Network Technology Co., Ltd., or Weiteng Network, and Shanghai Jinkai Data Technology Co., Ltd., or Shanghai Jinkai and have consolidated the financial

Source: *GDS FY2017 20-F*, p. 53

SAIC filings for Weiteng Network, the acquired PRC entity which operates the GZ2 data center, state that its shareholders Chen Lieyong and Guangzhou City Haoxi Technology Service Company (Limited Partnership) (“Haoxi”), **actually sold Weiteng Network to GDS for only RMB 72 million.**

The data center was already complete at the time of the transaction, so we think it is safe to conclude that the purchase price reflected in the SAIC filings reflected the actual value of the underlying asset.

本次股东会于 2017 年 11 月 3 日在广州市维腾网络科技有限公司会议室召开，本次会议的召集程序、表决方式符合《中华人民共和国公司法》及本公司章程的有关规定。

公司股东全体成员出席本次会议，代表公司股东 100  
 Agreed to let Haoxi transfer its capital contribution of RMB 99 million (accounting for 99% of the company's (Weiteng Network's) registered capital) to Global Data Solutions for RMB 71.28 million.  
 Agreed to let Chen Lieyong transfer his capital contribution of RMB 1 million (accounting for 1% of the company's (Weiteng Network's) registered capital) to Global Data Solutions for RMB 0.72 million.

一、同意 广州瀚熹技术服务企业（有限合伙） 将原出资额 9900 万元（占公司注册资本的 99%）转让给万国数据服务有限公司，转让金额为 7128 万元；同意 陈列勇 将原出资额 100 万元（占公司注册资本的 1%）转让给万国数据服务有限公司，转让金额为 72 万元。其他原股东均同意股权转让并放弃该上述股权的优先购买权。

Source: *Weiteng Network SAIC Filings*

SAIC filings suggest that GDS overstated the value of the GZ2 acquisition by **over 3.3x**. But there is more to this transaction. In its FY 2017 20-F, GDS claimed that it consummated the acquisition of Weiteng Network and its data center (GZ2) on October 9, 2017.

### *Effect of Acquisition of GZ2*

On October 9, 2017, we consummated an acquisition of all the equity interests in a target group from a third party for an aggregate cash consideration of RMB234.0 million (US\$36.0 million), of which RMB184.2 (US\$28.3 million) was paid as of December 31, 2017. The target group owns a data center project in Guangzhou, China. As of the date of the acquisition, the data center was fully operational. After the acquisition, this target group had a net revenue of RMB26.6 million (US\$4.1 million) and a net income of RMB2.7 million (US\$0.4 million) for the period from October 10, 2017 to December 31, 2017, which is included in our results of operations for the year ended December 31, 2017.

Source: [GDS FY 2017 20-F](#), p. 103

But this timeline is highly questionable, as PRC records show that Weiteng Networks was still 51% owned at that time by [Shenzhen Ningguanghong Technology](#) (“SNT”), whose shares are traded OTC in China on the NEEQ board.<sup>4</sup>

| 序号 | 变更日期       | 变更项目               | 变更前  | 变更后                                    |
|----|------------|--------------------|--|--|
| 11 | 2017-11-10 | 股东变更               | 陈列勇【退出】<br>广州市溢嘉技术服务企业(有限合伙)【退出】                     | 万国数据服务有限公司【新增】                         |
|    |            | Shareholder Change | Chen Lieyong (exit)                                  | Global Data Solutions Co., Ltd. (add)  |
| 19 | 2017-10-18 | 股东变更               | 广州市溢嘉技术服务企业(有限合伙)<br>深圳宁冠鸿科技股份有限公司【退出】               | 陈列勇【新增】<br>广州市溢嘉技术服务企业(有限合伙)           |
|    |            | Shareholder Change | Haoxi<br>SNT (exit)                                  | Chen Lieyong<br>Haoxi                  |
| 23 | 2017-01-05 | 股东变更               | 梁彩屏【退出】<br>梁凤萍【退出】<br>深圳宁冠鸿科技股份有限公司                  | 广州市溢嘉技术服务企业(有限合伙)【新增】<br>深圳宁冠鸿科技股份有限公司 |
|    |            | Shareholder Change | Liang Caiping (exit)<br>Liang Fengping (exit)<br>SNT | Haoxi (add)<br>SNT                     |

Source: [https://www.qichacha.com/firm\\_839e15429186d36422c649ad1851036b.html](https://www.qichacha.com/firm_839e15429186d36422c649ad1851036b.html)

<sup>4</sup> NEEQ stands for The National Equities Exchange and Quotations, which is a Chinese over-the-counter system for trading the shares of a company that is not listed on either the Shenzhen or Shanghai stock exchanges. The NEEQ exchange is nicknamed the “New Third Board.”

### (一) 交易对价支付

根据公众公司提供的银行凭证，陈列勇、广州瀚熹已分别于 2017 年 10 月 17 日、2017 年 10 月 19 日按照《股权转让协议》及补充协议的约定向公众公司支付了全部的股权转让价款。

According to the bank document public company (SNT) provided, Mr. Chen and Haoxi transferred the consideration to SNT on October 17, 2017 and October 19, 2017, respectively. The consideration was determined by the "Equity Transfer Agreement" and the additional agreement.

Source: *Implementation Report of Assets sales and Material Assets Restructuring*, November 1, 2017

Because SNT's shares were traded OTC in China and the disposition was material to its business, SNT [released](#) an Asset Sales and Material Asset Restructuring Report (the "[Restructuring Report](#)") describing the value of Weiteng Network (and its data center GZ2).

This report stated unequivocally that the fair value of Weiteng Network, as of June 30, 2017, was only RMB 70.4 million. Notably, this corroborates SAIC filings which state that GDS purchased Weiteng Network for RMB 72 million.

### (二) 标的资产估值的风险

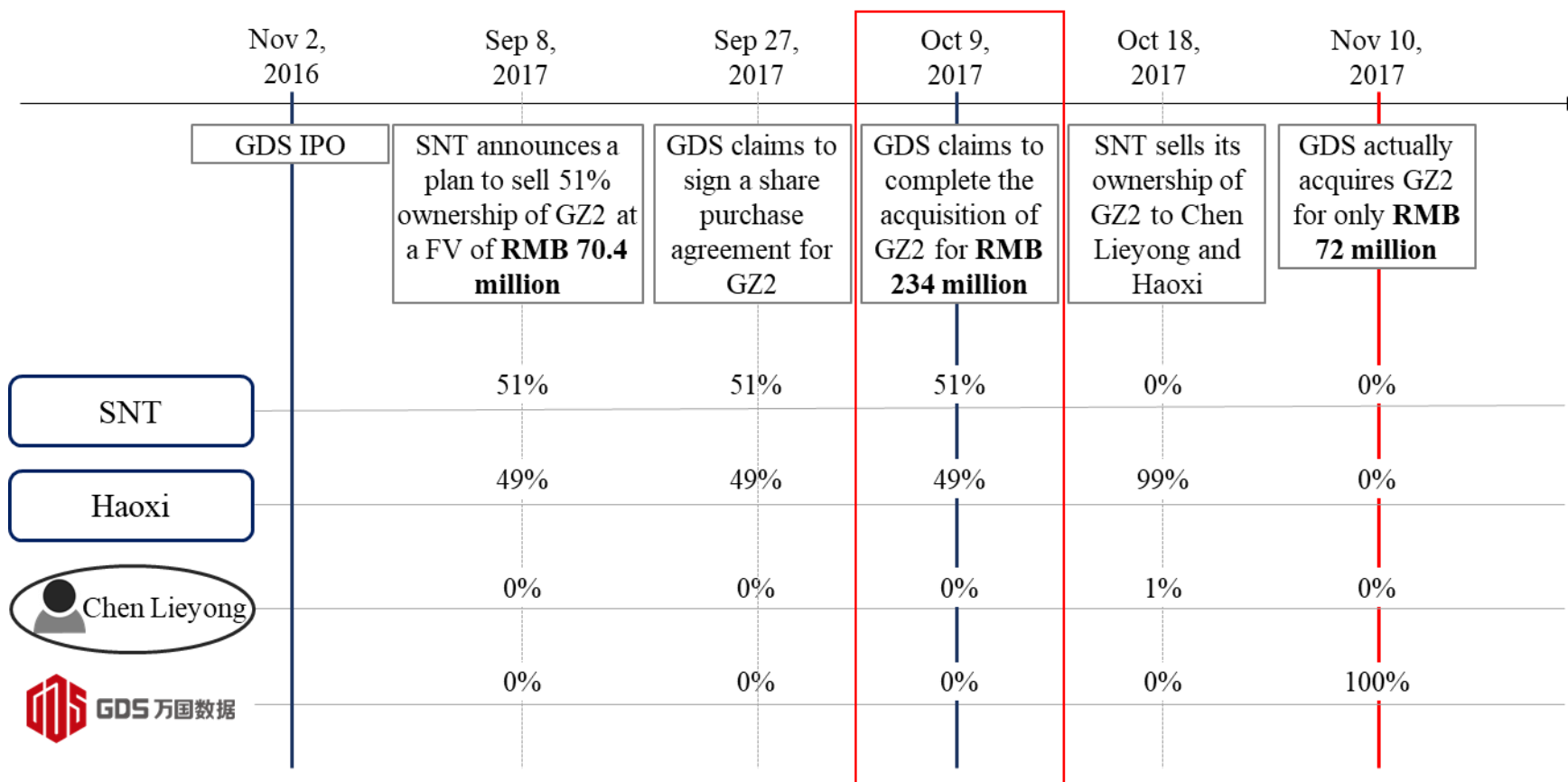
经采用收益法评估，在评估基准日 2017 年 6 月 30 日持续经营前提下，广州市维腾网络科技有限公司股权全部权益账面值（净资产价值）为 5,840.41 万元，评估值为 7,043.40 万元，评估增值 1,203.00 万元，增值率 20.60%。

As evaluated by the income method, on the premise of continuing operations, the book value and the appraised value of Weiteng Network's total equity (net asset value) was RMB 58.4 million and RMB 70.4 million on June 30, 2017, respectively. The assessed appreciation was RMB 12 million, or 20.60% appreciation rate.

Source: *Assets Sales and Material Assets Restructuring Report*, September 8, 2017

On the next page, we include a timeline showing the discrepancy between GDS's claims regarding the acquisition and the documentary evidence from PRC public records. At the time GDS claimed it acquired GZ2, PRC records show that Weiteng Network was still owned by Haoxi and SNT. Such records show GDS only acquired the data center a month later, and at a much lower purchase price than the Company reported in its SEC filings.

## Guangzhou 2 Acquisition



\* Figures represent ownership of Weiteng Network (GZ2)



SNT's Restructuring Report also indicates that GDS, in addition to inflating the purchase price of the transaction in its SEC filings, also inflated the value of the acquired PP&E.

According to GDS's FY 2017 20-F, the value of the PP&E acquired in the Weiteng Network and GZ2 acquisition was RMB 319.9 million as of October 9, 2017.

### Weiteng Network's Fair Value on October 9, 2017 (Reported by GDS)

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

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

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

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

Note (ii): **Property and equipment acquired included properties and equipment acquired under capital lease and other financing arrangement of RMB106,000, data center equipment of RMB57,932, leasehold improvement of RMB155,149 and furniture and office equipment of RMB862.**

Source: *GDS FY 2017 20-F*, p. F-35

However, in SNT's Restructuring Report, SNT stated that the fair value of Weiteng Network's property, plant and equipment was only RMB 167.6 million as of June 30, 2017.

### Fair Value of Weiteng Network on June 30, 2017 (Reported by SNT)

| 项 目         |           | Appraised Value <span style="float: right;">Unit: RMB 10K 单位: 万元</span> |                  |               |                      |
|-------------|-----------|---|------------------|---------------|----------------------|
|             |           | 账面价值<br>A   | 评估价值<br>B        | 增减值<br>C=B-A  | 增值率%<br>D=C/A × 100% |
| 流动资产        | 1         | 4,561.30  | 4,561.30         | 0.00          | 0.00                 |
| 非流动资产 PP&E  | 2         | 16,728.50   | 16,861.72        | 133.22        | 0.80                 |
| 其中: 固定资产    | 3         | 8,944.64  | 9,077.86         | 133.22        | 1.49                 |
| 无形资产        | 4         | 62.81   | 62.81            | RMB 90.8M     | 0.00                 |
| 长期待摊费用      | 5         | 7,677.73  | 7,677.73         | 0.00          | 0.00                 |
| 递延所得税资产     |           |   | 43.32            | RMB 76.8M     | 0.00                 |
| 其他非流动资产     |           |   |                  |               |                      |
| <b>资产总计</b> | <b>8</b>  | <b>21,289.80</b>  | <b>21,423.02</b> | <b>133.22</b> | <b>0.63</b>          |
| 流动负债        | 9         | 12,233.11   | 12,233.11        | 0.00          | 0.00                 |
| 非流动负债       | 10        | 3,216.28  | 3,216.28         | 0.00          | 0.00                 |
| <b>负债合计</b> | <b>11</b> | <b>15,449.39</b>  | <b>15,449.39</b> | <b>0.00</b>   | <b>0.00</b>          |
| <b>净资产</b>  | <b>12</b> | <b>5,840.41</b>   | <b>5,973.63</b>  | <b>133.22</b> | <b>2.28</b>          |

Source: *Assets Sales and Material Assets Restructuring Report*, September 8, 2017



The data center was complete and operational at the time of the transaction, so SNT's valuation should match GDS's valuation of the PP&E in its SEC filings. But it does not and it is not even close. SNT reported that Weiteng Network's PP&E was worth only RMB 167.6 million. GDS said in its SEC filings that the acquired PP&E was worth RMB 320 million, a **91% inflation in only 3 months**.

It is highly unlikely that Weiteng Network purchased RMB 152 million worth of property and equipment in that three-month gap between the Restructuring Report and GDS's acquisition, as Weiteng Network had neither the cash nor the financing to almost double its PP&E in such a short time.<sup>5</sup>

**Weiteng Network Did Not Have Sufficient Fund to Purchase RMB 152MPPE**

| RMB'000   | 6/30/2017 | 10/9/2017 | Change          |
|---|-----------|-----------|-----------------|
| Cash  | 2,587     | 10,144    | (7,557)         |
| Accounts receivable                             | 27,527    | 25,177    | 2,350           |
| Accounts payable                                | 49,409    | 56,431    | 7,022           |
| Short-term borrowings                           | 54,770    | 50,750    | (4,020)         |
| Long-term borrowings                            | 25,964    | 52,999    | 27,035          |
| Total cash and credit available to purchase PPE |           |           | 24,829          |
| Property and equipment                          | 167,556   | 319,943   | 152,387         |
| Under capital lease                             | 22,676    | 106,000   | 83,324          |
| Supposed PPE purchase amount                    |           |           | 69,063          |
| Total cash and credit available to purchase PPE |           |           | 24,829          |
| <b>Insufficient Fund</b>                        |           |           | <b>(44,234)</b> |

Source: GDS FY 2017 20-F, SNT Filings, Blue Orca Calculation

There is also evidence that GDS overstated the revenues of the acquired assets. In its FY 2017 20-F, GDS stated that Weiteng Network contributed RMB 26.6 million of revenue and RMB 2.7 million of net income in the last three months of 2017.

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

Source: [GDS FY 2017 20-F](#), p. F-36

However, SNT's Restructuring Report suggests otherwise. The report stated that prior to its acquisition by GDS, Weiteng Network's data center was fully operational and had a contract to lease its space to China Mobile through July 2021. Because the data center's contract with China Mobile had fixed pricing, SNT's Restructuring Report provided a sales forecast for Weiteng Network.

2016年10月，G3机房全部完工并交付中国移动广东公司广州分公司使用，价格保持不变，合同期限至2021年7月，合同到期后无异议则自动续约1年，

机房的电力成本全部由客户中国移动承担。

In October 2016, G3 building is fully completed and is used by China Mobile. The price remains the same and the contract expires in July 2021.

Source: [Assets Sales and Material Assets Restructuring Report](#), September 8, 2017<sup>6</sup>

<sup>5</sup> Weiteng Network's estimated 3-month EBITDA is only RMB 11 million, which is not enough to fund the PPE purchase.

<sup>6</sup> SNT filings indicate that the G3 building is a 6-floor data center with a leasable area of 15,469 sqm. The data center is only 6,131 sqm (according to GDS), meaning it must be inside this space.



根据上述分析预测，该公司未来年度的销售收入预测结果如下：

单位：万元

| 项目            | 2017年7-12月 | 2018年    | 2019年    | 2020年    | 2021年    | 2022年    |
|---------------|------------|----------|----------|----------|----------|----------|
| 技术服务（IDC运营服务） | 3,193.53   | 6,387.06 | 6,387.06 | 6,387.06 | 6,387.06 | 6,387.06 |
| 合计            | 3,193.53   | 6,387.06 | 6,387.06 | 6,387.06 | 6,387.06 | 6,387.06 |

Based on the above analysis, Weiteng Network's sales forecast is:

| RMB'000             | 2H 2017 | 2018   | 2019   | 2020   | 2021   | 2022   |
|---------------------|---------|--------|--------|--------|--------|--------|
| IDC service revenue | 31,935  | 63,871 | 63,871 | 63,871 | 63,871 | 63,871 |
| Total               | 31,935  | 63,871 | 63,871 | 63,871 | 63,871 | 63,871 |

Source: [Assets Sales and Material Assets Restructuring Report](#), September 8, 2017

Based on SNT's forecasts, Weiteng Network's actual revenues in that three-month period (Oct-Dec, 2017) should only be RMB 16 million, 40% less than what GDS reported.

#### GDS Overstated Weiteng Network's Revenue

RMB'000

|                                       |             |
|---------------------------------------|-------------|
| 2H 2017 IDC revenue forecasted by SNT | 31,935      |
| 3-month revenue (estimated)           | 15,968      |
| 3-month revenue reported by GDS       | 26,573      |
| Difference                            | (10,605)    |
| <b>Difference %</b>                   | <b>-40%</b> |

Source: Blue Orca Calculation

On the basis of SNT's forecasts, if we annualize the amount of overstated revenue from this acquired data center, we calculate that just this one case accounts for RMB 42 million in overstated revenues.

SNT built the GZ2 data center and owned a majority stake in Weiteng Networks. Not only does the SNT report indicate that the acquired group's PPE was 48% lower, but that the revenue attributable to the data center was 40% lower than the Company reported in its SEC filings.

#### a. Undisclosed Related Party Connections between GZ2 and the Company

We found a number of overlapping connections prior to the acquisition between GDS, the acquisition target and its sellers, **including common registered phone numbers and email addresses**. Entities with the same registered email addresses and phone numbers, in our opinion, are likely connected through common or overlapping ownership or control.

First, GZ2's seller, Haoxi, shared the same registered phone number as Company subsidiary WGYL **prior to the acquisition**.

#### Haoxi 2016 Annual Audit Report



|   |                  |                    |  |        |        |        |
|---|------------------|--------------------|--|--------|--------|--------|
| 基本信息 5  | 法律诉讼 0           | 经营状况 0             | 经营风险 0   | 企业年报 2 | 知识产权 0 | 历史信息 2 |
| 2017年度报告                                      |                  | 2016年度报告           |  |        |        |        |
| 2017-06-29 公布                                 |                  |                    |  |        |        |        |
| 企业基本信息 <span style="float: right;">企查查</span> |                  |                    |  |        |        |        |
| 注册号   | -                | 统一社会信用代码           | 91440101MA59DF0M65                             |        |        |        |
| 企业经营状态  | 开业               | 企业联系电话             | 13631500051 <span style="color: red;">←</span> |        |        |        |
| 从业人数  | 企业选择不公示          | 邮政编码               | 510000   |        |        |        |
| 有限责任公司本年度是否发生股东股权转让                           | 否                | 企业是否有投资信息或购买其他公司股权 | 否  |        |        |        |
| 电子邮箱  | 304330412@qq.com |                    |  |        |        |        |
| 企业通讯地址  | 广州市萝岗区科丰路31号G2栋  |                    |  |        |        |        |

Source: 1. <http://www.gsxt.gov.cn>  
2. [Online Company Record Database](#)

### WGYL 2016 Annual Audit Report

|  |   |                           |                      |
|--|---|---------------------------|----------------------|
|  | <b>广州市万国云蓝数据科技有限公司</b><br>统一社会信用代码: 91440101MA59E91U7G<br>法定代表人: 陈怡琳<br>登记机关: 广州市黄埔区市场和监督管理局<br>成立日期: 2016年08月17日 | 在营 (开业) 企业<br><b>WGYL</b> | 发送报告<br>信息分享<br>信息打印 |
|--|---|---------------------------|----------------------|

|   |                      |                    |  |  |  |  |
|---|----------------------|--------------------|--|--|--|--|
| 2017年度报告                                      |                      | 2016年度报告           |  |  |  |  |
| 2017-05-31 公布                                 |                      |                    |  |  |  |  |
| 企业基本信息 <span style="float: right;">企查查</span> |                      |                    |  |  |  |  |
| 注册号   | -                    | 统一社会信用代码           | 91440101MA59E91U7G                             |  |  |  |
| 企业经营状态  | 开业                   | 企业联系电话             | 13631500051 <span style="color: red;">←</span> |  |  |  |
| 从业人数  | 企业选择不公示              | 邮政编码               | 510000   |  |  |  |
| 有限责任公司本年度是否发生股东股权转让                           | 否                    | 企业是否有投资信息或购买其他公司股权 | 否  |  |  |  |
| 电子邮箱  | -                    |                    |  |  |  |  |
| 企业通讯地址  | 广州市萝岗区科丰路31号G2-108-1 |                    |  |  |  |  |

Source: 1. <http://www.gsxt.gov.cn>  
2. [Online Company Record Database](#)

Haoxi sold Weiteng Network and its GZ2 data center to GDS in October 2017. Prior to the transaction, online corporate records clearly show that the seller had the same registered phone number as Company subsidiary WGYL. And there are other connections between the supposedly independent sellers of GZ2 and GDS.

Recall that SNT owned a majority stake in Weiteng Network and built the GZ2 data center. SNT disposed of its interest in Weiteng Network to Haoxi only a few weeks before it was acquired by GDS. SNT's phone number on its website is 0755-29374359.

**联系我们 / Contact us**

**SNT**

**深圳市宁冠鸿科技有限公司**

地址：广东省深圳市龙华新区梅龙路880号二楼

电话：0755-29374359 Tel: 0755-29374359

Source: <http://www.szng.com/contact.asp>

Corporate records, available to any investor online, show that the **same phone number** was also listed as the registered contact number Shenzhen Yaode and its 50% shareholder, RDN.

### Shenzhen Yaode 2016 Annual Audit Report

**深圳耀德数据服务有限公司** 存续 (在筹、开业、在册) **Shenzhen Yaode**

统一社会信用代码: 91440300MA5DA1WU4X

法定代表人: 黄伟

登记机关: 深圳市市场监督管理局

成立日期: 2016年04月05日

发送报告 信息分享 信息打印

2017年度报告 2016年度报告

2017-05-11 公布

企业基本信息

|                     |  |                    |                    |
|---------------------|--|--------------------|--------------------|
| 注册号                 | -  | 统一社会信用代码           | 91440300MA5DA1WU4X |
| 企业经营状态              | 存续 (在筹、开业、在册)                            | 企业联系电话             | 0755-29374359      |
| 从业人数                | 不公示                                      | 邮政编码               | 518000             |
| 有限责任公司本年度是否发生股东股权转让 | 无  | 企业是否有投资信息或购买其他公司股权 | 无                  |
| 电子邮箱                | 286059632@qq.com                         |                    |                    |
| 企业通讯地址              | 深圳市前海深港合作区前海一路1号A栋201室 (入驻深圳市前海商务秘书有限公司) |                    |                    |

Source: 1. <http://www.gsxt.gov.cn>

2. [Online Company Record Database](#)

### RDN 2017 Annual Audit Report



**深圳市瑞德恩投资企业 (有限合伙)**  
 统一社会信用代码: 914403003596760747  
 执行事务合伙人: 刘万顺  
 登记机关: 深圳市市场监督管理局  
 成立日期: 2015年12月28日

存续 (在 营、开 业、在 册) **RDN**

发送报告  
 信息分享  
 信息打印

2017年度报告 | 2016年度报告 | 2015年度报告

2018-04-13 公布

#### 企业基本信息

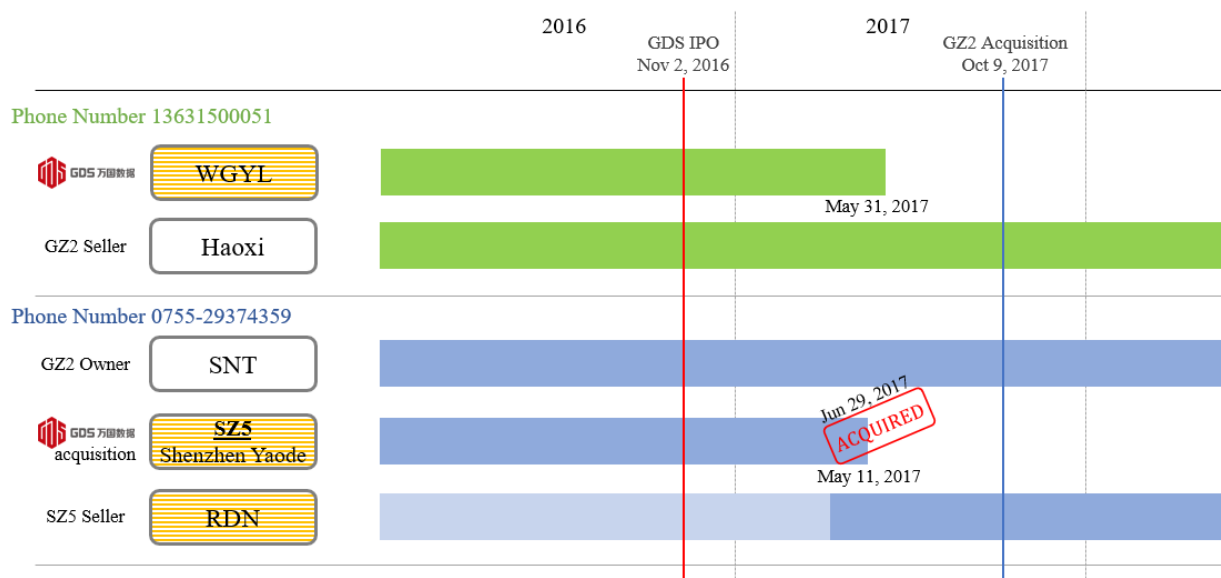
|                     |  |                    |                    |
|---------------------|--|--------------------|--------------------|
| 注册号                 | 440306602533253                          | 统一社会信用代码           | 914403003596760747 |
| 企业经营状态              | 开业                                       | 企业联系电话             | 0755-29374359      |
| 从业人数                | 企业选择不公示                                  | 邮政编码               | 518000             |
| 有限责任公司本年度是否发生股东股权转让 | 否  | 企业是否有投资信息或购买其他公司股权 | 否                  |
| 电子邮箱                | 286059632@qq.com                         |                    |                    |
| 企业通讯地址              | 深圳市前海深港合作区前海一路1号A栋201室 (入驻深圳市前海商务秘书有限公司) |                    |                    |

Source: [Online Company Record Database](#)

As discussed in the previous section, SAIC filings indicate that **GDS employees also worked for Shenzhen Yaode and RDN** prior to GDS’s acquisition of Shenzhen Yaode and its data center SZ5. We believe the evidence is overwhelming, therefore, that Shenzhen Yaode was secretly a related party.

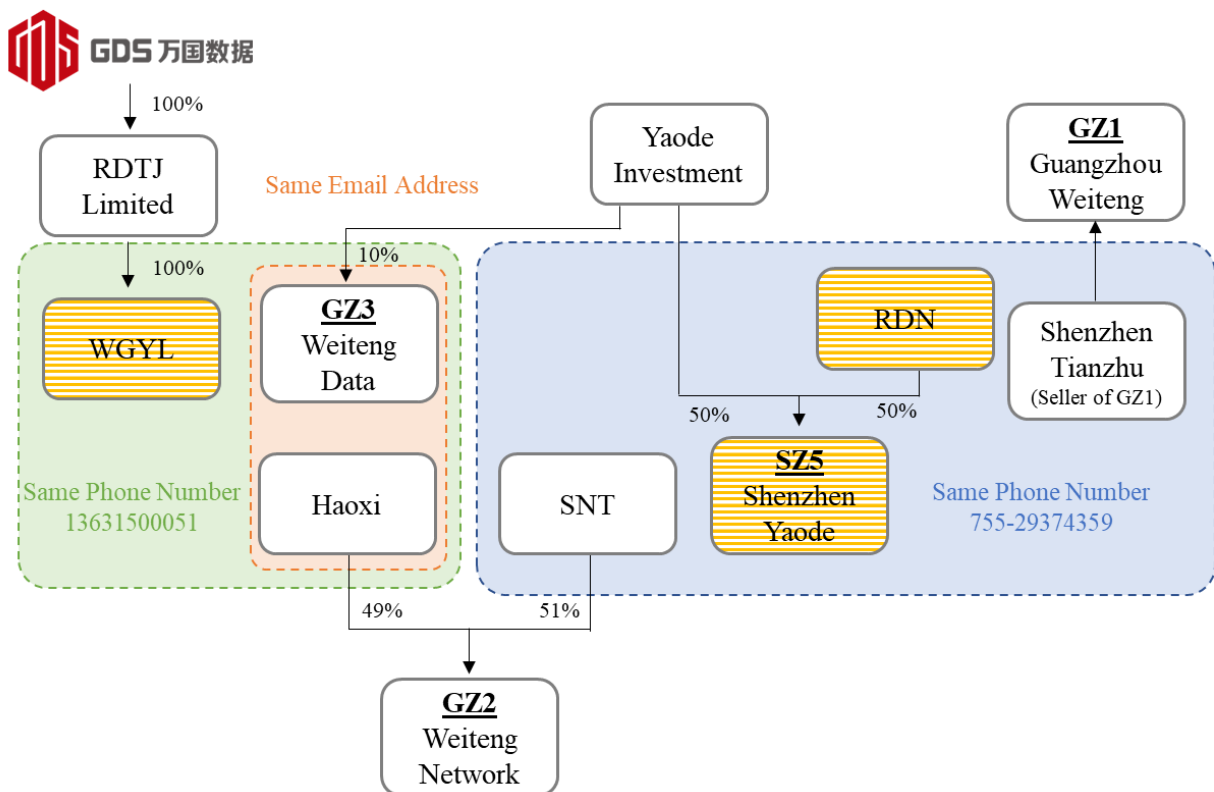
At the same time, Shenzhen Yaode (and its parent RDN) had the same **registered phone number as SNT**, which was in the process of building the GZ2 data center prior to its acquisition by GDS. The alphabet soup of acquired entities and sellers is head-spinning, but the point is simple.

### GZ2 Acquisition: Shared Contact Information



GDS acquired SZ5 (we think from related parties) in June 2017, and then acquired GZ2 from purportedly unconnected parties in October 2017. These transactions are, supposedly, totally unrelated. So why would the previous owners of each data center share the same registered phone number? We think the answer is obvious: common registered phone numbers are evidence of overlapping or common control or ownership.

### GZ2 & GZ3 Acquisition: Shared Contact Information



In our opinion, the Company concealed connections showing an entwined web of overlapping interests and control, overstated the purchase price of the data center, and inflated the value of the acquired asset. Much to the detriment of shareholders and creditors.

### 3) Weiteng Data (GZ3) Data Center Acquisition

In its Q1 18 results announcement, GDS disclosed that it acquired another data center in Guangzhou, (GZ3), for RMB 262 million in May 2018. In our opinion, this transaction is a repeat of the pattern observed above: overpaying for undisclosed related party acquisitions from entities secretly connected to the Company.

#### (a) Acquisition of Guangzhou 3

In May 2018, the Company consummated an acquisition of all equity interests in a target group from a third party for an aggregate purchase price of RMB262,244 (including contingent considerations of RMB245,244). The target group owns a data center in Guangzhou, China (Guangzhou 3). As of the date of this filing, the Company has not yet completed the fair value assessment of identifiable assets and liabilities assumed.

Source: [GDS 6-K](#), p. F-25, May 29, 2017



As usual, GDS did not disclose the identity of the target group or vendor of this transaction. But evidence indicates that the acquired company was 广州市维腾数据科技有限公司 (“Weiteng Data”), which SAIC filings show was acquired by a GDS subsidiary in May 2018 (the same time the Company announced the GZ3 acquisition) and is located in the Guangzhou Innovation Park (the same location as the Company claims for GZ3 in its [acquisition announcement](#)). It was purchased at the same time and located in the same place as the Company’s GZ3 acquisition, so we can reasonably infer it is the acquired entity.

However, SAIC filings indicate that the Company purchased Weiteng Data for far less than the purchase price it announced in its SEC filings. SAIC filings state that rather than a total purchase price of RMB 262 million as the Company claimed, GDS actually acquired Weiteng Data and its data center from sellers Jiangle Xian Ronglong Business Management Consulting Partnership 将乐县荣隆企业管理咨询合伙企业 and Yaode Investment for only RMB 40 million; 85% less than what GDS reported.

### 广州市维腾数据科技有限公司 股东会决议

### Guangzhou Weiteng Data Technology Shareholder Resolution

一、同意耀德投资管理（深圳）企业（有限合伙）将原出资额 1000 万元（占公司注册资本的 10%）转让给万国数据服务有限公司，转让金额为 1000 万元；同意将乐县荣隆企业管理咨询合伙企业（有限合伙）将原出资额 900 万元（占公司注册资本的 90%）转让给万国数据服务有限公司，转让金额为 400 万元。其他

Agreed to let Yaode Investment transfer its original capital contribution of RMB 10 million (10% of registered capital) to Global Data Solutions for RMB 1.  
Agreed to let Jiangle Xian Ronglong Business Management Consulting Partnership transfer its original capital contribution of RMB 90 million (90% of registered capital) to Global Data Solutions for RMB 40 million.

广州市维腾数据科技有限公司

Guangzhou Weiteng Data Technology  
May 2, 2018

2018年5月2日

Source: Weiteng Data’s SAIC Filings

The Company claimed that the acquisition included RMB 245 million of contingent consideration, but the SAIC filings we reviewed make no mention of this. There is a chance that some of this contingent consideration has not been paid, meaning there is a possibility for shareholders and creditors to limit losses from what we believe are obviously self-dealing transactions if they act quickly.

Because evidence indicates that Weitang Data and GZ3 came from the same web of related entities as previous undisclosed related party acquisitions.

Weitang Data’s records indicate that in 2016 (before it was acquired by GDS), it shared the same registered phone number as WGYL (a Company subsidiary) and Haoxi (another undisclosed related party). Weitang Data also shared the same registered email address, [pre-acquisition](#) with Haoxi (according to online corporate records).

### Weiteng Data 2016 Annual Report

|   |   |                                   |   |
|---|---|-----------------------------------|---|
|  | <b>广州市维腾数据科技有限公司</b><br>统一社会信用代码: 91440116MA59CFE50H<br>法定代表人: 陈怡琳<br>登记机关: 广州市黄埔区市场和质量监督局<br>成立日期: 2016年04月15日 | 在营 (开业) 企业<br><b>Weiteng Data</b> | <input type="button" value="发送报告"/><br><input type="button" value="信息分享"/><br><input type="button" value="信息打印"/> |
|---|---|-----------------------------------|---|

2017年度报告 2016年度报告

2017-06-09 公布

## 企业基本信息

企查查

|                     |                    |                    |                    |
|---------------------|--------------------|--------------------|--------------------|
| 注册号                 | -                  | 统一社会信用代码           | 91440116MA59CFE50H |
| 企业经营状态              | 开业                 | 企业联系电话             | 13631500051        |
| 从业人数                | 企业选择不公示            | 邮政编码               | 510000             |
| 有限责任公司本年度是否发生股东股权转让 | 否                  | 企业是否有投资信息或购买其他公司股权 | 否                  |
| 电子邮箱                | 304330412@qq.com   |                    |                    |
| 企业通讯地址              | 广州市萝岗区科丰路31号G2-113 |                    |                    |

Source: 1. <http://www.gsxt.gov.cn>  
2. [Online Company Record Database](#)

## Company Subsidiary WGYL Annual Report



**广州市万国云蓝数据科技有限公司**  
 统一社会信用代码: 91440101MA59E91U7G  
 法定代表人: 陈怡琳  
 登记机关: 广州市黄埔区市场和监督管理局  
 成立日期: 2016年08月17日

在营 (开业) 企业 **WGYL**

发送报告  
 信息分享  
 信息打印

2017年度报告 2016年度报告

2017-05-31 公布

## 企业基本信息

企查查

|                     |                      |                    |                    |
|---------------------|----------------------|--------------------|--------------------|
| 注册号                 | -                    | 统一社会信用代码           | 91440101MA59E91U7G |
| 企业经营状态              | 开业                   | 企业联系电话             | 13631500051        |
| 从业人数                | 企业选择不公示              | 邮政编码               | 510000             |
| 有限责任公司本年度是否发生股东股权转让 | 否                    | 企业是否有投资信息或购买其他公司股权 | 否                  |
| 电子邮箱                | -                    |                    |                    |
| 企业通讯地址              | 广州市萝岗区科丰路31号G2-108-1 |                    |                    |

Source: 1. <http://www.gsxt.gov.cn>  
2. [Online Company Record Database](#)

## Haoxi 2016 Annual Report



**广州市焯熹技术服务企业 (有限合伙)**  
 统一社会信用代码: 91440101MA59DF0M65  
 执行事务合伙人: 陈列勇  
 登记机关: 广州市工商行政管理局  
 成立日期: 2016年06月21日

在营 (开业) 企业 **Haoxi**

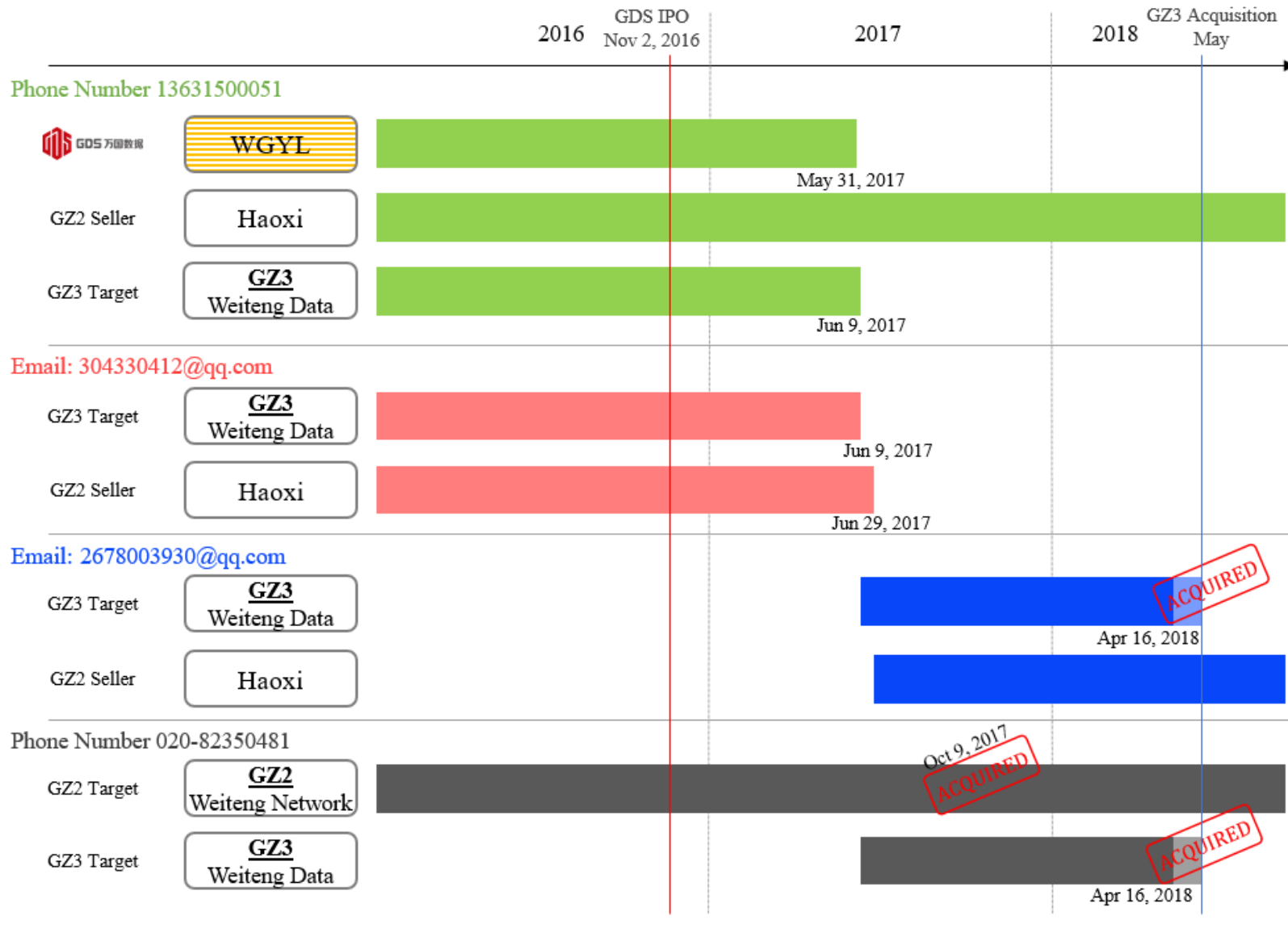
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| 2017年度报告                                      |                  | 2016年度报告           |                    |
|---|------------------|--------------------|--------------------|
| 2017-06-29 公布                                 |                  |                    |                    |
| 企业基本信息 <span style="float: right;">企查查</span> |                  |                    |                    |
| 注册号   | -                | 统一社会信用代码           | 91440101MA59DF0M65 |
| 企业经营状态  | 开业               | 企业联系电话             | 13631500051        |
| 从业人数  | 企业选择不公示          | 邮政编码               | 510000             |
| 有限责任公司本年度是否发生股东股权转让                           | 否                | 企业是否有投资信息或购买其他公司股权 | 否                  |
| 电子邮箱  | 304330412@qq.com |                    |                    |
| 企业通讯地址  | 广州市萝岗区科丰路31号G2栋  |                    |                    |

Source: 1. <http://www.gsxt.gov.cn>  
 2. [Online Company Record Database](#)

Common registered phone numbers, in our view, clearly indicate overlapping or common control or ownership. That a supposedly independent acquisition target (Weiteng Data) used the same registered phone number as a Company subsidiary (WGYL) and another entity with ties to GDS (Haoxi) indicates, in our opinion, that this was another undisclosed related party acquisition.

### GZ3 Acquisition: Shared Contact Information



There are more pre-acquisition connections between GDS, its target and supposedly independent sellers. For instance, after June 2017, Weiteng Data's registered phone number changed to the same registered phone number as Weiteng Network, which GDS acquired in October 2017. Why would two supposedly unrelated acquisitions share the same registered phone number if they were not controlled by common ownership, especially when Weiteng Data had not even (supposedly) been acquired by the Company at that time?

### Weiteng Data 2017 Annual Report

|   |                                       |  |
|---|---------------------------------------|--|
|  <b>广州市维腾数据科技有限公司</b> 在营 (开业) 企业 <b>Weiteng Data</b> |                                       | <a href="#">发送报告</a><br><a href="#">信息分享</a><br><a href="#">信息打印</a> |
| 统一社会信用代码: 91440116MA59CFE50H<br>法定代表人: 陈怡琳<br>登记机关: 广州市黄埔区市场和监督管理局<br>成立日期: 2016年04月15日   |                                       |  |
| 2017年度报告  | 2016年度报告                              |  |
| 2018-04-16 公布   |                                       |  |
| <b>企业基本信息</b> <span style="float: right;">企查查</span>  |                                       |  |
| 注册号   | -                                     | 统一社会信用代码 <b>91440116MA59CFE50H</b>                                   |
| 企业经营状态  | 开业                                    | 企业联系电话 <b>020-82350481</b> ←   |
| 从业人数  | 企业选择不公示                               | 邮政编码 510000  |
| 有限责任公司本年度是否发生股东股权转让   | 是                                     | 企业是否有投资信息或购买其他公司股权 否   |
| 电子邮箱  | <b>2678003930@qq.com</b> ←            |  |
| 企业通讯地址  | 广州高新技术产业开发区科丰路31号自编一栋华南新材料创新园G2栋120-2 |  |

Source: [Online Company Record Database](#)

### Weiteng Network Official Website

#### 联系我们

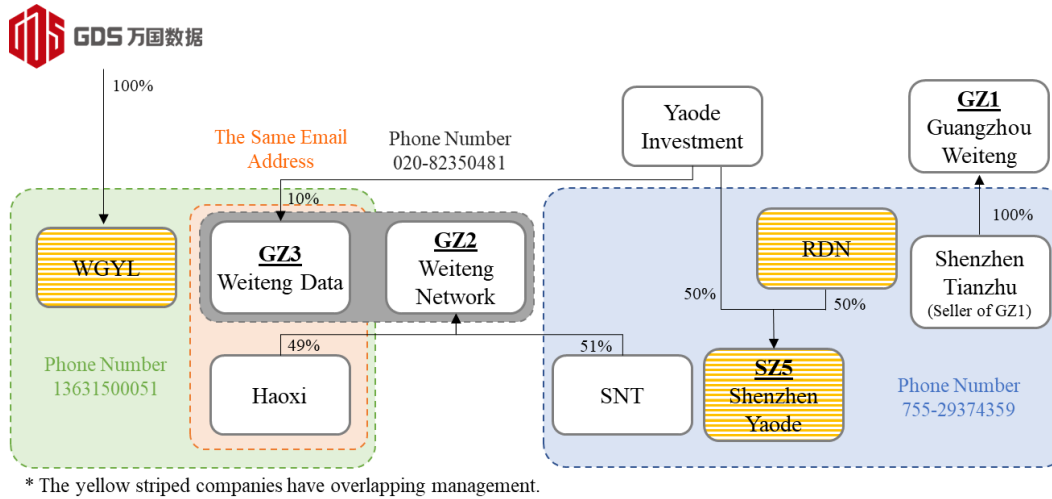
**广州市维腾网络科技有限公司** Weiteng Network  
 地址: 广州市科丰路31号华南新材料创新园G2栋1层  
**电话: 86+ 020 82350481** Tel: 86+ 020 82350481  
 传真: 86+ 020 82350481  
 邮箱: market@witennet.com  
 网址: http://www.witennet.com

Source: [Weiteng Network Website](#)

In addition, Weiteng Data was 10% owned by Yaode Investments, one of the entities that sold SZ5 to the Company in 2017 (discussed at the beginning of this section). Evidence strongly suggests that SZ5 was an undisclosed self-dealing transaction. If the seller of SZ5 was also a seller of GZ3, it supports the inference that GZ3 was likewise an undisclosed related party acquisition.



GZ2 & GZ3 Acquisition: Shared Contact Information



Ultimately, we found evidence that in 3 of the Company’s 4 post-IPO acquisitions, GDS not only overstated the purchase price of the acquisition but concealed connections indicating, in our opinion, that such acquisitions were made from undisclosed related parties. By adding up the difference between the reported purchase price in GDS’s SEC filings and the purchase price listed in Chinese documents, we estimate that insiders looted at least **RMB 696 million** from the public company since its IPO.

## SERIAL CAPITAL RAISING AND CRUSHING DEBTS FOR OFF-SHORE CASH?

Companies looting a public vehicle for shareholder money and/or fabricating financial performance are often serial capital raisers, even when they are supposedly profitable and even when they supposedly have ample cash on hand. That is because their reported profitability and solid operating metrics are largely illusory, and insiders need to raise money not only to keep the scheme afloat, but to line their own pockets.

This was true of many of the companies we exposed in the China Hustle era, including textbook frauds like [Universal Travel](#) (NYSE: UTA), [L&L Energy](#) (NASDAQ: LLEN) and [China Medical](#) (NASDAQ: CMED).

Since its IPO, GDS has been a serial capital raiser, returning again and again to the debt and equity markets to raise capital despite ample cash on its balance sheet.

### Net Cash from Financing Activities

| thousands RMB                                 | FY2015           | FY2016           | FY2017           | Q1 18            | Q2 18 <sup>1</sup> |
|---|------------------|------------------|------------------|------------------|--------------------|
| Short-term and long-term borrowings           | 490,748          | 802,827          | 1,857,786        | 909,430          | -                  |
| Convertible bond                              | 648,950          | 327,580          | -                | -                | 1,671,123          |
| Net proceeds from issuance of ordinary shares | -                | 1,221,518        | 649,834          | 1,296,385        | -                  |
| Others  | (12,013)         | (223,311)        | (160,853)        | (92,812)         | -                  |
| <b>Net Cash from Financing Activities</b>     | <b>1,127,685</b> | <b>2,128,614</b> | <b>2,346,767</b> | <b>2,113,003</b> | <b>1,671,123</b>   |

1. The USD250 million convertible bond issuance in May 2018 and USD /RMB = 0.1496

Source: [GDS 2017 20-F](#), [GDS 2018 6-K](#), [GDS Press Release](#)

Perhaps a rapidly growing company could justify such serial capital raising on the grounds that such cash is necessary to build or buy data centers. Indeed, many fast-growing companies borrow to cover rising working capital needs, to expand infrastructure or to fund capital expenditures.

But GDS is borrowing in China at interest rates up to 9.7%, just to earn less than 0.6% on an unused cash balance.

### Long-term borrowings

As of December 31, 2017, we had total working capital and project financing credit facilities of RMB5,371.6 million (US\$825.6 million) from various banks, of which the unused amount was RMB986.9 million (US\$151.7 million). As of December 31, 2017, we had drawn down RMB4,384.6 million (US\$673.9 million), of which RMB462.9 million (US\$71.2 million) was recorded in short-term loans and borrowings and RMB3,787.3 million (US\$582.1 million) (net of debt issuance costs of RMB134.4 million (US\$20.7 million)) was recorded in long-term loans and borrowings, respectively. Drawdowns from the credit facility are subject to approval of the relevant lending banks and are subject to the terms and conditions of each agreement.

A subsidiary of ours had an outstanding entrust loan of RMB199.8 million and RMB199.6 million as of December 31, 2015 and 2016, respectively, through a third-party bank that contains financial covenants. As of December 31, 2015 and 2016, we were in compliance with such covenants. In January 2017, we repaid the principal of the aforesaid entrust loan in full.

In November 2017, one of our subsidiaries entered into a financing arrangement with a third-party financier which was then amended in December 2017. Under such arrangement, the subsidiary assigned certain existing and future receivables as security in exchange for a cash payment of RMB200 million (US\$30.7 million), which had been received by the subsidiary as of December 31, 2017. The subsidiary is obligated to repay the RMB200 million (US\$30.7 million), together with interest at an effective rate of 9.70% per annum, within five years.

Source: [GDS 2017 20-F](#) p. 110

### Increasing Cash Balance

| RMB'000   | FY2015           | FY2016             | FY2017             | Q1 18            |
|---|------------------|--------------------|--------------------|------------------|
| Payments for purchase of property and equipment | (732,979)        | (987,763)          | (1,720,165)        | (762,972)        |
| Cash paid for the acquisition of subsidiaries   | 0                | (103,600)          | (279,885)          | (16,424)         |
| Others  | 1,074            | (55,701)           | (35,728)           | (27,383)         |
| <b>Net Cash used in Investing Activities</b>    | <b>(731,905)</b> | <b>(1,147,064)</b> | <b>(2,035,778)</b> | <b>(806,779)</b> |
| Interest Income                                 | 1,355            | 2,070              | 5,600              | 3,656            |
| Interest Rate                                   | 0.18%            | 0.18%              | 0.36%              | 0.60%            |
| <b>Cash Balance</b>                             | <b>924,498</b>   | <b>1,811,319</b>   | <b>1,873,446</b>   | <b>2,978,627</b> |

Source: [GDS 2016 20-F](#), [GDS 2017 20-F](#), [GDS 2018 6-K](#), Blue Orca Calculation

If GDS is incurring crippling levels of debt and diluting shareholders in order to fund the construction of new data centers, then we would expect the Company to keep the vast majority of its cash **on-shore (in the PRC) in RMB**.

After all, if GDS is building data centers in China, it will have to pay for such data centers in the country with the local currency.

Yet GDS reports that over 76% of its cash-balance is held in currencies other than RMB, which contradicts the Company's justification for its serial capital raising.

#### Cash Denominated in RMB

| RMB'000                           | FY 2014      | FY 2015      | FY 2016      | FY 2017      |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Cash denominated in RMB           | 89,949       | 200,004      | 501,125      | 458,971      |
| Total Cash and restricted cash    | 610,705      | 930,923      | 1,838,992    | 1,947,600    |
| <b>% non-RMB denominated Cash</b> | <b>85.3%</b> | <b>78.5%</b> | <b>72.8%</b> | <b>76.4%</b> |

Source: [GDS F-1](#), [GDS 2016 20-F](#), [GDS 2017 20-F](#), [GDS 2018 6-K](#), Blue Orca Calculation

GDS also admits that it keeps over 65% of its cash balance off-shore, where it would be essentially useless if the purpose of raising such cash was to invest in and build data centers in **China**. The imbalance is likely greater today, because the Company recently [completed](#) an off-shore bond issuance.

#### Off-shore Cash vs On-share Cash

| RMB'000                    | FY2015      | FY2016       | FY2017       |
|----------------------------|-------------|--------------|--------------|
| Cash in PRC                | 919,337     | 719,047      | 671,639      |
| Off-shore cash             | 11,586      | 1,119,945    | 1,275,961    |
| Total                      | 930,923     | 1,838,992    | 1,947,600    |
| <b>% of off-shore cash</b> | <b>1.2%</b> | <b>60.9%</b> | <b>65.5%</b> |

Source: [GDS F-1](#), [GDS 2016 20-F](#), [GDS 2017 20-F](#), [GDS 2018 6-K](#), Blue Orca Calculation

**Why does a business that operates exclusively in China keep over 65% of its cash off-shore?** In our report, we present evidence, which in our opinion indicates that GDS inflated the purchase price of undisclosed related party acquisitions. We think it is reasonable to infer that they did this because insiders looted the difference between the stated and the actual purchase price.

If your goal was to loot money from a U.S.-listed Chinese company, you would want to keep as much cash off-shore, and in currencies other than RMB, because of China's strict capital controls. In this case, the shoe fits. GDS keeps the bulk of such cash offshore, where it is easily looted by insiders but useless for building a data center in China or operating its business.

The detriment to shareholders is obvious. GDS's debts have almost tripled from FYE 2015 to Q1 2018, and its interest expenses now exceeds even its reported gross profits.

#### GDS Interest Expenses Exceeded Its Gross Profit

| RMB'000                                | FY 2015      | FY 2016      | FY 2017       | LTM-18        |
|--|--------------|--------------|---------------|---------------|
| Net Revenue                            | 703,636      | 1,055,960    | 1,616,166     | 1,828,348     |
| Gross Profit                           | 188,639      | 265,674      | 408,472       | 425,191       |
| Interest Expenses                      | (126,901)    | (265,234)    | (412,003)     | (450,282)     |
| <b>Interest Expense / Gross Profit</b> | <b>67.3%</b> | <b>99.8%</b> | <b>100.9%</b> | <b>105.9%</b> |

Source: [GDS 2016 20-F](#), [GDS 2017 20-F](#), [GDS 2018 6-K](#), Blue Orca Calculation

GDS's interest coverage ratio 0.2x is significantly worse than almost all of its slower- or faster-growing peers. GDS's net debt/ LTM EBITDA ratio is equally dire. At 9.4x it exceeds the ratio of each comp in our IDC peer group.

**Interest Coverage and Net Debt/EBITDA**

|                           | Ticket        | Interest Coverage<br>LTM | Net Debt<br>/EBITDA<br>LTM | Interest Coverage<br>2017 | Net Debt<br>/EBITDA<br>2017 |
|---------------------------|---------------|--------------------------|----------------------------|---------------------------|-----------------------------|
| <b>US and Europe</b>      |               |                          |                            |                           |                             |
| Equinix                   | EQIX-US       | 1.7x                     | 4.5x                       | 1.6x                      | 4.7x                        |
| Digital Realty Trust      | DLR-US        | 1.6x                     | 5.7x                       | 1.7x                      | 6.7x                        |
| CyrusOne                  | CONE-US       | 1.6x                     | 5.0x                       | 1.1x                      | 5.9x                        |
| Interxion Holding         | INXN-US       | 2.1x                     | 4.2x                       | 2.1x                      | 4.1x                        |
| CoreSite Realty           | COR-US        | 4.1x                     | 3.8x                       | 4.6x                      | 3.7x                        |
| QTS Realty Trust          | QTS-US        | 1.1x                     | 5.1x                       | 1.2x                      | 6.3x                        |
| <b>Average</b>            |               | <b>2.0x</b>              | <b>4.7x</b>                | <b>2.0x</b>               | <b>5.2x</b>                 |
| <b>Median</b>             |               | <b>1.7x</b>              | <b>4.7x</b>                | <b>1.7x</b>               | <b>5.2x</b>                 |
| <b>Asia</b>               |               |                          |                            |                           |                             |
| Beijing Sinnet Technology | 300383-CN     | 9.1x                     | 0.3x                       | 7.7x                      | 0.3x                        |
| Shanghai Baosight         | 600845-CN     | 69.7x                    | -3.0x                      | 55.4x                     | -3.0x                       |
| Dr Peng Telecom           | 600804-CN     | 11.3x                    | 0.3x                       | 5.4x                      | 0.3x                        |
| NextDC                    | NXT-AU        | 1.4x                     | -1.5x                      | 1.4x                      | -1.5x                       |
| Shanghai Athub            | 603881-CN     | 12.0x                    | 0.6x                       | 7.1x                      | 0.6x                        |
| 21 Vianet Group           | VNET-US       | -0.3x                    | 0.8x                       | -0.8x                     | 0.8x                        |
| Xiamen Kehua Hengsheng    | 002335-CN     | 4.8x                     | 1.6x                       | 4.3x                      | 1.6x                        |
| <b>Average</b>            |               | <b>16.5x</b>             | <b>-0.2x</b>               | <b>12.1x</b>              | <b>-0.2x</b>                |
| <b>Median</b>             |               | <b>11.3x</b>             | <b>0.3x</b>                | <b>5.4x</b>               | <b>0.3x</b>                 |
| <b>Goodnight</b>          | <b>GDS-US</b> | <b>0.2x</b>              | <b>9.4x</b>                | <b>0.2x</b>               | <b>10.7x</b>                |

*Source: Factset*

GDS's debt levels are crushing, even when compared to other IDC providers. If GDS truly borrowed such large amounts to grow its business, the majority of its cash would not sit off-shore where it is useless for the purposes of building or acquiring Chinese data centers. In our view, GDS's behavior is a significant red flag reminiscent of other US-listed Chinese companies whose share price collapsed amid evidence of malfeasance.

## MOUNTING BALANCE OF UNBILLED RECEIVABLES

In FY 2017, GDS reported that “unbilled receivables” comprised 70% of its accounts receivables and 16% of total sales. GDS’s mounting balance of unbilled receivables are a significant red flag, not only because they comprise an increasing proportion of the Company’s receivables and revenues, but also because GDS appears to be a clear outlier among publicly-listed Internet data center providers.

### 3 ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

|                                       | As of December 31, |         |
|---------------------------------------|--------------------|---------|
|                                       | 2016               | 2017    |
| Accounts receivable                   | 198,851            | 364,654 |
| Less: allowance for doubtful accounts | —                  | —       |
| Accounts receivable, net              | 198,851            | 364,654 |

The Company generally invoices its customers on a monthly or quarterly basis in accordance with the contract terms. Due to the timing difference between the billing and revenue recognition, accounts receivable included an unbilled portion of RMB117,192 and RMB253,724 as of December 31, 2016 and 2017, respectively.

Accounts receivable of RMB87,347 and RMB136,043 was pledged as security for bank loans (note 10) as of December 31, 2016 and 2017, respectively.

An allowance for doubtful accounts is provided based on the Company’s best estimate of the amount of probable credit losses in the Company’s existing accounts receivable. The Company assesses the collectability of accounts receivable by analyzing specific customer accounts that have known or potential doubt as to collectability. The following table presents the movement of the allowance for doubtful accounts:

Source: [GDS 2017 20-F](#)

GDS claims that unbilled receivables are created “due to the timing difference between the billing and revenue recognition.” Essentially, GDS claims such receivables are created when it provides data center services for a customer prior to the end of the quarter or fiscal year but has not billed such customer for such service.

What is unusual about this disclosure is that the proportion of unbilled receivables has, inexplicably, increased dramatically since the Company’s IPO. In FY 2015, GDS’s unbilled receivables accounted for 41.7% of its receivables and only 6.6% of total sales. Yet in just two years, by FY 2017, the balance of unbilled receivables has almost doubled to comprise 70% of total receivables and almost 16% of total Company sales.

#### Growing Unbilled Portion of Account Receivable

| RMB'000                  | FY2014 | FY2015  | FY2016  | FY2017  |
|--------------------------|--------|---------|---------|---------|
| Account Receivable, net  | 73,366 | 111,013 | 198,851 | 364,654 |
| Unbilled Portion         | 8,019  | 46,275  | 117,192 | 253,724 |
| Unbilled Portion / AR    | 10.9%  | 41.7%   | 58.9%   | 69.6%   |
| Unbilled Portion / Sales | 1.7%   | 6.6%    | 11.1%   | 15.7%   |

Source: [GDS 2016 20-F](#), [GDS 2017 20-F](#), [GDS 2018 6-K](#), Blue Orca Calculation

Data center services are typically provided under long term contracts. Revenues are therefore predictable and GDS states in its SEC filings that it bills on a monthly or quarterly basis. So how can GDS explain why its billing practices deteriorated to the point where it is not billing customers for 70% of its uncollected revenues?

Of the thirteen publicly listed IDC comps in our peer group, only two, to our knowledge, have disclosed any material balance of unbilled receivables in recent filings.



**Mention of Unbilled Receivables?**

|                           |           |     |
|---------------------------|-----------|-----|
| Equinix                   | EQIX-US   | No  |
| Digital Realty Trust      | DLR-US    | Yes |
| CyrusOne                  | CONE-US   | No  |
| Interxion Holding         | INXN-US   | No  |
| CoreSite Realty           | COR-US    | No  |
| Shanghai Baosight         | 600845-CN | No  |
| Dr Peng Telecom           | 600804-CN | No  |
| QTS Realty Trust          | QTS-US    | Yes |
| 21 Vianet Group           | VNET-US   | No  |
| Beijing Sinnet Technology | 300383-CN | No  |
| NextDC                    | NXT-AU    | No  |
| Shanghai Athub            | 603881-CN | No  |
| Xiamen Kehua Hengsheng    | 002335-CN | No  |

*Source: Public Filings*

In FY 2014 and FY 2015, QTS Realty Trust (NASDAQ: QTS) disclosed that unbilled receivables consisted of less than 3% of the total receivables of an [acquired](#) company, Carpathia Hosting. Notably, such unbilled receivables made up only a tiny percentage of Carpathia's total balance, and QTS has not, to our knowledge, disclosed any unbilled receivables in the ordinary course of its core business.

Another IDC provider, Digital Realty Trust (NASDAQ: DLR), also disclosed that an acquisition, Telx, had unbilled receivables. But again, notably, DLR does not claim any unbilled receivables in the ordinary course of business on its public financial statements.

GDS's minority investor, CyrusOne (NASDAQ: CONE), mentions the term in its accounting policies but does not disclose any material balance of unbilled receivables in its 10-K.

**Rent and Other Receivables**—Receivables consist principally of trade receivables from customers and are generally unsecured and due within 30 to 120 days. **Unbilled receivables arise from services rendered but not yet billed.** Expected credit losses associated with trade receivables are recorded as an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based upon historic patterns of credit losses for aged receivables as well as specific provisions for certain identifiable, potentially uncollectible balances. When internal collection efforts on accounts have been exhausted, the accounts are written-off and the associated allowance for doubtful accounts is reduced.

*Source: [CyrusOne 2017 10-K](#)*

Although disclosure obligations are potentially different for Chinese-listed companies, we could not find an A-share IDC provider which disclosed a material balance of unbilled receivables. Data centers are a commoditized space, so it raises the obvious question of why GDS's billing practices are so different from industry norms. If other IDC companies aren't reporting such high proportions of unbilled receivables, why is that unbilled receivables comprise the vast majority of the Company's uncollected revenues?

It matters because unbilled receivables are more difficult to audit. Auditors can check a paper trail of an invoice or bill to a customer against the services provided to such customer. But if revenues cannot be tied to a specific invoice, the absence of a paper trail makes it more difficult to check the authenticity of the receivables and the underlying revenue.

In our opinion, unbilled receivables corroborate evidence of fabricated revenues. Recall that other data center operators sent us a brochure and quote for space in a data center GDS claims to operate exclusively and at a 94% utilization rate. But third parties selling space in the same building indicates that GDS's claims are not true. We can assume that if the Company is overstating capacity and utilization, it is also overstating revenues and profitability. GDS's mounting balance of unbilled receivables supports this investment thesis, because it would be easier to fabricate such revenues if GDS did not have to produce an invoice for auditors to verify.

## MOUNTING PAYABLES BALANCE

GDS's reported balance of payables is also a significant accounting red flag. Since going public, the Company's reported days payable outstanding (DPOs) have ballooned from 205 to 470 days. To put that in context, if GDS's financials are true, on average it takes the Company **almost 16 months to pay its suppliers**.

Such a payables balance is not only prima facie ridiculous, but it makes GDS an outlier compared to other IDC providers. The average DPO for other publicly-listed Chinese data center providers was 221 days in 2017, but the median was lower at 109 days.<sup>7</sup> By comparison, 21 Vianet (NASDAQ: VNET), which also operates carrier neutral data centers in China, reports DPOs of only 47 days. VNET and GDS operate a similar business in a similar location, so why are GDS's payables so much higher?

### Days Payable Outstanding

|                           | Ticker    | FY2015     | FY2016     | FY2017     |
|---------------------------|-----------|------------|------------|------------|
| <b>US and Europe</b>      |           |            |            |            |
| Equinix                   | EQIX-US   | 23         | 20         | 28         |
| Digital Realty Trust *    | DLR-US    | 341        | 390        | 400        |
| CyrusOne *                | CONE-US   | 335        | 442        | 396        |
| Interxion Holding         | INXN-US   | 60         | 52         | 91         |
| CoreSite Realty *         | COR-US    | 271        | 218        | 191        |
| QTS Realty Trust *        | QTS-US    | 318        | 216        | 251        |
| <b>Average</b>            |           | <b>225</b> | <b>223</b> | <b>226</b> |
| <b>Median</b>             |           | <b>294</b> | <b>217</b> | <b>221</b> |
| <b>Asia</b>               |           |            |            |            |
| Beijing Sinnet Technology | 300383-CN | 107        | 130        | 109        |
| Shanghai Baosight         | 600845-CN | 146        | 166        | 148        |
| Dr Peng Telecom           | 600804-CN | 784        | 845        | 609        |
| NextDC                    | NXT-AU    | 93         | 162        | 85         |
| Shanghai Athub            | 603881-CN | 158        | 246        | 465        |
| 21 Vianet Group           | VNET-US   | 80         | 85         | 47         |
| Xiamen Kehua Hengsheng    | 002335-CN | 204        | 182        | 88         |
| <b>Average</b>            |           | <b>225</b> | <b>260</b> | <b>221</b> |
| <b>Median</b>             |           | <b>146</b> | <b>166</b> | <b>109</b> |
| <b>Goodnight</b>          |           | <b>205</b> | <b>321</b> | <b>470</b> |

\* Accrued expenses or liabilities are included in the calculations

Source: Companies Public Filings and FactSet

GDS also cannot claim that such payables are the result of its acquisitions. As per the Company's purchase price accounting, only 25% of its accounts payable balance is comprised of payment obligations of acquired data centers.

<sup>7</sup> We exclude from our calculation of DPOs the Company's "other payables" and other long term liabilities, including contingent payments related to acquisitions. If we include these items, the Company's DPOs would be far higher.

**Accounts Payable from Acquisitions**

| RMB'000               | FY 2015 | FY 2016 | FY 2017   |
|-----------------------|---------|---------|-----------|
| GZ1                   |         | 131,114 | -         |
| SZ5                   |         | -       | 219,207   |
| GZ2                   |         | -       | 56,431    |
| Total                 |         | 131,114 | 275,638   |
| Accounts Payable      | 215,658 | 513,543 | 1,110,411 |
| % from Acquisitions   |         | 25.5%   | 24.8%     |
| Adj. for Acquisitions | 215,658 | 382,429 | 834,773   |
| Adj. DPO              | 205     | 239     | 353       |

Source: GDS Public Filings

Excluding any acquisition related payables, the Company's DPOs are still **353 days**. GDS's primary inputs are power, so this raises the question as to why GDS would get better terms than most other Chinese IDC providers from a state-owned utility.

We believe that inflated payables are a tell-tale sign of fabricated profits, and support evidence that the Company overstates the utilization rates of its data centers.

## VALUATION

We believe that the evidence presented in this report indicates that GDS's area in service and utilization rates are lower than the Company claims in its SEC filings. First, we conducted a case study on one of GDS's flagship data centers in one of its strongest markets. GDS claims to operate the entire data center at a 94% utilization rate, with 100% of the space **already committed to customers**. To state the obvious, if GDS is telling the truth to U.S. investors, it should operate the entire building, and there should be no space available at the data center to lease.

Yet two independent companies stated that they also operated portions of the data center, suggesting GDS does not have the entire building as it claims. Furthermore, one operator offered to lease us material amounts of cabinet space, which again, would be impossible if GDS already had commitments for the entire data center. In our opinion, such evidence directly undermines GDS's claims regarding the area in service and the utilization of this flagship asset.

There is never just one cockroach. We think it's fair to assume that if the Company is overstating utilization at one facility, it is likely doing so at other facilities. If utilization and area in service are overstated, then so are reported revenues and profits.

There is other evidence to suggest that the Company's revenues are overstated. GDS is a clear outlier among publicly listed IDC providers in that it claims 70% of its accounts receivables are comprised of unbilled receivables. This amounted to 16% of GDS's FY 2017 reported revenues, a staggering amount. Compared to other publicly listed IDC providers, GDS appears to be a major outlier.

Unbilled receivables, we believe, are ripe for abuse because without a direct invoice to the customer they are more difficult to audit. It is our suspicion that the balance of unbilled receivables represents the amount of overstatement of revenues from overstated utilization and/or area in service.

Accordingly, in our model, even though we give credit to the Company's reported EBITDA margin of 30% (which we believe is also inflated), by assuming that GDS's actual utilization is 20% less than reported (which is supported by the unbilled receivables and primary due diligence), we forecast that GDS's actual EBITDA for FY 2018 will be RMB 551 million.

**Estimated GDS FY2018 EBITDA**

|  | FY2018 E       |
|--|----------------|
| Reported Area in Service (sqm) <sup>1</sup>    | 103,475        |
| Reported Utilization Rate <sup>1</sup>         | 64.7%          |
| Utilization Rate Discount                      | -20.0%         |
| Estimated Utilization Rate                     | 51.8%          |
| Estimated Area Utilized (sqm)                  | 53,559         |
| MSR (Monthly Revenue / Sqm / RMB) <sup>1</sup> | 2,858          |
| Revenue (RMB'000)                              | 1,836,848      |
| FY2018E EBITDA Margin                          | 30.0%          |
| <b>Estimated GDS EBITDA (RMB'000)</b>          | <b>551,054</b> |

1: As of Q1 2018

Source: Blue Orca Model based on our Estimates and Due Diligence

Investors have indulged GDS's debt burden and pushed its stock to absurd valuations because of the belief in its supposedly impressive growth. But our research indicates that in reality, GDS is borrowing crippling amounts of debt only to siphon off a portion of the cash to insiders and acquire data centers which are not nearly as valuable as the Company claims in its SEC filings.

There are more reasons to question the Company's supposed borrow-spend-grow model. Over 65% of GDS's cash balance is kept off-shore, making it useless to a Company operating exclusively in China which is supposedly buying and building data centers exclusively in the PRC. Such off-shore cash only makes it easier for insiders to siphon money through self-dealing transactions. Why is the Company paying up to 9.7% interest to borrow money in China only for the Company to collect 0.6% or less in interest on a cash balance kept were it cannot be used to grow or operate a PRC business?

Accordingly, we believe that GDS's growth story, which has made it a market darling, is likely illusory. We think it is smarter to compare the Company on an EV/adjusted EBITDA multiple to slower growing data center operators. For our model, we therefore assign a generous forward multiple of 20x.

But it is not so simple because overstating the price of related party acquisitions is reminiscent of the worst US-listed Chinese companies which collapsed in the China hustle era of 2010-2011. In the months after its IPO, GDS reported six data center acquisitions for a total consideration of RMB **1.18 billion**. Based on our review of SAIC filings and other publicly available records, we believe that GDS inflated the value of such acquisitions by at least RMB **696 million**, and that is without being able to verify 3 of the 6 transactions. SAIC filings and other publicly available public records indicate, in our opinion, that 3 of the 4 major post-IPO acquisitions were undisclosed related party acquisitions.

**Overpaid for Post-IPO Acquisitions**

| Year of Acquisition | Data Center Company | Data Center | Reported Consideration (RMB M) | Actual Consideration (RMB M) | Overpayment | Consideration Overstatement |
|---------------------|---------------------|-------------|--------------------------------|------------------------------|-------------|-----------------------------|
| 2017                | Shenzhen Yaode      | SZ5         | 312.0                          | 0.5                          | 311.5       | 624.0 x                     |
| 2017                | Weiteng Network     | GZ2         | 234.0                          | 72.0                         | 162.0       | 3.3 x                       |
| 2018                | Weiteng Data        | GZ3         | 262.2                          | 40.0                         | 222.2       | 6.6 x                       |
| 2018                | Not Disclosed       | BJ4         | 25.5                           | ?                            | ?           | ?                           |
| 2018                | Not Disclosed       | BJ5         | 26.0                           | ?                            | ?           | ?                           |
| 2018                | Not Disclosed       | SH11        | 320.0                          | ?                            | ?           | ?                           |
| Total               |                     |             | 1,179.7                        |                              | 695.7       |                             |

Source: GDS Filings, Presentations, SAIC Filings

\* Actual Consideration based on stated purchase price in local SAIC filings

Such transactions show a contempt for the basic values required to be a public company, so we also apply a 25% governance discount on this multiple. Taking our EBITDA forecast together with what we believe is a more accurate utilization rate, we then apply this multiple to reach our valuation.

#### Blue Orca Valuation

|  |               |
|--|---------------|
| GDS FY2018E EBITDA (RMB'000) <sup>1</sup>        | 551,054       |
| EV / EBITDA Multiple <sup>2</sup>                | 20.0 x        |
| Corporate Governance Discount                    | -25.0%        |
| Adjusted EV / EBITDA Multiple                    | 15.0 x        |
| EV (RMB M)                                       | 8,266         |
| Net Debt (RMB M) <sup>3</sup>                    | 4,628         |
| Equity Value (RMB M)                             | 3,638         |
| Outstanding Ordinary Shares                      | 1,007,069,664 |
| Equity Value per share (RMB)                     | 3.61          |
| Number of ordinary share / ADR                   | 8.0           |
| Adjusted ADR Valuation (RMB)                     | 28.90         |
| <b>Blue Orca ADR Valuation (\$) <sup>4</sup></b> | <b>4.32</b>   |
| Current trading price (\$) <sup>5</sup>          | 34.75         |
| <b>Downside</b>                                  | <b>-87.6%</b> |

1: See p. 4 for EBITDA calculation

2: Median of the Comps group (Sales Growth < 30%)

3: As of March 2018

4: USD / RMB = 0.1496

5: As of July 30, 2018

Source: Blue Orca Calculation

GDS's debt burden is so significant that in Q1 2018, its interest payments exceeded even the gross profits reported in its SEC filings. Based on the evidence in this report, we believe that such financials are not credible. **The profits may be fake or inflated, but the debt is real.**

After subtracting net debt, we value GDS's ADR's at **\$4.32 per share, an 87.6% downside from its last traded price**. Our valuation shows, given GDS's crippling debts, the sensitivity of its share price to small tweaks in the basic assumptions about the Company's growth, utilization, and trading multiple. We also think our model is likely conservative.

Given management's shattered credibility, GDS's crushing debts, and evidence that the Company is inflating the performance and value of its data centers, we could easily see GDS's equity going to **\$0.00**.

**DISCLAIMER**

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