

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
- OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2021
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
- OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-38896

Luckin Coffee Inc.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

**28th Floor, Building T3, Haixi Jingu Plaza
1-3 Taibei Road**

**Siming District, Xiamen City, Fujian
People's Republic of China, 361008**

(Address of principal executive offices)

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**28th Floor, Building T3, Haixi Jingu Plaza
1-3 Taibei Road**

**Siming District, Xiamen City, Fujian
People's Republic of China, 361008**

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

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

Title of each class	Trading Symbol
American depository shares, each ADS represents eight Class A ordinary shares, par value US\$0.000002 per share	LKNCY
Class A ordinary shares, par value US\$0.000002 per share*	N/A

* Not for trading, but only in connection with the quoting of the American depository shares on the OTC Market.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

1,950,457,380 Class A ordinary shares, par value US\$0.000002 per share, 144,778,552 Class B ordinary shares, par value US\$0.000002 per share, and 295,384,615 senior convertible preferred shares, par value US\$0.000002 per share, as of December 31, 2021.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

[Table of Contents](#)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

[APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS]

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

TABLE OF CONTENTS

	<u>Page</u>
Introduction	ii
Forward-Looking Information and Risk Factors Summary	iv
Part I	1
Item 1. Identity of Directors, Senior Management and Advisers	1
Item 2. Offer Statistics and Expected Timetable	1
Item 3. Key Information	1
Item 4. Information on the Company	56
Item 4A. Unresolved Staff Comments	92
Item 5. Operating and Financial Review and Prospects	92
Item 6. Directors, Senior Management and Employees	115
Item 7. Major Shareholders and Related Party Transactions	125
Item 8. Financial Information	126
Item 9. The Offer and Listing	131
Item 10. Additional Information	132
Item 11. Quantitative and Qualitative Disclosures About Market Risk	143
Item 12. Description of Securities Other than Equity Securities	143
Part II	145
Item 13. Item Defaults, Dividend Arrearages and Delinquencies	145
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	145
Item 15. Controls and Procedures	146
Item 16.A. Audit Committee Financial Expert	147
Item 16.B. Code of Ethics	147
Item 16.C. Principal Accountant Fees and Services Auditor Fees	148
Item 16.D. Exemptions from the Listing Standards for Audit Committees	148
Item 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers	148
Item 16.E. Change in Registrant's Certifying Accountant	148
Item 16.G. Corporate Governance	149
Item 16.H. Mine Safety Disclosure	149
Part III	150
Item 17. Financial Statements	150
Item 18. Financial Statements	150
Item 19. Exhibits	150

INTRODUCTION

Except where the context otherwise requires and for purposes of this annual report only:

- “ADSs” refers to the American depositary shares, each representing eight of our Class A ordinary shares;
- “Beijing WFOE” refers to Beijing Luckin Coffee Co., Ltd.;
- “CAC” refers to the Cyberspace Administration of China;
- “Certificate of Designation” refers to the certificate of designation dated November 30, 2021 that the Company adopted to create and issue a new series of preferred shares;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for the purpose of this annual report only, Taiwan, Hong Kong and Macau;
- “Class A ordinary shares” refers to the Company’s Class A ordinary shares of par value US\$0.000002 per share;
- “Class B ordinary shares” refers to the Company’s Class B ordinary shares of par value US\$0.000002 per share;
- “Company” refers to Luckin Coffee Inc., a Cayman Islands exempted company;
- “item sold” refers to an item transacted on our mobile apps or through third-party platforms in a given period, regardless of whether the item was paid for or was merely ordered through our free product marketing initiative;
- “Luckin,” “we,” “us,” “our company,” “Group” and “our” refer to Luckin Coffee Inc., a Cayman Islands exempted company, its subsidiaries and, in the context of describing our consolidated financial statements, its variable interest entity;
- “Ordinary Shares” as of the date hereof refers to our Class A and Class B ordinary shares of par value US\$0.000002 per share and, prior to the completion of our initial public offering, our ordinary shares and angel-1 and angel-2 shares of par value US\$0.001 per share;
- “our mobile apps” refers to our self-developed mobile apps, primarily including Luckin mobile apps and Weixin mini program;
- “RMB” or “Renminbi” refers to the legal currency of the People’s Republic of China;
- “Senior Preferred Shares” refers to a series of preferred shares of the Company of par value US\$0.000002 per share, designated as “Senior Preferred Shares” pursuant to the Certificate of Designation;
- “Shares” refers to shares in the capital of the Company of any or all classes as the context may require, including any Ordinary Shares or Senior Preferred Shares;
- “SKUs” refers to stock keeping unit, a distinct type of item for sale;
- “transacting customer” refers to a customer who bought at least one item we offer on our mobile apps or through third-party platforms in a given period, regardless of whether the customer paid for the item or merely ordered through our free product marketing initiative. Each unique mobile account is treated as a separate customer for purposes of calculating transacting customer;
- “US\$,” “dollars” or “U.S. dollars” refers to the legal currency of the United States; and

- “variable interest entity” or “VIE” refers to Beijing Luckin Coffee Technology Ltd., which is a PRC company in which we do not have equity interests but whose financial results have been consolidated into our consolidated financial statements in accordance with United States generally accepted accounting principles, or U.S. GAAP, due to our having effective control over, and our being the primary beneficiary of, such entity.

Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report are made at RMB6.3726 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on December 30, 2021. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all.

Luckin Coffee Inc. is a Cayman Islands holding company that operates its business in China through its PRC subsidiaries and holds certain foreign restricted licenses and permits which we might need in the future through our VIE (as defined above). Such structure involves unique risks to investors. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Corporate Structure—We are a Cayman Islands holding company. As a result, you may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management based on foreign laws.” Moreover, if the PRC government deems that any of our business operations carried out by our subsidiaries were to be restricted or prohibited from foreign investment or if these regulations or the interpretation of existing regulations change in the future, we could be subject to penalties or be forced to relinquish our interests in the affected operations. Additionally, potential future actions by the PRC government that could affect the legality and enforceability of the contractual arrangements with the VIE and, consequently, will affect our ability to consolidate the financial results of the VIE, which have not been material to the Group and are not expected to be material in the future. In 2019, 2020 and 2021, the VIE did not generate any revenue. As of December 31, 2020 and 2021, total assets of the VIE, excluding amounts due from other companies in the Group, equaled to 0.64% and 0.05% of our consolidated total assets as of the same dates, respectively.

We face various risks and uncertainties related to doing business in China. The PRC government has significant authority to exert influence on the ability of a China-based company, such as us, to conduct its business and accept foreign investments. For example, we face risks associated with regulatory approvals on offshore securities offerings, oversight on cybersecurity and data privacy, as well as the lack of U.S. Public Company Accounting Oversight Board (“PCAOB”) inspection on our auditors. The PRC government has recently published new policies that significantly affected various industries, and we cannot rule out the possibility that it will in the future further release regulations or policies regarding our industry that could adversely affect our business, financial condition and results of operations. For a detailed description of risks relating to doing business in China, see “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China.”

FORWARD-LOOKING INFORMATION AND RISK FACTORS SUMMARY

This annual report contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. You should not rely upon forward-looking statements as predictions of future events.

You can identify these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “likely to” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to, statements about:

- our mission, vision, strengths and growth strategies;
- our future business development, results of operations and financial condition;
- relevant government policies and regulations relating to our business and industry;
- COVID-19 pandemic and its impact on our business;
- the legal and governmental proceedings, investigations and information requests against us;
- the restructuring of our financial obligations;
- the potential settlement of contingent liabilities pursuant to litigations filed or threatened to be filed against us;
- general economic, political, demographic and business condition in China and globally; and
- assumptions underlying or related to any of the foregoing.

We would like to caution you not to place undue reliance on these forward-looking statements and you should read these statements and the summary of the risk factors below in conjunction with the risk factors disclosed in “Item 3. Key Information—3.D. Risk Factors.” Other sections of this annual report include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements. We do not undertake any obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as required under applicable law. You should read this annual report and the documents that we reference in this annual report completely and with the understanding that our actual future results may be materially different from what we expect.

Important factors that could cause actual future results to differ materially from our expectations include, among others, the following:

- the impacts of the ongoing COVID-19 pandemic on our business, including the impacts on our supply chain;
- the expense, timing and outcome of legal and governmental proceedings, investigations and information requests relating to, among other matters, our disclosure and accounting practices, including the impact of our settlement with the SEC, pending and ongoing investigations by the U.S. and PRC authorities, a number of pending litigations, including putative class actions, and other investigations or proceedings that are ongoing or may be initiated;
- the outcome and effect of the restructuring of our financial obligations;

- the success of members of our management in assuming their roles and the ability of the management team to implement and achieve our strategies and goals as they develop;
- the success of the members of our board of directors in assuming their roles;
- the effect of the non-reliance identified in, and the resultant restatement of, certain of our previously issued financial results; and any claims, investigations or proceedings (and any costs, expenses, use of resources, diversion of management time and efforts, liability and damages that may result therefrom), negative publicity or reputational harm that has arisen or may arise as a result;
- the effectiveness of the measures implemented to improve the overall effectiveness of our internal control system, our deficient control environment and the contributing factors leading to the misstatement of our results and the impact such measures may have on us and our businesses;
- potential additional litigation and regulatory investigations (and any costs, expenses, use of resources, diversion of management time and efforts, liability and damages that may result therefrom), negative publicity and reputational harm on us, products and business that may result from public scrutiny of our business, disclosure and accounting practices;
- the impacts of changes and developments in the international geopolitical environment;
- the impacts of changes and developments in regulatory policies in China and the United States; and
- our debt (and potential additional future indebtedness) and current and future debt service obligations, our ability to reduce our outstanding debt levels in accordance with our stated intention and the resulting impact on our financial condition, cash flows and results of operations.

In addition, we are faced with other risks and uncertainties, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects. In particular, as we are a China-based company incorporated in the Cayman Islands, you should pay special attention to subsections headed “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China” and “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Corporate Structure.” A summary of the principal risks we face is set forth below.

Risks Relating to Our Internal Investigation, Restatement of Our Consolidated Financial Statements, Internal Control, Offshore Restructuring and Related Matters

- *The previously disclosed Fabricated Transactions have exposed us to a number of legal proceedings, investigations and inquiries, resulted in significant legal and other expenses, and required significant time and attention from our senior management, among other adverse impacts.*
- *We are the subject of a number of legal proceedings, investigations and inquiries by governmental agencies with respect to the Fabricated Transactions, which have had and could continue to have a material adverse effect on our reputation, business, financial condition, cash flows and results of operations, and could result in additional claims and material liabilities.*
- *We have been named as a defendant in a number of lawsuits filed by purchasers of our securities, including class action lawsuits that, absent settlement, could have a material adverse impact on our business, financial condition, results of operations and cash flows, and our reputation.*
- *Matters relating to or arising from the restatement and the Internal Investigation, including adverse publicity and potential concerns from our customers, suppliers or others with whom we do business, have had and could continue to have an adverse effect on our business and financial condition.*

- *If we fail to implement and maintain an effective system of internal control, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud, and investor confidence and the trading price of the ADSs may be materially and adversely affected.*
- *We have substantially consummated an offshore restructuring of the Company's indebtedness under the supervision of "light touch" joint provisional liquidators appointed pursuant to an order of the Grand Court of the Cayman Islands, including a restructuring of indebtedness to bondholders and settlement of certain of our contingent liabilities with respect to the Fabricated Transactions. We cannot rule out the possibility that the restructuring will continue to have legacy impact on our business and financial condition.*

Risks Relating to Our Business and Industry

- *Our operations have been and may continue to be affected by the COVID-19 pandemic.*
- *We require a significant amount of capital to fund our operations and respond to business opportunities. If we cannot obtain sufficient capital on acceptable terms, our business, financial condition and prospects may be materially and adversely affected.*
- *If we fail to acquire new customers or retain existing customers in a cost-effective manner, our business, financial condition and results of operations may be materially and adversely affected.*
- *We face intense competition in China's coffee industry and food and beverage sector in general, and our products are not proprietary. If we fail to compete effectively, we may lose market share and customers, and our business, financial condition and results of operations may be materially and adversely affected.*
- *Our success depends on the continuing efforts of our key management and experienced and capable personnel as well as our ability to recruit new talent. If we fail to hire, train, retain or motivate our staff, our business may suffer.*
- *Our business generates and processes a large amount of data, which subjects us to evolving governmental regulations and other legal obligations related to privacy, cybersecurity, information security and data protection, many of which are subject to changes and uncertain interpretations. Any failure to comply with these governmental regulations and legal obligations, improper use or disclosure of such data by us, our employees or our business partners could subject us to significant reputational, financial, legal and operational consequences.*
- *A significant interruption in the operations of our third-party suppliers, retail partners and service providers could potentially disrupt our operations.*
- *Failure to maintain the quality and safety of our products could have a material and adverse effect on our reputation, financial condition and results of operations*
- *Any significant disruption in our technology infrastructure or our failure to maintain the satisfactory performance, security and integrity of our technology infrastructure would materially and adversely affect our business, reputation, financial condition and results of operations.*
- *We had in the past failed to comply with the terms of our indebtedness, which accelerated as a result. Failure to comply with the terms of our existing or future indebtedness could result in acceleration of indebtedness, which could have an adverse effect on our cash flow and liquidity.*

Risks Relating to Our Corporate Structure

- *We are a Cayman Islands holding company. As a result, you may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management based on foreign laws.*

- *We established the VIE to hold certain foreign restricted licenses and permits that we might need in the future. There are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations, and rules relating to the agreements that establish the VIE structure, including potential future actions by the PRC government, which could affect the enforceability of our contractual arrangements with the VIE and, consequently, affect our financial condition and results of operations. If the PRC government finds such agreements noncompliant with relevant PRC laws, regulations, and rules, or if these laws, regulations, and rules or the interpretation thereof change in the future, we could be subject to severe penalties or be forced to relinquish our interests in the VIE.*
- *Any failure by the VIE or its shareholders to perform their obligations under our contractual arrangements with them could have a material adverse effect on our business.*
- *If any of our business operations carried out by our subsidiaries were to be restricted or prohibited from foreign investment or if our VIE structure were to be deemed as a method of foreign investment under any current or future PRC laws, regulations and rules, our current corporate structure, business, financial condition and results of operations may be materially and adversely affected.*

Risks Relating to Doing Business in China

- *Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and operations.*
- *Uncertainties with respect to the PRC legal system could adversely affect us.*
- *The PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our investors of the benefits from such inspections.*
- *Trading in our ADSs on the OTC may be prohibited under the HFCA Act, if the PCAOB is unable to inspect or fully investigate our auditors. On December 16, 2021, the PCAOB issued the HFCA Act Determination Report, according to which our auditor is subject to the determinations that the PCAOB is unable to inspect or investigate completely. The prohibition of trading in our ADSs on the OTC may materially and adversely affect the value of your investment. If this happens there is no certainty that we will be able to list our Ordinary Shares on a non-U.S. exchange or that a market for our Ordinary Shares will develop outside the United States.*
- *The potential enactment of the Accelerating Holding Foreign Companies Accountable Act would decrease the number of non-inspection years from three years to two, thus reducing the time period before our ADSs may be prohibited from trading on the OTC.*
- *Various legislative and regulatory developments related to U.S.-listed China-based companies and other developments due to political tensions between the United States and China may have a material adverse impact on our listing and trading in the United States and the trading prices of our ADSs.*
- *We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.*
- *The approval, filing or other requirements of the CSRC, the CAC or other PRC government authorities may be required under PRC law in connection with our offshore securities offerings, and, if required, we cannot predict whether or for how long we will be able to obtain such approval.*

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

3.A. [Reserved]

3.B. Capitalization and Indebtedness

Not applicable.

3.C. Reason for the Offer and Use of Proceeds

Not applicable.

3.D. Risk Factors

Luckin Coffee Inc. is a Cayman Islands holding company that operates its business in China through its PRC subsidiaries and holds certain foreign restricted licenses and permits, such as the internet content provider license (the “ICP license”), which it might need in the future through the VIE. As used in this annual report, “we,” “us,” “our company,” “our,” “Group” or “Luckin” refers to Luckin Coffee Inc. and its subsidiaries, and, in the context of describing our consolidated financial information, our consolidated VIE. However, we and our direct and indirect subsidiaries do not, and it is virtually impossible for them to, have any equity interests in the VIE in practice as current PRC laws and regulations restrict foreign investment in certain telecommunication related businesses. As a result, we depend on certain contractual arrangements with the VIE to use, or otherwise benefit from, certain foreign restricted licenses and permits that we might need in the future, such as the ICP license, held by the VIE. This structure allows us to exercise effective control over the VIE, and is designed to replicate substantially the same economic benefits as would be provided by direct ownership. The VIE is owned by certain nominee shareholders, not us. Investors of our ADSs are purchasing equity securities of a Cayman Islands holding company rather than equity securities issued by our subsidiaries, which have substantial business operations and assets, or the VIE. Investors who are non-PRC residents may never directly hold equity interests in the VIE under current PRC laws and regulations.

In this annual report, we refer to Luckin Coffee (China) Co., Ltd., Beijing Luckin Coffee Co., Ltd., Luckin Investment (Tianjin) Co., Ltd., Luckin Coffee Roasting (Xiamen) Co., Ltd., Luckin Coffee Roasting (Pingnan) Co., Ltd. and their subsidiaries as the PRC subsidiaries in the context of describing of their activities. We refer to Beijing Luckin Coffee Technology Ltd. as the VIE in the context of describing its activities and contractual arrangements with us. The VIE primarily holds certain restricted licenses and permits which we might need in the future. Our VIE is consolidated for accounting purposes, but the Company does not own equity in it. The Company does not conduct operations by itself.

Our corporate structure involves unique risks to investors in the ADSs. Our contractual arrangements with the VIE have not been tested in court. If the PRC government deems that any of our business operations carried out by our subsidiaries were to be restricted or prohibited from foreign investment, our contractual arrangements with the VIE do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to material penalties or be forced to relinquish our interests in the affected operations. Additionally, potential future actions by the PRC government that could affect the legality and enforceability of the contractual arrangements with the VIE and, consequently, will affect our ability to consolidate the financial results of the VIE, which have not been material to the Group and are not expected to be material in the future. In 2019, 2020 and 2021, the VIE did not generate any revenue. As of December 31, 2020 and 2021, total assets of the VIE, excluding amounts due from other companies in the Group, equaled to 0.64% and 0.05% of our consolidated total assets as of the same dates, respectively. See “Item 3. Key Information—3.D. Risk Factor—Risks Relating to Our Corporate Structure” for a detailed discussion.

We face various legal and operational risks and uncertainties as a company based in and primarily operating in China. The PRC government has significant authority to exert influence on the ability of a China-based company, like us, to conduct its business, accept foreign investments or be listed on a U.S. stock exchange. For example, we face risks associated with regulatory approvals of offshore securities offerings, anti-monopoly regulatory investigations and actions, cybersecurity and data privacy compliance, as well as the lack of inspection from the PCAOB, on our auditors (which may potentially lead to the trading suspension of ADSs from the U.S. market). The PRC government may also intervene with or influence our operations as it deems appropriate to further regulatory, political and societal goals. The PRC government has recently published new policies that affected various industries, and we cannot rule out the possibility that it will in the future release regulations or policies regarding our industry that could adversely affect our business, financial condition and results of operations. Any such action, once taken by the PRC government, could cause the value of our securities to significantly decline or in extreme cases, become worthless.

Risks Relating to Our Internal Investigation, Restatement of Our Consolidated Financial Statements, Internal Control, Offshore Restructuring and Related Matters

The previously disclosed Fabricated Transactions have exposed us to a number of legal proceedings, investigations and inquiries, resulted in significant legal and other expenses, and required significant time and attention from our senior management, among other adverse impacts.

In March 2020, our board of directors (the “Board”) formed a special committee (the “Special Committee”) to oversee an internal investigation (the “Internal Investigation”) into certain issues raised to the Board’s attention during the audit of our consolidated financial statements for the fiscal year ended December 31, 2019. In April 2020, the Special Committee brought to the Board’s attention that certain management and employees reporting to them had engaged in misconduct, including fabricating certain transactions. On July 1, 2020, we announced that the Special Committee had substantially completed the Internal Investigation and found that the fabrication of transactions by certain management and employees reporting to them (the “Fabricated Transactions”) began in April 2019 and that, as a result, our net revenue in 2019 was inflated by approximately RMB2.12 billion (US\$0.31 billion), and our costs and expenses were inflated by approximately RMB1.34 billion (US\$0.2 billion).

The Fabricated Transactions had and could continue to have material adverse impacts on us. We were or are the subject of a number of legal proceedings, investigations and inquiries with respect to the Fabricated Transactions and have been named as a defendant in a number of lawsuits, including class action lawsuits. We incurred significant costs in connection with the Internal Investigation, including legal expenses and costs associated with the restatement and adjustment of our financial statements. We may also incur material costs associated with our indemnification arrangements with our current and former directors and certain of our officers, as well as other indemnitees. Moreover, an unfavorable outcome in any of these matters could result in significant damages, additional penalties or other remedies imposed against us, and/or our current or former directors or officers, which could harm our reputation, business, financial condition, results of operations or cash flows. In addition, an unfavorable outcome in any of these matters could exceed coverage provided, if any, under potentially applicable insurance policies, which is limited. For example, we currently do not have an effective director and officer liability insurance, and may not be able to obtain a director and officer liability insurance at reasonable cost or terms, or at all, in the future. Following disclosure of the Fabricated Transactions, we have had difficulties in obtaining desirable insurance coverage, or any insurance coverage, regarding legal proceedings, investigations and inquiries, and we cannot assure you with any certainty that we will be able to obtain such coverage in the future. The Fabricated Transactions also led to material adverse impacts on our operations, our reputation and our relationships with business partners, as well as material adverse impacts on our financial position, including incurred costs and expenses and our ability to raise new capital in the future. Further, our senior management team is expected to continue to devote significant time and efforts to address the impacts associated with or arising from the Fabricated Transactions.

We cannot predict all impacts on us in connection with or arising from the Fabricated Transactions. Any unknown or new risks may result in a material adverse effect on us.

We are the subject of a number of legal proceedings, investigations and inquiries by governmental agencies with respect to the Fabricated Transactions, which have had and could continue to have a material adverse effect on our reputation, business, financial condition, cash flows and results of operations, and could result in additional claims and material liabilities.

We were, have been or are currently the subject of a number of legal proceedings and investigations and inquiries by governmental agencies in various jurisdictions, including the investigations by the SEC and the U.S. Department of Justice (the “DOJ”) relating to the Fabricated Transactions, the lawsuits relating to the default under the terms of the convertible senior notes indenture offered on January 10, 2020, penalty decisions from the Chinese State Administration for Market Regulation and certain of its sub-bureaus (collectively, the “SAMR”) relating to the Fabricated Transactions, the investigation by the Ministry of Finance of the PRC and other regulatory and court proceedings and investigations. On September 23, 2020, we received penalty decisions from the SAMR, which found that our conduct related to the Fabricated Transactions violated the PRC Anti-Unfair Competition Laws. On December 16, 2020, we entered into settlement with the SEC regarding the Fabricated Transactions, under which we were subject to payment of penalties and are enjoined from violation of certain federal securities laws. Entering into the settlement with the SEC also results in the loss of certain exemptions or protections that were available to us under federal securities laws. On February 4, 2021, the United States District Court for the Southern District of New York (the “SDNY Court”) approved the SEC settlement. On February 3, 2022, the SEC filed with the SDNY Court a notice acknowledging that the Company has satisfied the civil penalties arising from the SEC settlement. See “Item 8. Financial Information—8.A. Consolidated Statements and Other Financial Information—Legal Proceedings.”

We are unable to predict how long the ongoing proceedings, investigations and inquiries will continue, and we may continue to incur significant costs in connection with these matters and that these proceedings, investigations and inquiries may result in diversion of management’s time, regardless of the outcome. These proceedings, investigations and inquiries may result in damages, fines, penalties, consent orders or other administrative sanctions against us and/or certain of our officers, or in changes to our business practices, among others. In addition, there might be proceedings, investigations and inquiries with respect to the Fabricated Transactions that are unknown to us or that might be initiated in the future, which could have a material adverse effect on us. For example, we have corrected our VAT filing to the PRC tax authorities for rectifying the revenues and VAT payable recognized in relation to the Fabricated Transactions. However, we are uncertain whether such correction in the previous VAT filing will fully resolve the matter to the satisfaction of the PRC tax authorities, and if the PRC tax authorities do not accept such correction, then the Fabricated Transactions are likely to be treated as transactions with issuance of false VAT invoices, and we may be required by the PRC tax authorities to pay corresponding VAT tax for the Fabricated Transactions. In addition, the PRC tax authorities may confiscate the illegal income and we may be subject to fines up to RMB500,000 per implicated entity, and further criminal penalties may be imposed on us if such violations are deemed to constitute criminal offenses.

Furthermore, publicity surrounding these proceedings, investigations and inquiries or any enforcement action as a result thereof, even if ultimately resolved favorably for us, coupled with the intensified public scrutiny of us and certain of our practices, could result in additional investigations and legal proceedings. Moreover, the matters that led to our Internal Investigation and our financial restatement have exposed us to increased risks of regulatory proceedings and government enforcement actions. As a result, these proceedings, investigations and inquiries could have a material adverse effect on our reputation, business, financial condition, including our ability to raise new capital, cash flows and results of operations.

We have been named as a defendant in a number of lawsuits filed by purchasers of our securities, including class action lawsuits that, absent settlement, could have a material adverse impact on our business, financial condition, results of operations and cash flows, and our reputation.

We have been named as a defendant in a number of lawsuits filed by purchasers of our securities, including class action lawsuits described in “Item 8. Financial Information—8.A. Consolidated Statements and Other Financial Information—Legal Proceedings.” and will, absent any negotiated settlement, have to defend against such suits, including any appeals of such suits should our initial defenses be unsuccessful. In the event that our initial defenses of these suits are unsuccessful, there can be no assurance that we will prevail in any appeal.

The matters that led to our Internal Investigation and our financial restatement have exposed us to increased risks of litigation. We and our current and former directors and officers may, in the future, be subject to additional litigation relating to such matters. Subject to certain limitations, we are obligated to indemnify our current and former directors and officers in connection with such lawsuits and any related litigation or settlement amounts. Regardless of the outcome, these lawsuits, and any other litigation that may be brought against us or our current or former directors and officers, could be time-consuming, result in significant expense and divert the attention and resources of our management and other key employees. An unfavorable outcome in any of these matters could result in significant damages, additional penalties or other remedies imposed against us, our current or former directors or officers, which could harm our reputation, business, financial condition, results of operations or cash flows. In addition, an unfavorable outcome in any of these matters could exceed coverage provided, if any, under potentially applicable insurance policies, which is limited. Following disclosure of the Fabricated Transactions, we have had difficulties in obtaining desirable insurance coverage, or any insurance coverage, regarding legal proceedings, investigations and inquiries, and we cannot assure you with any certainty that we will be able to obtain such coverage in the future.

Matters relating to or arising from the restatement and the Internal Investigation, including adverse publicity and potential concerns from our customers, suppliers or others with whom we do business, have had and could continue to have an adverse effect on our business and financial condition.

We have been and could continue to be the subject of negative publicity focusing on the restatement and adjustment of our financial statements, and we may be adversely impacted by negative reactions from our customers, suppliers or others with whom we do business. Concerns include the perception of the effort required to address our accounting and internal control environment, and the ability for us to be a long-term provider to our customers. Continued adverse publicity and potential concerns from our customers and business partners or others could harm our business and have an adverse effect on our reputation, financial condition and results of operations.

If we fail to implement and maintain an effective system of internal control, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud, and investor confidence and the trading price of the ADSs may be materially and adversely affected.

As a public company, we are subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act (“Section 404”), requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F. In 2021, our management, with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of our company’s internal control over financial reporting as of December 31, 2021. Based on this evaluation, we did not note or identify any deficiencies that we believe to be material weaknesses as of December 31, 2021. In addition, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our independent registered public accounting firm has issued an attestation report, which has concluded that as of December 31, 2021, our internal control over financial reporting was effective.

Even though we did not note or identify any deficiencies that we believe to be material weaknesses as of December 31, 2021, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. Generally speaking, if we fail to achieve and maintain an effective internal control environment, it could result in material misstatements in our financial statements and could also impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. As a result, our businesses, financial condition, results of operations and prospects, as well as the trading price of the ADSs, may be materially and adversely affected.

In addition, as a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation.

The delisting of our ADSs from Nasdaq may continue to have a material adverse effect on the trading and price of our ADSs, and we cannot assure you that our ADSs will be relisted, or that once relisted, they will remain listed.

On July 1, 2020, we were delisted from Nasdaq when the staff of the Nasdaq Stock Market LLC filed a Form 25 Notification of Delisting. The delisting of our ADSs from Nasdaq has had and may continue to have a material adverse effect on us by, among other things, causing investors to dispose of our ADSs and limiting:

- the liquidity of our ADSs;
- the market price of our ADSs;
- the number of institutional and other investors that will consider investing in our ADSs;
- the availability of information concerning the trading prices and volume of our ADSs;
- the number of broker-dealers willing to execute trades in our ADSs; and
- our ability to obtain equity or debt financing for the continuation of our operations.

The lack of an active trading market may limit the liquidity of an investment in our ADSs, meaning you may not be able to sell our ADSs you own at times, or at prices, attractive to you. Any of these factors may materially and adversely affect the price of our ADSs.

We have substantially consummated an offshore restructuring of the Company's indebtedness under the supervision of "light touch" joint provisional liquidators appointed pursuant to an order of the Grand Court of the Cayman Islands (the "Cayman Court"), including a restructuring of indebtedness to bondholders and settlement of certain of our contingent liabilities with respect to the Fabricated Transactions. We cannot rule out the possibility that the restructuring will continue to have legacy impact on our business and financial condition.

On July 15, 2020, the Cayman Court appointed Alexander Lawson of Alvarez & Marsal Cayman Islands Limited and Wing Sze Tiffany Wong of Alvarez & Marsal Asia Limited to act as "light-touch" Joint Provisional Liquidators of the Company (the "JPLs"). The JPLs were appointed on the application of the Company in response to the presentation of a winding-up petition by a creditor of the Company in the Cayman Court. During the provisional liquidation, we operated our business under the day-to-day control of the Board, under the supervision of the JPLs, in accordance with a protocol executed on October 16, 2020. Among other things, the protocol required us to obtain the approval of the JPLs in respect of certain key management matters, including but not limited to the Company's cash allocation, certain outward payments and any steps proposed to be taken by the Board outside of the ordinary course of the business of the Company and its subsidiaries. Under Cayman Islands law, no suit, action or other proceedings could be commenced or continued against the Company in the Cayman Islands during the course of the provisional liquidation, without the leave of the Cayman Court. In addition, the commencement or continuation of suits, actions or proceedings in the territorial jurisdiction of the U.S. against the Company and its assets in the territorial jurisdiction of the U.S. were stayed, to the extent provided in section 362 of title 11 of the United States Code (the "U.S. Bankruptcy Code"). This stay arose pursuant to the order of the United States Bankruptcy Court for the Southern District of New York (the "U.S. Bankruptcy Court") entered in the case commenced with respect to us under chapter 15 of the U.S. Bankruptcy Code (the "Chapter 15 Case"). The stay remained effective for the duration of the Chapter 15 Case, which was closed on April 8, 2022.

Following the JPLs' appointment, which constituted an event of default under our convertible senior notes indenture, 100% of the principal of, and accrued and unpaid interest on, the US\$460 million 0.75% convertible senior notes due 2025 (the "Notes") automatically became immediately due and payable. Accordingly, we took steps to negotiate a restructuring of our financial obligations owing under the Notes (the "Restructuring"), under the supervision of the JPLs. On March 16, 2021, we announced that we had entered into a restructuring support agreement (the "RSA") with holders of a majority of the Notes. On September 21, 2021, we announced that we had filed a summons for directions and a petition in the Cayman Court seeking court sanction of a scheme of arrangement (the "Scheme") for the purposes of the Restructuring. On December 1, 2021, we announced that at a meeting regarding the Scheme held on November 30, 2021, creditors representing approximately 97.7% of the aggregate outstanding principal amount of the Notes had voted unanimously to approve the Scheme and that, accordingly, the Scheme had been approved by the requisite majority of creditors. On December 14, 2021, we announced that the Cayman Court had sanctioned the Scheme. On January 28, 2022, the Restructuring of the Notes as contemplated by the Scheme became effective, and was substantially consummated. In aggregate, in exchange for the Notes, we have issued consideration under the Scheme totaling approximately US\$245.5 million of cash, US\$109.9 million of 9.00% series B senior secured notes due 2027 (the "New Notes") and 9,527,601 ADSs representing 76,220,808 Class A ordinary shares, which includes 291,699 ADSs issued on April 4, 2022 pursuant to the top-up mechanism under the Scheme. Subsequently, the parties to the amended winding up petition (filed in substitution on January 7, 2021) applied consensually to the Cayman Court for leave to withdraw or have the petition dismissed. By order of the Cayman Court dated February 25, 2022, the petition was dismissed and the JPLs were formally discharged with effect from March 4, 2022, bringing the provisional liquidation to a close. In addition, a final report was filed with the U.S. Bankruptcy Court on March 4, 2022 requesting entry of an order closing the Chapter 15 Case, and the U.S. Bankruptcy Court entered an order closing the Chapter 15 Case on April 8, 2022.

We cannot rule out the possibility that the Restructuring will continue to have legacy impact on our business and financial condition. For example, failure to comply with the terms under the New Notes could result in acceleration of indebtedness, which could have an adverse effect on our cash flow and liquidity and in turn affect our business, financial condition and results of operations.

We are aware that certain persons and entities (and their beneficiaries) who purchased or otherwise acquired the Company's ADSs have filed a series of lawsuits alleging that the Company (and others) violated United States securities law. As of the date of this annual report, the Company considers the claims asserted in these lawsuits as contingent liabilities as the Company's liability has not yet been established by the relevant courts, except for the settlements reached as described in "Item 8. Financial Information—8.A. Consolidated Statements and Other Financial Information—Legal Proceedings."

On September 20, 2021, we entered into a binding term sheet with the lead plaintiffs in the provisionally certified class action *In re Luckin Coffee Inc. Securities Litigation*, Case No. 1:20-cv-01293-JPC-JLC (SDNY) to fully resolve all claims that have been or could be filed on behalf of the provisionally certified class of purchasers Company's ADS between May 17, 2019 through July 15, 2020, inclusive, and on October 20, 2021, we entered into a Stipulation and Agreement of Settlement reflecting the terms of the settlement (the "Federal Class Settlement"). The amount of the Federal Class Settlement is \$175 million. The Federal Class Settlement was sanctioned by the Cayman Court overseeing the Company's "light touch" provisional liquidation on October 21, 2021, and received preliminary approval from the U.S. Court overseeing the class action on October 26, 2021. The Federal Class Settlement remains contingent on our ability to fund the settlement amount and final approval of the settlement from the U.S. Court. A hearing for final approval of the Federal Class Settlement has been scheduled by the U.S. Court for July 22, 2022.

On January 9, 2022, the Company reached an agreement in principle with the lead plaintiffs in the putative class action *In re Luckin Coffee Inc. Securities Litigation*, Index No. 651939/2020 (Sup. Ct. N.Y. Cty.) (the "State Class Action"), pending in the Commercial Division of the Supreme Court of the State of New York (the "State Court") to resolve claims that have been or could be filed on behalf of a class of purchasers of the Notes who did not release their claims in connection with the Scheme. The settlement remains subject to negotiation and execution of a stipulation of settlement, as well as approval from the State Court.

The Company also expects to expend additional amounts to resolve claims of investors who submitted valid opt-out notices. The Company has already been named as a defendant in a number of opt-out lawsuits alleging violations of U.S. securities laws. In addition, certain individuals and institutions, who have submitted opt-out notices, claim to have made investments relating to the Company's ADS and have made informal demands for the Company to pay alleged losses resulting from the Fabricated Transactions disclosed on April 2, 2020, but have not commenced legal proceedings. See "Item 8. Financial Information—8.A. Consolidated Statements and Other Financial Information—Legal Proceedings." There may also be more lawsuits filed against us in the future. Failure to settle these lawsuits or other unfavorable outcomes in these proceedings could result in significant damages, additional penalties or other remedies imposed against us, our current or former directors or officers, which could harm our reputation, business, financial condition, results of operations or cash flows.

The New Notes are exclusively the Company's obligations but our operations are conducted through, and substantially all of our consolidated assets are held by, our subsidiaries and VIE.

The New Notes are issued pursuant to a senior secured notes indenture dated as of January 28, 2022 by and between, the Company, the entities listed as Subsidiary Guarantors (as defined therein) and The Bank of New York Mellon in its capacity as the trustee, common security agent, paying agent, registrar and transfer agent (the "New Notes Trustee" or and the "Common Security Agent") (the "Base Indenture"), and Series B supplemental indenture dated as of January 28, 2022 by and between the parties to the Base Indenture (the "Series B Supplemental

Indenture", together with the Base Indenture, the "New Notes Indenture"). The forms of Base Indenture and Series B Supplemental Indenture were filed as Exhibit T3C-1 and Exhibit T3C-3, respectively, to our application for qualification of trust indentures on Form T-3 (File Number 022-29096), as amended, initially filed with the Securities and Exchange Commission on January 18, 2022. The New Notes are exclusively the Company's obligations guaranteed by Company's Offshore Subsidiaries (as defined in the New Notes Indenture). However, the New Notes are not guaranteed by any of our operating subsidiaries or VIE. A substantial portion of our consolidated assets are held by, and a substantial portion of our business is conducted through, our operating subsidiaries and VIE. Accordingly, the Company's ability to service our debt, including the New Notes, depends on the results of operations of our operating subsidiaries and VIE and upon the ability of such operating subsidiaries or VIE to provide the Company with cash, whether in the form of dividends, loans, service fees or otherwise, to pay amounts due on the Company's obligations, including the New Notes. Our operating subsidiaries and VIE are separate and distinct legal entities and have no obligation, contingent or otherwise, to make payments on the New Notes or to make any funds available for that purpose. In addition, dividends, loans, service fees or other distributions to us from such operating subsidiaries or VIE may be subject to regulatory contractual and other restrictions and are subject to other business considerations.

We may still incur substantially more debt or take other actions which would intensify the risks discussed above.

We may incur substantial additional debts in the future, some of which may be secured debt, and some of which may restrict us from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that could have the effect of diminishing our ability to make payments on our obligations when due.

The circumstances that led to the failure to file our annual report on time, and our efforts to investigate, assess and remediate those matters have caused and may continue to cause delays in our SEC filings.

Our ability to maintain a timely filing schedule with respect to our SEC reporting obligations is subject to a number of contingencies, including whether we can maintain the effectiveness of our internal control over financial reporting. We cannot assure you that we will be able to timely make our future filings.

In case we delay our filings, investors may need to evaluate certain decisions with respect to our ADSs in light of our lack of current financial information. In addition, the SEC adopted amendments to the Exchange Act Rule 15c2-11 in September 2020 that enhanced disclosure and investor protection in the OTC market by ensuring that broker-dealers do not publish quotations for an issuer's security when current issuer information is not publicly available, subject to certain exceptions. Therefore, if we are delayed in our filings, the broker-dealers will not be able to publish quotations for our ADSs on the OTC market. In such an event, the trading volume of our ADSs will be negligible, and the trading price may fall sharply as a result.

Risks Relating to Our Business and Industry

Our operations have been and may continue to be affected by the COVID-19 pandemic.

We have been and continue to be adversely affected by the COVID-19 pandemic. Since the beginning of 2020, outbreaks of COVID-19 have resulted in the temporary closure of many corporate offices, stores and manufacturing facilities across China. Normal economic life throughout China was sharply curtailed. In response to the COVID-19 pandemic, the Chinese government took and continue to take a number of actions, such as quarantining individuals infected with or suspected of having COVID-19, imposing travel restrictions, encouraging employees of enterprises to work remotely from home, canceling public activities and imposing city-wide and regional lockdowns, among others. To protect the health and well-being of our employees and consumers and in support of efforts to control the spread of the outbreak, we temporarily closed a significant majority of our stores from late-January 2020. We also closed our headquarter and offices and made temporary remote working arrangements. These unplanned store closures, combined with planned closures in observance of the Chinese New Year holiday, resulted in peak closures of over 94% of our stores in China in early February 2020.

We began to open our stores and resume normal operations from March 2020 and our store operations were less adversely affected in 2021 than in 2020. However, the resurgence of COVID-19 outbreaks in various cities and regions in China since the end of 2021 have adversely impacted and continues to adversely impact our store operations. Since the end of 2021, cases of the Omicron variant have emerged in China, spreading to major cities including Beijing, Shanghai, Tianjin and Shenzhen. A lockdown in Xi'an, which started in December 2021, lasted nearly the whole month of January 2022. Shanghai, the leading city in coffee consumption in China and in which we have substantial business operations, has been experiencing an unprecedented surge of COVID-19 cases since early 2022. Shanghai's economic life has been sharply curtailed, and the local government has been imposing more stringent preventive measures, causing material interruptions to our store operations in the city. Starting from April 2022 and as of the date of this annual report, there has been effectively a full lockdown in Shanghai. As a result of this resurgence, our store operation was significantly affected, with daily closure of as many as 550 stores in Shanghai and more than 1,000 stores in China during this period. The COVID-19 situations have been evolving quickly and continuously, and as of the date of this annual report, we cannot predict with any clarity as to whether and when the restrictive measures taken by local government will be lifted, whether and to what extent the COVID-19 situation will deteriorate, and whether and to what extent our business, operations and financial condition will further suffer as a result.

In addition, our supply chain has been adversely affected by the COVID-19. The operations of our domestic suppliers have been interrupted from time to time due to COVID-19 outbreaks and restrictive actions taken by the Chinese government in response to such outbreaks. Our international supply chain has been from time to time affected by the COVID-19 situation overseas, such as temporary restrictions imposed on business activities that have had a negative impact on international logistics. Such impacts could lead to supply shortages or cause us to maintain a higher inventory level in order to be prepared for any supply interruptions and therefore affect our inventory turnovers negatively.

We expect that our operations will continue to be impacted by the COVID-19 pandemic, including outbreaks caused by existing or new COVID-19 variants and the actions taken by governmental authorities, such as regional lockdowns, measures restricting travel and large gatherings, and recommendations against dining out. It remains difficult to predict the full impact of the COVID-19

pandemic on the broader economy and how consumer behavior may change, and whether such change is temporary or permanent. Social distancing, telecommunicating and reductions in travel may become the new normal. These conditions could fundamentally impact the way we work and the services we provide, and could have continuing adverse effects on our results of operations, cash flows and financial condition after the pandemic subsides. The extent to which our operations continue to be impacted by the pandemic will depend largely on future developments, which are highly uncertain and cannot be accurately predicted, including resurgences and further spread of existing or new COVID-19 variants, the actions by the government authorities to contain the pandemic or treat its impact, the availability and effectiveness of vaccines, the economic recovery within China and globally, the impact on consumer behavior and other related factors. Our insurance policy does not cover any losses we incur as a result of the pandemic. The COVID-19 pandemic also may have the effect of heightening other risks disclosed in the “Risk Factors” section of this report, such as, but not limited to, those related to supply chain, labor, cybersecurity threats, as well as consumer perceptions of our brands.

Our limited operating history may not be indicative of our future growth or financial results and we may not be able to sustain our historical growth rates.

We commenced our operations in October 2017 and have achieved significant growth since our inception. We expanded from a single trial store in Beijing to 4,397 self-operated stores, 1,627 partnership stores and 1,102 Luckin Coffee EXPRESS machines in over 220 cities in China as of December 31, 2021. We had 92.0 million cumulative transacting customers as of December 31, 2021. At the same time, we continue to evaluate our store performance and adjust our business plan accordingly. In 2021, we closed certain stores with relatively lower performance levels. As of March 31, 2022, we had 4,675 self-operated stores, 1,905 partnership stores, 1,119 Luckin Coffee EXPRESS machines in China and had nearly 100 million cumulative transacting customers. Our limited operating history may not be indicative of our future growth or financial results. There is no assurance that we will be able to maintain our historical growth rates in future periods. Our growth rates may decline for any number of possible reasons and some of them are beyond our control, including decreasing customer spending, increasing competition, declining growth of China’s coffee industry or China’s food and beverage sector in general, emergence of alternative business models, or changes in government policies or general economic conditions. We will continue to expand our product offerings and may explore new operating models to bring greater convenience to our customers and to increase our customer base and the number of transactions. However, the execution of any new business plans is subject to uncertainty and the total number of items sold and number of transacting customers may not grow at the rate we expect for the reasons stated above. Further, we may bear additional expenses and costs, including the negotiation of adjusted arrangements with suppliers, when we adjust our business plan. If our growth rates decline, investors’ perceptions of our business and prospects may be adversely affected and the trading price of the ADSs could decline. In addition, since our business model is innovative in China’s coffee industry, it may increase the difficulty in evaluating our business and future prospects based on our historical operational or financial results.

We have incurred significant operating losses attributable to the Company since our inception and we may continue to experience significant operating losses in the future.

We have incurred significant operating losses attributable to the Company since our inception in June 2017. For the years ended December 31, 2019, 2020 and 2021, we incurred operating losses of RMB3,212.1 million, RMB2,587.3 million and RMB539.1 million (US\$84.6 million), respectively, primarily attributable to the expenses in relation to the startup and fast expansion of our business.

We intend to invest to further improve our brand awareness, maintain and expand our customer base and store network, continuously launch new product offerings, further strengthen our technological capabilities, enhance and optimize our supply chain management and prudently explore expansion into overseas markets. In addition, our net revenues will be impacted by various factors, including the performances of our stores, level of discounts we offer for different products, competitive landscape, customer preference and macroeconomic and regulatory environment. Therefore, our revenues may not grow at the rate we expect and may not increase sufficiently to offset the increase in our expenses. We may continue to incur losses in the future and we cannot assure you that we will eventually achieve profitability.

We require a significant amount of capital to fund our operations and respond to business opportunities. If we cannot obtain sufficient capital on acceptable terms, our business, financial condition and prospects may be materially and adversely affected.

Building a well-known brand and accumulating a large and growing customer base are costly and time-consuming. For example, significant and continual investments in sales and marketing are required for further establishing brand awareness among the population in China to attract new customers and retain existing ones. In addition, we invest heavily in our technology systems, which are essential to our expansion and operations. It may take a long period of time to realize returns on such investments, if at all.

We have historically funded our cash requirements principally with capital contributions from our shareholders and the proceeds from our public offerings and private placement. If these resources are insufficient to satisfy our cash requirements, we may seek to raise funds through additional equity offerings or debt financings or obtain additional bank facilities. However, our ability to obtain additional capital in the future has been adversely affected by the impacts associated with the Fabricated Transactions and is subject to a number of uncertainties, including those relating to our future business development, financial condition and results of operations, general market conditions for financing activities by companies in our industry, and macroeconomic and other conditions in China and globally. If we cannot obtain sufficient capital on acceptable terms to meet our capital needs, we may not be able to execute our growth strategies, and our business, financial condition and prospects may be materially and adversely affected.

If we are unable to successfully execute our strategies, our business and prospects may be materially and adversely affected.

We will continue to encounter challenges in implementing our managerial, operating and financial strategies. The major challenges in managing our business growth include, among other things:

- effectively identifying and securing locations for new stores and managing the daily operations of our stores. See “—We may be unsuccessful in operating our stores” for more details;
- controlling incurred costs in a competitive environment;
- timely adjusting our business plan based on our performance and market position as well as successfully launching the adjusted business plan;
- the success of members of the management in assuming their roles and the ability of the management team to implement and achieve our strategies and goals as they develop;
- the success of our members of the Board in assuming their roles;
- attracting, training and retaining a growing workforce to support our operations;
- continuously developing and launching successful new products;
- maintaining and upgrading our technology systems in a cost-effective manner;
- effectively managing our supply chain and ensuring our third-party suppliers continue to meet our quality and other standards and satisfy our future operational needs;
- implementing a variety of new and upgraded internal systems and procedures as our business continues to grow; and
- ensuring full compliance with relevant laws and regulations.

All efforts to address the challenges of our growth require significant managerial, financial and human resources. We cannot assure you that we will be able to execute managerial, operating and financial strategies to keep up with our growth. If we cannot manage our growth or execute our strategies effectively, our growth may slow down and our business and prospects may be materially and adversely affected.

If we fail to acquire new customers or retain existing customers in a cost-effective manner, our business, financial condition and results of operations may be materially and adversely affected.

Our ability to cost-effectively attract new customers and retain existing customers is crucial to driving net revenues growth and achieving profitability. We have invested significantly in branding, sales and marketing to acquire and retain customers since our inception. For example, we offer various discount offers and deals in the form of vouchers and coupons. We also expect to continue to invest significantly to acquire new customers and retain existing ones. There can be no assurance that new customers will stay with us, or the net revenues from new customers we acquire will ultimately exceed the cost of acquiring those customers. In addition, if we reduce or discontinue our current discount offers and deals, if our existing customers no longer find our products appealing, or if our competitors offer more attractive products, prices, discounts or better customer services, our existing customers may lose interest in us, decrease their orders or even stop ordering from us. If we are unable to retain our existing customers or to acquire new customers in a cost-effective manner, our revenues may decrease and our results of operations will be adversely affected.

We may be unsuccessful in operating our stores.

The operating results of our stores have been and will continue to be subject to a number of factors, including but not limited to:

- our ability to maintain and enhance the quality of our products and services or to develop and launch new products that meet our customers' needs;
- our ability to retain existing customers and attract new customers;
- our ability to continually increase the number of items sold to each customer and number of items sold in each store;
- our ability to successfully implement our pricing strategies;
- our ability to timely respond to changes in market opportunities and customer preferences;
- our ability to maintain good relationships with third-party suppliers, service providers and strategic partners;
- our ability to hire, train and retain talented employees;
- our ability to manage costs of our operations, such as cost of materials, store rental, labor and other operating costs, and sales and marketing expenses;
- our ability to ensure full compliance with relevant laws and regulations, and maintain adequate and effective control, supervision and risk management over our stores; and
- our ability to monitor and control the overall operation of our stores.

Many factors that are out of our control, including the macroeconomic and regulatory environment, could also adversely affect our store operations. In addition, opening new stores near our existing stores may adversely affect the sales of our existing stores. Any of these factors listed above or described elsewhere in this Risk Factors section may render us unsuccessful in profitably operating our stores and could adversely impact our business, financial condition and/or results of operations. We may even have to shut down certain stores if their business, financial condition and operation results are below our expectation.

We face intense competition in China's coffee industry and food and beverage sector in general, and our products are not proprietary. If we fail to compete effectively, we may lose market share and customers, and our business, financial condition and results of operations may be materially and adversely affected.

China's coffee industry is intensely competitive. Our products, including our coffee recipes, are not proprietary, and therefore, we are unable to prevent competitors from copying the recipes of our products and sell similar products. We mainly compete with a number of coffee shop operators for customers. Our competitors may have more financial, technical, marketing and other resources than we do and may be more experienced and able to devote greater resources to the development, promotion and support of their business. Some competitors are well established in China and any defensive measures they take in response to our expansion could hinder our growth and adversely affect our sales and results of operations. In addition, China's coffee industry is subject to the entry of new and well-funded competitors. For more information related to the competitive landscape of China's coffee industry, see "Item 4. Information on the Company—4.B. Business Overview—Competition."

Furthermore, as we continue to increase our product offerings, we also expect to compete against other businesses such as convenience stores as well as food and beverages operators with convenient locations. Increased competition may reduce our market share and profitability and require us to increase our sales and marketing efforts and capital commitment in the future, which could negatively affect our results of operations or force us to incur further losses. Although we have accumulated a large and growing customer base, there is no assurance that we will be able to continue to do so in the future against current or future competitors, and such competitive pressures may have a material adverse effect on our business, financial condition and results of operations.

Our success depends on the continuing efforts of our key management and experienced and capable personnel as well as our ability to recruit new talent. If we fail to hire, train, retain or motivate our staff, our business may suffer.

Our future success is significantly dependent upon the continued service of our key management as well as experienced and capable personnel generally. If we lose the services of any member of key management or our experienced and capable personnel, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new staff, which could severely disrupt our business and growth. If any of our key management or experienced and capable personnel is poached by and joins a competitor or forms a competing business, we may lose customers, know-how and key professionals and staff members.

Our rapid growth also requires us to hire, train, and retain a wide range of personnel who can adapt to a dynamic, competitive and challenging business environment and are capable of helping us conduct effective marketing, innovate new products, and develop technological capabilities. We will need to continue to attract, train and retain talent at all levels. We may need to offer attractive compensation and other benefits packages, including share-based compensation, to attract and retain them. We also need to provide our employees with sufficient training to help them to realize their career development and grow with us. Any failure to attract, train, retain or motivate key management and experienced and capable personnel could severely disrupt our business and growth.

Any disruption to our supply chain and delivery services would negatively impact our business.

We have a limited number of suppliers for our raw materials, pre-made food and beverage items, machines, delivery service to our customers and warehouse and fulfillment service. In 2021, we purchased our coffee beans mainly from three suppliers, dairy mainly from five suppliers, syrup mainly from two suppliers and pre-made food and beverage items from a few selected sources, and we also mainly rely on one delivery service provider to provide most of the delivery service to our customers and cooperate with three warehouse and fulfillment service providers for our inventory storage and fulfillments between warehouses and from warehouses to our stores. In addition, since we officially launched our unmanned retail initiative in January 2020, we procure our unmanned coffee machines mainly from two suppliers.

Due to our limited number of suppliers, any interruption to the operations of our suppliers, any failure of our suppliers to accommodate our business scale, any termination or suspension of our supply arrangements, any change in cooperation terms, the deterioration of relationships with these suppliers or any disputes with them may materially and adversely affect our results of operations. In addition, our current agreements with our suppliers generally do not prohibit them from working with our competitors. Our competitors may be more effective in providing incentives to our suppliers to prioritize on their orders in case of short supply. We cannot assure you that we would be able to find replacement suppliers on commercially reasonable terms or a timely basis.

Our supply chain and delivery services may be disrupted by other factors, including but not limited to, improper supply chain management, regulatory changes or noncompliance, surging market demand for our products or raw materials and extreme weather, natural disasters, health epidemics (such as the COVID-19 outbreak) and other calamities. For example, we experienced a shortage in coconut juice supply due to the surging customer demand for our coconut milk series products. Any such disruptions may result in loss of potential orders, failures to deliver the customer order on time, or at all, and negative impact on the results of our business operations, financial performance and reputation.

Failure to maintain the quality and safety of our products could have a material and adverse effect on our reputation, financial condition and results of operations.

The quality and safety of our products are critical to our success. For more information on our quality control system, see “Item 4. Information on the Company—4.B. Business Overview—Procurement” and “Item 4. Information on the Company—4.B. Business Overview—Food Safety and Quality Control.” However, due to the scale of our operations and growth of our store network, maintaining consistent product quality depends significantly on the effectiveness of our quality control system, which in turn depends on a number of factors, including but not limited to the design of our quality control system, employee training to ensure that our employees adhere to and implement our quality control policies and procedures and the effectiveness of monitoring any potential violation of our quality control policies and procedures. There can be no assurance that our quality control system will always prove to be effective.

In addition, the quality of the products or services provided by our suppliers or service providers is subject to factors beyond our control, including the effectiveness and the efficiency of their quality control system, among others. There can be no assurance that our suppliers or service providers will always be able to adopt appropriate quality control systems and meet our stringent quality control requirements in respect of the products or services they provide. Any failure of our suppliers or service providers to provide satisfactory products or services could harm our reputation and adversely impact our operations. See “—Illegal actions or misconduct, or any failure by third-party suppliers, our retail partners, or service providers to provide satisfactory products or services could materially and adversely affect our business, reputation, financial condition and results of operations. In addition, we may be unable to receive sufficient compensation from suppliers and service providers for the losses caused by them.”

If customers become ill from food or beverage-borne illnesses, tampering, adulteration, contamination, mislabeling or other food or beverage safety issues, we could be forced to temporarily close the impacted stores and/or be involved in related disputes or legal proceedings. In addition, instances of food or beverage safety issues, even those not involving us or our suppliers, could, by resulting in negative publicity about us, China’s coffee industry or China’s food and beverage market in general, adversely affect our reputation, financial condition and results of operations. A decrease in customer confidence in the safety and quality of our products or any food safety issues could materially harm our business and results of operations. See “—Adverse incidents or reports of food-safety issues, whether true or not, may harm our business.”

Any significant disruption in our technology infrastructure or our failure to maintain the satisfactory performance, security and integrity of our technology infrastructure would materially and adversely affect our business, reputation, financial condition and results of operations.

The proper functioning of our technology infrastructure is essential to our business. We rely on our technology to improve customer engagement and our operational efficiency, among others. See “Item 4. Information on the Company—4.B. Business Overview—Technology.” The risks we face in relation to the disruption of our technology infrastructure include:

- we may encounter problems when upgrading our technology infrastructure including our mobile apps, systems and software. The development, upgrades and implementation of our technology infrastructure are complex processes. Issues not identified during pre-launch testing of new services may only become evident when such services are made available to our entire customer base. Therefore, our technology infrastructure, including our mobile apps, may not function properly if we fail to detect or solve technical errors in a timely manner; and
- our systems are potentially vulnerable to damage or interruption as a result of earthquakes, floods, fires, extreme temperatures, power loss, telecommunications failures, technical error, computer viruses, hacking and similar events.

These and other events may lead to the unavailability of our mobile apps, interruption of our supply chain and delivery, interruption of unmanned machines, leakage or permanent loss of customer data, interruptions or decreases in connection speed, or other events which would negatively affect our operations. If we experience frequent or persistent service disruptions, whether caused by failures of our own systems or those of third-party suppliers or service providers, our reputation or relationships with our customers may be damaged and our customers may switch to our competitors, which may have a material adverse effect on our business, financial condition and results of operations.

We face risks related to natural disasters, health epidemics and other calamities, which could significantly disrupt our business, financial condition and results of operations.

We are vulnerable to natural disasters, health epidemics, and other calamities. Any of such occurrences could cause severe disruption to the daily operations of us, and may even require a temporary closure of facilities and logistics delivery networks, which may disrupt our business operations and adversely affect our results of operations. In addition, our results of operations could be adversely affected to the extent that any of these catastrophic events harm the Chinese economy in general. In particular, our operations had been adversely affected by the COVID-19 outbreak in China. The outbreak of COVID-19 had impacts on our business in various aspects. See “—Our operations have been and may continue to be affected by the COVID-19 pandemic.”

Our business is currently highly dependent on coffee and we may not be able to quickly identify new market opportunities, respond to the industry trends and adapt to customer preferences.

The growth of China’s coffee industry is affected by customer tastes, preferences, perceptions and spending patterns. Since we have generated, and expect to continue to generate, a considerable amount of our revenues from the sale of coffee, a shift in customer preferences away from coffee, the changes of spending pattern adversely affecting consumption of coffee, or the decrease or slow growth of coffee consumption in China would harm our business, more than if our revenues were generated from more diversified products.

We have devoted significant resources to launch and promote new products from time to time to serve broader customer demand, adapt to changes in market trends and shifts in customer taste and preferences, including the introduction of new coffee flavors and non-coffee products. However, we may not be successful in implementing our cross-selling strategy, developing innovative new products, and our new products may not be favored by customers or commercially successful. To the extent that we are not able to effectively gauge the direction of our key markets and successfully identify, develop and promote new or improved products in the changing market, our financial results and our competitive position will suffer.

We may face additional risks associated with our retail partnership model.

We launched our retail partnership model initiative in September 2019, and opened our first partnership store in October 2019.

The retail partnership model may subject us to a number of risks, including but not limited to:

- We might not be able to effectively control retail partners’ actions and their daily store operation, and in case that their actions harm our business, our contractual rights and remedies are limited;
- The unsatisfactory service provided by or misconduct of our retail partners may harm the goodwill associated with our brands, and may adversely impact our business and results of operations;
- The revenues we realize from partnership stores are partly dependent on our retail partners’ ability to grow their sales;
- The failure of our retail partners to comply with local regulatory rules may subject us to losses and harm our reputation;
- Retail partners may not completely fulfill their obligation under the partnership agreement, which may adversely impact our business and results of operations;
- The number and quality of retail partners are subject to change over time, which may negatively affect our business; and

- Our retail partners may be subject to a variety of litigation risks, including, but not limited to, customer claims, food safety claims and employee allegations of improper termination. Although we are not directly liable for the costs involved in these types of litigation, each of these claims may increase the costs of our retail partners and adversely affect their profitability, which in turn could adversely affect our business, operating results and brand.

From time to time, we may evaluate and potentially consummate strategic investments, acquisitions, strategic cooperation, formation of joint ventures and new business initiatives which may turn out to be not successful and adversely affect our operation and financial results.

To complement our business and strengthen our market-leading position, we may form strategic alliances or make strategic investments and acquisitions from time to time. In addition, we continually evaluate the potentials of new business initiatives or new markets. We may experience difficulties in integrating our operations with the newly invested or acquired businesses, executing new business initiatives, managing our expansion, implementing our strategies or achieving expected levels of net revenues, profitability, productivity or other benefits. For example, we officially launched our unmanned retail initiative, including Luckin Coffee EXPRESS and Luckin Pop Mini, in January 2020. Luckin Coffee EXPRESS is an unmanned machine that prepares a selection of freshly brewed drinks. Luckin Pop Mini is an unmanned vending machine that offers a variety of consumer goods. Considering its operational performance, we suspended the operation of Luckin Pop Mini and recorded write-downs of RMB46.7 million associated with this suspension in 2020. Additionally, we recorded impairment loss of long-lived assets of RMB52.1 million and RMB2.1 million in 2019 and 2020, respectively, in connection with the first generation Luckin Coffee EXPRESS machines that we purchased or prepaid for trial operation in 2019 and the subsequent launch in 2020. As of December 31, 2021, we had 1,102 second generation Luckin Coffee EXPRESS machines in operation. Further, in connection with the adjusted business plan for our unmanned retail initiative, we entered into a settlement agreement in December 2021 with Schaerer Ltd. in relation to our notice that we would not place any new orders for the machines for Luckin Coffee EXPRESS we originally intended to purchase as set out in the schedule of a deal memorandum previously entered. Therefore, we cannot assure you that our investments, acquisitions, cooperation and new business initiatives will benefit our business strategy, generate sufficient net revenues to offset the associated costs, or otherwise result in the intended benefits.

Growth of our business will partially depend on the recognition of our brand, and any failure to maintain, protect and enhance our brand would limit our ability to grow or retain our customer base, which would materially and adversely affect our business, financial condition and results of operations.

We believe that recognition of our brand among customers has helped us manage our customer acquisition costs and contributed to the growth and success of our business. Accordingly, maintaining, protecting and enhancing the recognition of our brand is critical to our business and market position. Many factors, some of which are beyond our control, are important to maintaining, protecting and enhancing our brand. These factors include but are not limited to our ability to:

- maintain the quality and attractiveness of the products we offer;
- develop and launch new products that satisfy our customers' needs;
- provide a superior customer experience;
- increase brand awareness through marketing and brand promotion activities;
- maintain good relationships and retain favorable terms with our suppliers, service providers and other business partners;
- stay compliant with relevant laws and regulations;
- compete effectively against existing and future competitors; and
- preserve our reputation and goodwill generally and in the event of any negative publicity on our products, services and data security, or other issues affecting us, China's coffee industry or China's food and beverage sector in general.

A public perception that we, or other industry participants do not provide satisfactory products or services to customers, even if factually incorrect or based on isolated incidents, could damage our reputation, diminish the value of our brand, undermine the trust and credibility we have established and have a negative impact on our ability to attract and retain customers, and our business, financial condition and results of operations may be materially and adversely affected.

We have been and may increasingly become a target for public scrutiny, including complaints to regulatory agencies, negative media coverage, and malicious allegations, all of which could severely damage our reputation and materially and adversely affect our business and prospects.

Publicity about our business and management creates the possibility of heightened attention from the public, regulators and the media. Any negative report regarding our business, financial condition, results of operations, our management and employees could damage our brand image and severely affect the sales of our products and possibly lead to claims, litigation and damages. One of our executive officers, Mr. Fei Yang, was the president of IWOM Marketing Co., Ltd. (“IWOM”), a digital marketing company, when it was convicted of illegal business operation in 2013 for deleting user-generated content for profit. Mr. Yang was held liable as IWOM’s president and was given a short term (18 months) prison sentence.

Although Mr. Yang left IWOM in 2015, there has been and might continue to be negative media coverage about this conviction, which may have a negative effect on our public image and business. In addition, improper behavior or statements of our spokespersons, endorsers and other celebrities we have cooperated with and our employees may result in substantial harm to our brand, reputation and operations. We could become a target for public scrutiny, including complaints to regulatory agencies, negative media coverage, and malicious allegations, in the future, and such scrutiny and public exposure could severely damage our reputation as well as our business and prospects.

We have incurred significant costs on a variety of sales and marketing efforts, including mass advertising and heavy promotions to attract customers, and some sales and marketing campaigns and methods may not be sustainable or may turn out to be ineffective.

We have invested significantly in sales and marketing activities to promote our brand and our products and to deepen our relationships with customers. We incurred RMB812.6 million, RMB462.1 million and RMB336.9 million (US\$52.9 million) in sales and marketing expenses for the years ended December 31, 2019, 2020 and 2021, respectively. We also regularly offer coupons and vouchers to increase our customer base, retain our existing customers or promote new products, and such promotion activities might not be sustainable.

Our sales and marketing activities may not be well received by our existing customers, and may not attract new customers as anticipated. The evolving marketing landscape may require us to experiment with new marketing methods to keep pace with industry trends and customer preferences. Failure to refine our existing marketing approaches or to introduce new marketing approaches in a cost-effective manner could reduce our market share and negatively impact our results of operations. There is no assurance that we will be able to recover the costs of our sales and marketing activities or that these activities will be effective in attracting new customers and retaining existing customers.

We may be unsuccessful in managing our store network.

We may not be able to manage our store network. The number and timing of the stores actually opened during any given period are subject to a number of risks and uncertainties, including but not limited to our ability to:

- identify suitable locations and secure leases on commercially reasonable terms;
- obtain adequate funding for development and opening costs;
- obtain the required licenses, permits and approvals;
- efficiently manage our time and cost in relation to the design, decoration and preopening processes for each of our stores;

- develop and retain suitable retail partners; and
- hire, train and retain skilled employees.

Any factors listed above, either individually or in aggregate, might delay or fail our plan to increase the number of stores in desirable locations at manageable cost levels. In addition, we may not be able to successfully operate our existing stores and may choose to shut down certain stores from time to time.

Adverse incidents or reports of food-safety issues, whether true or not, may harm our business.

Instances or reports of food-safety issues, such as food or beverage-borne illnesses, tampering, adulteration, contamination or mislabeling, either during growing, manufacturing, packaging, storing or preparation, whether true or not, have in the past severely injured the reputations of companies in China's food and beverage market and could affect us as well. Product safety or quality issues, actual or perceived, or allegations of product contamination, even when false or unfounded, could tarnish the image of our brand and may cause customers to choose other products. Such issues could materially and negatively affect our reputation, results of operations and financial performance.

Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.

In accordance with the relevant laws and regulations in jurisdictions in which we operate, we are required to maintain various approvals, licenses and permits to operate our business, including but not limited to business licenses, food operation licenses, environmental impact assessment filings and fire safety inspections. These approvals, licenses and permits are obtained upon satisfactory compliance with, among other things, the applicable laws and regulations. If we or our retail partners fail to obtain the necessary licenses, permits and approvals, we may be subject to fines, confiscation of the gains derived from the related stores or the suspension of operations of the related stores. We may also experience adverse publicity arising from such noncompliance with government regulations that negatively impacts our brand. We may experience difficulties or failures in obtaining the necessary approvals, licenses and permits for new stores. If we fail to obtain the material licenses, our store opening and expansion plan may be delayed. In addition, there can be no assurance that we will be able to obtain and/or renew all of the approvals, licenses and permits required for our existing business operations upon their expiration in a timely manner or at all, which could adversely affect our business operations. The following are some particular risks and potential negative consequences regarding certain lack of requisite approvals, licenses or permits, without prejudice to the generality of the foregoing.

As of the date of this annual report, a small portion of our stores have not obtained business licenses, and we are in the process of obtaining business licenses for these stores. We may be ordered by the government authorities to rectify such noncompliance or to suspend operations of these stores and may be subject to fines of up to RMB100,000 for each store that fails to obtain business licenses.

As of the date of this annual report, a small portion of our stores have not obtained food operation licenses, and we are in the process of obtaining food operation licenses for these stores. The relevant government authorities may confiscate the income of these stores since commencing operation as well as the food and beverage products sold at these stores and the raw materials and equipment used in store operation, and may impose fines based on the value of the food and beverage products sold at each store (if the value of the food and beverage products is less than RMB10,000, a fine up to RMB100,000 may be imposed; if the value of the food and beverage products is more than RMB10,000, a fine up to 20 times of such value may be imposed).

As of the date of this annual report, a small portion of our stores that are required to complete environmental impact assessment filings with the administrative department of environmental protection have not completed such filings. There is uncertainty as to whether we still need to complete such filings for these stores. Since January 1, 2021, according to *Classification Administration Catalogue of Environmental Impact Assessments for Construction Projects* issued on September 2, 2008 and most recently amended on November 30, 2020, construction projects of the food and beverage services no longer require environmental impact assessment filings. However, if it is determined that we are required to complete such filings, we may be subject to a fine of up to RMB50,000 per store.

Some of our stores are required to obtain permits over fire safety inspection by local fire prevention authorities. However, as of the date of this annual report, a substantial number of such stores have not obtained such permits. Our stores that fail to obtain the permits over fire safety inspections may be ordered by the relevant government authorities to close down and may be subject to a fine of up to RMB300,000 per store. In addition, some of our stores have not completed the required as-built acceptance check on fire prevention or fire safety filing. If the stores that fail to complete such fire safety filing are found unqualified by relevant government authorities in random inspection, they may be ordered by the relevant government authorities to close down and may be subject to a fine of up to RMB300,000 per store. As advised by our PRC legal counsel, King & Wood Mallesons, the likelihood that we would be subject to material administrative penalties by fire safety regulatory authorities is low.

For the unmanned retail initiative we officially launched in January 2020, according to the *Administrative Measures for Food Operation Licensing* and other local rules and regulations, we are required to obtain relevant food operation licenses, which provides that automatic vending be the business type of the licensed entity, for each operating subsidiary. We are also required to file or report to the relevant government authorities the numbers of the vending machines, the locations of the vending machines, the name, address and phone number of the vending operator, information regarding how the food operation licenses are publicized, among other relevant materials. The compliance requirement and the legal consequences of noncompliance with the requirements of conducting unmanned retail business vary among cities. If we fail to satisfy the relevant requirements, we may be ordered by the relevant government authorities to rectify the noncompliance and may be subject to fines, confiscation of the gains and suspension of operations, which could adversely affect our business operations.

We have recorded negative cash flows from operating activities historically and may have a net current liabilities position in the future.

We have experienced significant cash outflow from operating activities since our inception. We had net cash used in operating activities of RMB2,167.0 million, RMB2,376.8 million and net cash provided by operating activities of RMB123.4 million (US\$19.4 million) for the years ended December 31, 2019, 2020 and 2021, respectively. Despite the improvement of our operating cash position in 2021, we cannot guarantee that we will maintain that positive operating cash position in the future. If our cost of continuing operations increases in the future or our cash generated from operating activities does not meet our expectation, our operating cash position could worsen, and our business could be adversely affected because of the limited amount of cash available to meet the cash needs for operating our business and to fund our investments in our business expansion.

We had net current assets of RMB3,243.0 million, RMB5,419.2 million and RMB1,791.7 million (US\$281.2 million) as of December 31, 2019, 2020 and 2021, respectively. We could have a net current liabilities position in the future, which would expose us to liquidity risk. Our future liquidity and ability to make additional capital investments necessary for our operations and business expansion will depend primarily on our ability to maintain sufficient cash generated from operating activities and to obtain adequate external financing. There can be no assurance that we will be able to renew existing bank facilities or obtain other sources of financing.

The operation of the Group is restricted by the terms of the New Notes, which could limit its ability to plan for or to react to market conditions or meet its capital needs.

The New Notes Indenture includes a number of significant restrictive covenants. These covenants restrict, among other things and subject to certain exceptions, the Company's ability and/or the ability of the Restricted Subsidiaries (as defined in the New Notes Indenture), to:

- incur or guarantee additional indebtedness;
- make investments, make capital expenditures, use cash generated from operations or make other specified restricted payments;
- declare dividends on capital stock or purchase or redeem capital stock of the Company;
- restrict the ability of any wholly-owned Restricted Subsidiary (as defined in the New Notes Indenture) to pay dividends or repay indebtedness to the Company or any other Restricted Subsidiary;

- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of members of the Group;
- prepay or redeem subordinated debt or equity;
- sell, lease or transfer assets;
- create liens;
- enter into sale and leaseback transactions;
- engage in any business other than permitted business, which means any business that is same, complementary or related to any of the businesses of the Company and any Restricted Subsidiary on the original issue date;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants could limit the Group's ability to plan for or react to market conditions or to meet its capital needs. The Group's ability to comply with these covenants may be affected by events beyond its control, and it may have to curtail some of its operations and growth plans to maintain compliance.

We had in the past failed to comply with the terms of our indebtedness, which accelerated as a result. Failure to comply with the terms of our existing or future indebtedness could result in acceleration of indebtedness, which could have an adverse effect on our cash flow and liquidity.

We have entered and may from time to time enter into credit facilities and debt financing arrangements containing financial and other covenants that could, among other things, restrict our business and operations. On July 15, 2020, following the appointment of the JPLs by the Cayman Court, which constitutes an event of default under the indenture of the Notes described above, 100% of the principal of, and accrued and unpaid interest on, the Notes automatically became immediately due and payable.

On March 16, 2021, we announced that we entered into an RSA with holders of a majority of the aggregate principal amount outstanding under the Notes. On January 28, 2022, the Restructuring of the Notes became effective, and was substantially consummated, which included the issuance of new debt securities in the form of the US\$109.9 million New Notes described above. For more information about the restructuring of the Notes and the issuance of the New Notes, see "Note 13 Convertible Senior Notes" and "Note 22 Subsequent Events—Effectiveness of the Restructuring" to the Company's consolidated financial statements included in this annual report.

If we breach any of the covenants under the New Notes or any of our existing or future debt financial arrangements, including by failing to maintain certain financial ratios, our lenders may be entitled to accelerate our debt obligations. Any default under our existing or future debt financial arrangements could also require that we repay these loans prior to maturity as well as limit our ability to obtain additional financing, which in turn may have a material adverse effect on our cash flow and liquidity. For example, failure to comply with the terms under the New Notes could result in acceleration of indebtedness, which could have an adverse effect on our cash flow and liquidity and in turn affect our business, financial condition and results of operations.

We have undertaken strategic partnerships which may not be successful. If our collaboration with any of our strategic partners is terminated or curtailed, or if we are no longer able to benefit from the business collaborations with our strategic partners, our business may be adversely affected.

Our business has benefited from our collaborations with our strategic partners, including Weixin, in the areas such as mobile ordering and payment and joint marketing. We have entered into certain collaborations or alliances, such as incorporating joint ventures, with our business partners historically from time to time. We cannot assure you that such alliances or partnerships will contribute to our business, and we might not be able to maintain our cooperative relationships with our strategic partners and their respective affiliates in the future. If the services provided by these strategic partners become limited, compromised, restricted, curtailed or less effective or become more expensive or unavailable to us for any reason, our business may be materially and adversely affected. To the extent we cannot maintain our cooperative relationships with any of these strategic partners, it may be very difficult for us to identify other alternative partners, which may divert significant management attention from existing business operations and adversely impact our daily operation and customer experience.

A significant interruption in the operations of our third-party suppliers, retail partners and service providers could potentially disrupt our operations.

We have limited control over the operations of our third-party suppliers, retail partners, service providers and other business partners and any significant interruption in their operations may have an adverse impact on our operations. For example, a significant interruption in the operations of our roasted coffee bean suppliers' roasting facilities could cause a shortage of coffee at our stores, a significant interruption impacting our leased warehouses, whether as a result of a natural disaster, labor difficulties, fire or other causes, could cause the shortage of our inventory, and a significant interruption in the operations of our internet service provider could impact the operation of our mobile apps. If we cannot solve the impact of the interruptions of operations of our third-party suppliers, retail partners or service providers, our business operations and financial results may be materially and adversely affected.

Illegal actions or misconduct, or any failure by third-party suppliers, our retail partners, or service providers to provide satisfactory products or services could materially and adversely affect our business, reputation, financial condition and results of operations. In addition, we may be unable to receive sufficient compensation from suppliers and service providers for the losses caused by them.

Our reputation and operation may be harmed by illegal or unsatisfactory actions taken by suppliers, our retail partners and service providers over which we have limited control. For example, the failure of our raw material suppliers to ensure product quality or to comply with food safety or other laws and regulations could interrupt our operations and result in claims against us, and any delay in delivery of our products, damage to our products during the course of delivery and inappropriate actions taken by delivery riders of our delivery service providers might cause customer complaints.

In the event that we become subject to claims caused by actions taken by our suppliers, our retail partners, or service providers, we may attempt to seek compensation from the relevant suppliers, our retail partners, or service providers. However, such compensation may be limited. For example, we may not be able to fully cover compensation from our retail partners in case that our losses attributed to their actions exceed their deposit withheld by us. If no claim can be asserted against a supplier, our retail partners, or service provider, or amounts that we claim cannot be fully recovered from the supplier, our retail partners, or service provider, we may be required to bear such losses and compensation at our own costs. This could have a material and adverse effect on our business, financial condition and results of operations.

We face the risk of fluctuations in the cost, availability and quality of our raw materials and pre-made products, which could adversely affect our results of operations.

The cost, availability and quality of our principal raw material, Arabica coffee beans, coffee condiments, tea leaves as well as pre-made food and beverage items, are important to our operations. We usually enter into fixed-price purchase agreements with suppliers of raw materials and pre-made food and beverage items with a term of one year. However, such contract prices may be renegotiated when there is significant fluctuation in the market price of these products. If the cost of raw materials and pre-made products increases after expiration of existing agreements, due to large market price fluctuation or due to any other reason, our business and results of operations could be adversely affected.

In addition, as coffee beans and most of our coffee condiments and pre-made products have relatively short shelf life, frequent and timely supply of these products are essential to our operations. Lack of availability of these products, whether due to shortages in supply, delays or interruptions in processing, failure of timely delivery or otherwise, could interrupt our operations and adversely affect our financial results.

Uncertainties relating to the growth of China's coffee industry and food and beverage industry could adversely affect our revenues and business prospects.

Our business is affected by the development of China's coffee industry and food and beverage industry in general. The demand for our coffee items and our future results of operations will depend on numerous factors affecting the development of China's coffee industry and food and beverage industry in general, such as governmental regulations and policies over this industry, investments in this industry and the drinking culture and hobby of Chinese consumers, and some of them are completely beyond our control.

A decline in the popularity of coffee, especially freshly brewed coffee, or any failure by us to adapt our strategies in response to trends in China's coffee industry and food and beverage industry in general may adversely affect our results of operations and business prospects.

Adverse public or medical opinion about the health effects of our products may harm our business.

Some of our products contain caffeine, dairy products, sugar and other active compounds, the health effects of which are not fully understood. The excessive consumption of these compounds may result in adverse health effects and have caused increasing public awareness. For example, a number of research studies conclude or suggest that excessive consumption of caffeine may lead to increased heart rate, nausea and vomiting, restlessness and anxiety, depression, headaches, tremors, sleeplessness and other adverse health effects. A number of research studies suggest the excess consumption of added sugar is associated with a variety of preventable diseases, obesity and damaged metabolism. Unfavorable reports on the health effects of caffeine or other compounds of our products could significantly reduce the sales of our products. Also, we could become subject to litigation relating to the existence of such compounds in our products and any such litigation could be costly and could divert management attention.

Overall tightening of the labor market, increases in labor costs or any possible labor unrest may adversely affect our business and results of operations.

Our business requires a substantial number of personnel. Any failure to retain stable and dedicated labor by us may lead to disruption to our business operations. Although we have not experienced any material labor shortage as of the date of this annual report, we have observed an overall tightening and increasingly competitive labor market. We have experienced, and expect to continue to experience, increases in labor costs due to increases in salary, social benefits and employee headcount. We compete with other companies in our industry and other labor-intensive industries for labor, and we may not be able to offer competitive remuneration and benefits compared to them. If we are unable to manage and control our labor costs, our business, financial condition and results of operations may be materially and adversely affected.

Our business generates and processes a large amount of data, which subjects us to evolving governmental regulations and other legal obligations related to privacy, cybersecurity, information security and data protection, many of which are subject to changes and uncertain interpretations. Any failure to comply with these governmental regulations and legal obligations, improper use or disclosure of such data by us, our employees or our business partners could subject us to significant reputational, financial, legal and operational consequences.

Our business generates and processes a large quantity of personal, transaction, and behavior data. We face risks inherent in handling large volumes of data and in protecting the security of such data. In particular, we face a number of challenges relating to data from transactions and other activities on our system, including:

- protecting the data in and hosted on our system, including against attacks on our system by third parties or fraudulent behavior by our employees;
- addressing concerns related to privacy and sharing, safety, security and other factors; and

- complying with applicable laws, rules and regulations relating to the collection, use, disclosure or security of personal information, including any requests from regulatory and government authorities relating to such data.

Any systems failure or security breach or lapse that results in the release of customer data could harm our reputation and brand and, consequently, our business, in addition to exposing us to potential legal liability. Furthermore, our business partners and their employees may improperly use or disclose the data we disclose to them for our operation and we have limited control over the actions of our business partners and their employees. Any failure, or perceived failure, by us, our employees, our business partners, or their employees to comply with privacy policies or with any regulatory requirements or privacy protection-related laws, rules and regulations could result in proceedings or actions against us by governmental entities or others. These proceedings or actions may subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and severely disrupt our business.

Recently, companies' practices regarding collection, use, retention, transfer, disclosure and security of user data have been the subject of enhanced regulations and increased public scrutiny. For example, historically, we have been named by regulatory authorities among other apps for not expressly obtaining all authorizations from users, for which we have taken measures, including adjustments to our user privacy terms, to address the issue. The regulatory frameworks regarding privacy issues in many jurisdictions are constantly evolving and can be subject to significant changes from time to time.

In China, the PRC Cybersecurity Law, which became effective in June 2017, provides that personal information and important data collected and generated by operators of critical information infrastructure in the course of their operations in the PRC should be stored in the PRC. The PRC government is increasingly focused on data security, recently launching cybersecurity review against a number of mobile apps operated by several U.S.-listed Chinese companies and prohibiting these apps from registering new users during the review period.

In addition, regulators in China may implement measures to ensure that encryption of users' data does not hinder law enforcement agencies' access to that data. For example, according to the PRC Cybersecurity Law and relevant regulations, network operators, are obligated to provide assistance and support in accordance with the law for public security and national security authorities to protect national security or assist with criminal investigations. Compliance with these laws and requirements in manners that are perceived as harming privacy could lead to significant damage to our reputation and proceedings and actions against us by regulators and private parties.

On March 12, 2021, the CAC, the MIIT, the Ministry of Public Security and the SAMR jointly promulgated the Provisions on the Scope of Necessary Personal Information Required for Common Types of Mobile Internet Applications, which became effective on May 1, 2021, clarifying the scope of necessary information required for certain common mobile apps and stating that mobile apps operators may not deny users' access to basic functions and services when the users opt out of the collection of unnecessary personal information. The CAC has since named a number of mobile apps in its regulatory announcement for failure to comply with privacy and data security regulations, and ordered these apps to rectify their data collection and use practices. On June 10, 2021, the Standing Committee of the National People's Congress of China promulgated the Data Security Law which took effect on September 1, 2021, and on August 20, 2021, the Standing Committee of the National People's Congress of China promulgated the Personal Information Protection Law which took effect on November 1, 2021. The Data Security Law provides for data security and privacy obligations of entities and individuals carrying out data activities, prohibits entities and individuals in China from providing any foreign judicial or law enforcement authority with any data stored in China without approval from competent PRC authority, and sets forth the legal liabilities of entities and individuals found to be in violation of their data protection obligations, including rectification order, warning, fines of up to RMB10 million, suspension of relevant business, and revocation of business permits or licenses. See "Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulation on Internet Privacy." The Personal Information Protection Law took effect on November 1, 2021, integrates the various rules with respect to personal information rights and privacy protection and applies to the processing of personal information within mainland China as well as certain personal information processing activities outside mainland China, including those for the provision of products and services to natural persons within China or for the analysis and assessment of acts of natural persons within China.

Numerous regulations, guidelines and other measures have been or are expected to be adopted under the umbrella of, or in addition to, the Cybersecurity Law and Data Security Law. For example, Regulations on the Security Protection of Critical Information Infrastructure, or the CII Protection Regulations, became effective on September 1, 2021. According to the CII Protection Regulations, critical information infrastructure, or the CII, refers to any important network facilities or information systems of the important industry or field such as public communication and information service, energy, transportation, water conservancy, finance, public services, e-government affairs and national defense science, which may endanger national security, people's livelihood and public interest in the case of damage, function loss or data leakage. Regulators supervising specific industries are required to formulate detailed guidance to identify CII in the respective sectors, and a critical information infrastructure operator, or a CIIO, must take the responsibility to protect the CII's security by performing certain prescribed obligations. For example, CIIOs are required to conduct network security test and risk assessment, report the assessment results to relevant regulatory authorities, and timely rectify the issues identified at least once a year. As of the date of this annual report, we have not been identified as a CIIO by the relevant regulatory authority.

Additionally, in December 2021, the CAC and several other administrations jointly promulgated the amended Cybersecurity Review Measures, or the Cybersecurity Review Measures, which took effect on February 15, 2022. Pursuant to the Cybersecurity Review Measures, where the relevant activity affects or may affect national security, a CIIO that purchases network products and services, or an internet platform operator that conducts data process activities, shall be subject to the cybersecurity review. The Cybersecurity Review Measures also expands the cybersecurity review requirement to cover "internet platform operators" in possession of personal information of over one million users if such operators intend to list their securities in a foreign country. See "—Risks Relating to Doing Business in China—The approval, filing or other requirements of the CSRC, the CAC or other PRC government authorities may be required under PRC law in connection with our offshore securities offering, and, if required, we cannot predict whether or for how long we will be able to obtain such approval." Additionally, relevant governmental authorities in the PRC may initiate cybersecurity review if they determine an internet platform operator's network products or services or data processing activities affect or may affect national security.

Furthermore, on November 14, 2021, Measures on Network Data Security Management (Draft for Comment), or the Draft Measures on Network Data, was proposed by the CAC for public comments until December 13, 2021. The Draft Measures on Network Data requires data processors to apply for cybersecurity review in accordance with the relevant laws and regulations for carrying out activities including but not limited to: (i) a merger, reorganization, or division to be conducted by an internet platform operator who has amassed a substantial amount of data resources that concern national security, economic development or the public interest, which will or may impact national security; (ii) an overseas initial public offering to be conducted by a data processor processing the personal information of more than one million individuals; (iii) an overseas initial public offering in Hong Kong to be conducted by a data processor, which will or may impact national security; and (iv) other data processing activities that will or may have an impact national security. Any failure to comply with such requirements may subject us to, among others, suspension of services, fines, revoking relevant business permits or business licenses and penalties on responsible persons. The Draft Measures on Network Data was released for public comment only, there remains substantial uncertainty, including but not limited to its final content, adoption timeline, effective date or relevant implementation rules.

Since these laws and regulations in China are relatively new, uncertainties still exist in relation to their interpretation and implementation. Any change in laws and regulations relating to privacy, data protection and information security and any enhanced governmental enforcement action of such laws and regulations could greatly increase our cost in providing our products and services, limit their use or adoption or require certain changes to be made to our operations. If we fail to comply with these new laws and regulations described above, we may be ordered to rectify and terminate any actions that are deemed illegal by the government authorities and become subject to fines and other government sanctions, which may materially and adversely affect our business, financial condition, and results of operations.

Complying with these obligations under the PRC Cybersecurity Law, the PRC National Security Law, the Data Security Law, the Personal Information Protection Law, the Cybersecurity Review Measures, the Measures on Network Data Security Management, as well as additional laws and regulations that PRC regulatory bodies may enact in the future, including data security and personal information protection laws could cause us to incur substantial costs and subject us to negative publicity, which could harm our reputation among users and negatively affect the trading prices of our ADSs and/or other securities. There are also uncertainties with respect to how the PRC Cybersecurity Law, the PRC National Security Law, the Personal Information Protection Law, the Data Security Law, the Cybersecurity Review Measures and the Measures on Network Data Security Management will be implemented and interpreted. In practice, PRC regulators, including the Department of Public Security, the MIIT, the SAMR and the CAC, have been increasingly focused on regulation in the areas of data security and data protection, including for mobile apps, and are enhancing the protection of privacy and data security by rulemaking and enforcement actions at central and local levels. We expect that these areas will receive greater and continued attention and scrutiny from regulators and the public going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and protection. Any failure to comply with applicable regulations, whether by us, business partners, or other third parties, or as a result of employee error or negligence or otherwise, could result in regulatory enforcement actions, including fines, suspension of business, prohibition against new user registration (even for a short period of time) and revocation of required licenses, against us and have an adverse impact on our business operations and our reputation.

If we fail to adopt new technologies to evolving customer needs or emerging industry standards, our business may be materially and adversely affected.

To remain competitive, we must continue to stay abreast of evolving industry trends and to enhance and improve our technology accordingly. Our success will depend, in part, on our ability to identify, develop, acquire or license leading technologies useful in our business. There can be no assurance that we will be able to use new technologies effectively or adapt our mobile apps to meet customer requirements. If we are unable to adapt in a cost-effective and timely manner in response to changing market conditions or customer preferences, whether for technical, legal, financial or other reasons, our business may be materially and adversely affected.

Security breaches and attacks against our technology systems, and any potentially resulting breach or failure to otherwise protect confidential and proprietary information, could damage our reputation and negatively impact our business, as well as materially and adversely affect our financial condition and results of operations.

Although we have employed significant resources to develop our security measures against breaches, our cybersecurity measures may not detect or prevent all attempts to compromise our systems, including distributed denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardize the security of information stored in and transmitted by our systems or that we otherwise maintain. Breaches of our cybersecurity measures could result in unauthorized access to our systems, misappropriation of information or data, deletion or modification of customer information, or a denial of service or other interruption to our business operations. As techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers, we may be unable to anticipate, or implement adequate measures to protect against, these attacks.

We have in the past and are likely again in the future to be subject to these types of attacks, although as of the date of this annual report no such attack has resulted in any material damages or remediation costs. If we are unable to avert these attacks and security breaches, we could be subject to significant legal and financial liability, our reputation would be harmed and we could sustain substantial lost sales and customer dissatisfaction. We may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyberattacks. Actual or anticipated attacks and risks may cause us to incur significantly higher costs, including costs to deploy additional personnel and network protection technologies, train employees and engage third-party experts and consultants.

We are subject to risks related to the payment methods we accept, including uncertainties in regulations governing payment processing and risks relating to third-party payment providers.

We are subject to various rules, regulations and requirements, regulatory or otherwise, and governing payment processing, which could change or be reinterpreted to make it difficult or impossible for us to comply. For example, according to Announcement No. 10 (2018) of the People's Bank of China issued in July 2018 (the "Announcement No. 10"), companies that refuse to accept cash payment should rectify such noncompliance. According to People's Bank of China's interpretation of Announcement No. 10, e-commerce platforms, self-service counters and other companies (i) that offer products and services online and in a cashier-less manner, (ii) whose entire customer purchase process does not involve payment or receipt of cash, and (iii) who have obtained consent from customers to use electronic payment methods, may use electronic payment methods instead of accepting cash. The People's Bank of China further issued Announcement No. 18 (2020) in December 2020 (the "Announcement No. 18"). Pursuant to Announcement No. 18, large and medium-sized commercial institutions including catering service providers shall establish cash collection and payment channels at their business places. If all transactions, payments, and services are completed through the internet, business entities shall publicize payment methods in advance. We have received a few inquiries from local branches of the People's Bank of China on whether our operation stores refuse to accept cash payment and such noncompliance should be rectified. As of the date of this annual report, we have not been subject to monetary penalties in connection with such noncompliance. However, we cannot assure you that the relevant governmental authorities will have the same interpretation. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees or no longer be able to offer certain payment methods, and our business, financial condition and results of operations could be materially and adversely affected.

In addition, we accept a variety of payment methods, including but not limited to, Weixin Pay, Alipay and Union Pay. We pay these payment providers varying service fees, which may increase over time and raise our operating costs. We may also be subject to fraud, security breaches and other illegal activities in connection with the various payment methods we offer.

We use software licensed from third parties. Our ability to provide customers with a high-quality online experience also depends on the satisfactory performance, reliability and availability of software licensed from third parties.

We use software licensed from third parties. Any system interruptions caused by telecommunications failures, computer viruses, or hacking or other attempts to harm the software licensed from third parties that result in the unavailability of our mobile apps or reduced performance would affect the attractiveness of the services offered on our platform. We may encounter problems when software licensed from third parties is upgraded and undetected programming errors could adversely affect the performance of the software we use to provide our services. In addition, we could be required to seek licenses from third parties in order to continue using the open source software we are permitted to use currently, in which case licenses may not be available on terms that are acceptable to us, or at all. Alternatively, we may need to re-engineer our platform or discontinue the use of portions of the functionality provided by our platforms. Our inability to use third-party software could result in disruptions to our business, or delays in the development of future offerings or enhancements of our existing platforms, which could materially and adversely affect our business and results of operations.

Unexpected termination of leases, failure to renew the lease of our existing premises or to renew such leases at acceptable terms, or failures to obtain necessary real-estate certificates, could materially and adversely affect our business.

We lease the premises for all of our self-operated stores. Generally, lessors may terminate our lease agreements unilaterally upon advance notice. In addition, the PRC government has the statutory power to acquire any land in the PRC. As a result, we may be subject to compulsory acquisition, closure or demolition of any of the properties on which our stores are situated. Although we may receive liquidated damages or compensation if our leases are terminated unexpectedly, we may be forced to suspend operations of the relevant store and divert management attention, time and costs to find a new site and relocate our store, which will negatively affect our business and results of operations.

We generally enter into long-term leases of approximately three years with an option to renew for our stores. Rent for our leases is typically fixed amounts and subject to annual or biennially incremental increases as stipulated in the lease agreements. We cannot assure you that we would be able to renew the relevant lease agreements without substantial additional cost or increase in the rental cost payable by us. If a lease agreement is renewed at a rent substantially higher than the current rate, or currently existing favorable terms granted by the lessor are not extended, our business and results of operations may be materially and adversely affected. If we are unable to renew the leases for our store sites, we will have to close or relocate the store, which could subject us to decoration and other costs and risks, and loss of existing customers, and could have a material and adverse effect on our business and results of operations. In addition, the relocated store may not perform as well as the existing store.

We entered into a cooperation agreement with the Xiamen municipal government to acquire our new headquarters under favorable pricing terms that came with certain commitments, including meeting certain requirements around tax contribution, operating performance and capital investments. However, as of the date of this annual report, it is unlikely that we will be able to fulfill our commitments to the Xiamen municipal government under the cooperation agreement. We are currently in communication with the Xiamen municipal government to discuss a variety of solutions, including to increase our payment or to return several floors of our headquarters, or to modify or enter into a new cooperation agreement. Additionally, we are in the process of obtaining the real property ownership certificate for our headquarters, but we have not obtained such certificate as of the date of this annual report. We cannot assure you that we would be able to amend our agreement without substantial additional cost and expenses, or at all, nor can we assure you that we can successfully obtain the necessary real property certificate. If we are unable to amend our agreement with the Xiamen municipal government, we may be liable for breach of contract. If we are unable to obtain the real property certificate, under applicable PRC property law, the property right of the real estate may not be effectively transferred to us until it is registered by relevant registration authority, and therefore we may not have the full legal right to use, own or dispose the real estate.

Certain lease agreements of our leased properties have not been registered with the relevant PRC government authorities as required by PRC law, which may expose us to potential fines.

Under PRC law, all lease agreements are required to be registered with the local land and real estate administration bureau. Although failure to do so does not in itself invalidate the leases, the lessees may not be able to defend these leases against bona fide third parties and may also be exposed to potential fines if they fail to rectify such noncompliance within the prescribed time frame after receiving notice from the relevant PRC government authorities. The penalty ranges from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority. As of the date of this annual report, the lease agreements for some of our leased properties in China, including leased properties for our stores, have not been registered with the relevant PRC government authorities. In the event that any fine is imposed on us for our failure to register our lease agreements, we may not be able to recover such losses from the lessors.

Our rights to use our leased properties could be challenged by property owners or other third parties, which may disrupt our operations and incur relocation costs.

As of the date of this annual report, the lessors of certain of our leased properties in China failed to provide us with valid property ownership certificates or authorizations from the property owners for the lessors to sublease the properties. There is a risk that such lessors may not have the relevant property ownership certificates or the right to lease or sublease such properties to us, in which case the relevant lease agreements may be deemed invalid and we may be forced to vacate these properties, which could interrupt our business operations and incur relocation costs. Moreover, if our lease agreements are challenged by third parties, it could result in diversion of management attention and cause us to incur costs associated with defending such actions, even if such challenges are ultimately determined in our favor.

We may experience significant liability claims or complaints from customers, or adverse publicity involving our products, our services or our stores.

We face an inherent risk of liability claims or complaints from our customers. Most of the customer complaints we received were related to the taste and temperature of our food and beverage offerings, a long waiting time and the service quality of our staff. We take these complaints seriously and endeavor to reduce such complaints by implementing various remedial measures. Nevertheless, we cannot assure you that we can successfully prevent or address all customer complaints.

Any complaints or claims against us, even if meritless and unsuccessful, may divert management attention and other resources from our business and adversely affect our business and operations. Customers may lose confidence in us and our brand, which may adversely affect our business and results of operations. Furthermore, negative publicity including but not limited to negative online reviews on social media and crowd-sourced review platforms, industry findings or media reports related to food quality, safety, public health concerns, illness, injury or government, whether or not accurate, and whether or not concerning our products, can adversely affect our business, results of operations and reputation.

If we encounter contractual disputes or dispute of other natures with our suppliers, business partners and other third parties, our business, financial condition and results of operations may be adversely affected.

We deal with and enter into contracts with our suppliers, business partners and other third parties in our ordinary course of business. If we encounter contractual disputes with our suppliers, business partners and other third parties or other claims by such parties, our business, financial condition and results of operations may be adversely affected. The contractual terms between us and our suppliers, business partners or other third parties vary depending on factors such as our business needs, our past dealings with the counterparty, among others. The terms of such contracts are generally negotiated on a case-by-case basis and are commercially reasonable at the time they are entered into. From time to time, there may be contractual disputes between us and suppliers, business partners or other third parties relating to our business. For example, we notified Schaefer Ltd. that we would not place any new orders for the machines for Luckin Coffee EXPRESS we originally intended to purchase. In December 2021, we signed a settlement agreement with Schaefer Ltd. in this regard and have been fulfilling our obligations thereunder. See “—From time to time, we may evaluate and potentially consummate strategic investments, acquisitions, strategic cooperation, formation of joint ventures and new business initiatives which may turn out to be not successful and adversely affect our operation and financial results.”

In addition, we may be subject to other claims relating to our transactions with our suppliers, business partners and other third parties. For example, in November 2020, UCAR Inc. approached us seeking payment for certain historical expenses UCAR Inc. allegedly paid on behalf of us, including but not limited to the costs incurred for leasehold improvements of certain office space that we occupied. We have not yet made the payment. In September 2021, UCAR Inc. initiated an arbitration proceeding against Luckin China in China International Economic and Trade Arbitration Commission, seeking to recover its costs and other relevant expenses allegedly incurred of approximately RMB38.4 million. In January 2022, Luckin China filed a claim in the Primary People’s Court of Haidian District of Beijing Municipality against UCAR Inc. seeking recovery for costs and expenses that Luckin China incurred of approximately RMB36.9 million in connection with UCAR Inc.’s occupation and utilization of certain of our property. No hearing had been held for these proceedings as of the date of this annual report. There are uncertainties as to whether there would be other similar events and whether any of them would evolve into litigation or other formal proceedings.

Any such disputes may not only be costly and time-consuming to solve, but may also harm our reputation, subject us to contractual liabilities or significant settlement amounts, or otherwise adversely affect our business, financial condition and results of operations.

We, our directors, management and employees may be subject to litigation and regulatory investigations and proceedings, such as claims in relation to commercial, food safety, labor, employment, privacy, information security, antitrust, securities matters or any other subject, and may not always be successful in defending ourselves against such claims or proceedings.

We face potential liability, expenses for legal claims and harm due to our business nature. For example, customers could assert legal claims against us in connection with personal injuries related to food poisoning or tampering. The PRC government, media outlets and public advocacy groups have been increasingly focused on customer protection in recent years. See “Item 4. Information on the Company—4.B. Business Overview— Regulation—Regulations Relating to Customer Rights Protection.” Selling of defective products may expose us to liabilities associated with customer protection laws. Sellers are responsible for compensation on customer’s loss even if the contamination of food is not caused by the sellers. Thus, we may also be held liable if our suppliers or other business partners fail to comply with applicable food-safety related rules and regulations. Though we can ask the responsible parties for indemnity, our reputation could still be adversely affected.

From time to time, we are subject to legal and administrative proceedings and claims arising in the ordinary course of business relating to, among other things, lease and other commercial disputes, contract disputes, trademark and other intellectual property infringement claims, personal injury claims and employment-related claims, such as wage and hour and wrongful termination. Unless otherwise indicated, we cannot reasonably predict the outcome of these legal proceedings, nor can we estimate the amount of loss, or range of loss, if any, that may result from these proceedings. An adverse outcome in certain of these proceedings could have a material adverse effect on our business, financial condition and results of operations, and could cause the market value of our ADSs and/or other securities to decline. In addition, our directors, management and employees may from time to time be subject to litigation and regulatory investigations and proceedings or otherwise face potential liability and expense in relation to commercial, labor, employment, privacy, information security, antitrust, securities or other matters, which could adversely affect our reputation and results of operations.

As a public company, we may face additional exposure to claims and lawsuits. We are subject to a number of legal proceedings, investigations and inquiries by governmental agencies, as well as a number of lawsuits filed by purchasers of our securities, including class action lawsuits. See “Item 8. Financial Information—8.A. Consolidated Statements and Other Financial Information—Legal Proceedings” for more details. We anticipate that we will continue to be a target for lawsuits in the future, including other class action lawsuits. There can be no assurance that we will be able to prevail in our defense or reverse any unfavorable judgment on appeal, and we may decide to settle lawsuits on unfavorable terms. Any adverse outcome of these cases, including any plaintiffs’ appeal of the judgment in these cases, could result in payments of substantial monetary damages or fines, or changes to our business practices, and thus have a material adverse effect on our business, financial condition, results of operations, cash flows and reputation. In addition, there can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. We currently do not have an effective director and officer liability insurance, and may not be able to obtain a director and officer liability insurance at reasonable cost or terms, or at all, in the future. Following disclosure of the Fabricated Transactions, we have had difficulties in obtaining desirable insurance coverage, or any insurance coverage, regarding legal proceedings, investigations and inquiries, and we cannot assure you with any certainty that we will be able to obtain such coverage in the future. The litigation process may utilize a significant portion of our cash resources and divert management’s attention from the day-to-day operations of our company, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results.

Allegations against us or our management may harm our reputation and have a material and adverse impact on our business, results of operations and cash flows.

We have been, and may become, subject to allegations brought by our competitors, customers, business partners, short sellers, investment research firms or other individuals or entities. Any such allegation, with or without merit, or any perceived unfair, unethical, fraudulent or inappropriate business practice by us or perceived malfeasance by our management could harm our reputation and user base and distract our management from our daily operations. For example, on January 3, 2021, our Board received a letter from certain employees containing allegations against our Chairman and CEO, Dr. Jinyi Guo. The Board immediately formed an independent panel, led by one of the joint provisional liquidators appointed by the Cayman Court and joined by two independent non-executive directors, to conduct an investigation into the allegations and the circumstances of the letter. The independent panel, with the assistance of outside counsels and forensic accounting experts, conducted a comprehensive and independent investigation into the allegations contained in the letter. On February 17, 2021, we announced that the independent panel found no substantiating evidence with respect to the alleged misconduct in the letter, and had reported its findings to the Board. Allegations against us or our management may also generate negative publicity that significantly harms our reputation, which may materially and adversely affect our user base and our ability to attract customers. In addition to the related cost, managing and defending such allegations can significantly divert management’s attention. All of these could have a material adverse impact on our business, results of operations and cash flows.

We may be subject to intellectual property infringement claims from time to time, which are expensive to defend and may disrupt our business if we are found liable.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate intellectual property rights held by third parties. We have been subject to legal proceedings and claims relating to the intellectual property rights of others, such as certain software vendors, from time to time. Such legal proceedings and claims could be costly and divert our management’s attention and other resources from our business and operations.

There could also be existing intellectual property of which we are not aware that our products may inadvertently infringe. Holders of intellectual property purportedly relating to some aspects of our technology platform or business have sought and may continue to seek to enforce such intellectual property against us in China, the United States or any other jurisdictions. To defend against these infringement claims, regardless of their merits, we have incurred and may continue to incur significant expenses, and we have been and may continue to be forced to divert our management's time and other resources from our business and operations. If we are found to have violated the intellectual property rights of others, we may be subject to significant monetary liabilities for our infringement activities. In that event, we may also be restricted or prohibited from using such intellectual property and thus incur licensing fees or be forced to develop alternatives of our own. These consequences, among others, may substantially disrupt our business and operations, and our financial position and results of operations could be materially and adversely affected.

We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.

We regard our trademarks, software copyrights, copyright of works, domain names, know-how, proprietary technologies and similar intellectual property as critical to our success. There have been instances where third parties registered social media accounts under names similar to our trademarks in order to gain illegal benefits, against which we have initiated legal proceedings, and we may continue to become an attractive target to such attacks in the future with the increasing recognition of our brand. Any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property may not be sufficient to provide us with competitive advantages. We may also face challenges from third parties relating to the use or ownership of trademarks, domain names and other intellectual property. In addition, there can be no assurance that (i) our pending applications for intellectual property rights will be approved, (ii) all of our intellectual property rights will be adequately protected, or (iii) our intellectual property rights will not be challenged or disputed by third parties, including the ownership of such rights, or found by a judicial authority to be invalid or unenforceable. For example, our application for registering the trademark for Luckin Tea in Chinese (“小鹿茶”) was rejected by China National Intellectual Property Administration, and there is no guarantee that such application will be approved eventually, despite that we have and will continuously use best efforts to take legal actions to acquire the relevant intellectual property rights.

We are subject to regulations, and future regulations may impose additional requirements and obligations on our business or otherwise materially and adversely affect our business, reputation, financial condition and results of operations.

The industries in which we operate are highly regulated. As China's coffee industry as well as China's food and beverage market in general is evolving rapidly and the PRC government is very concerned about customer protection, new laws and regulations may be adopted to address new issues that arise from time to time and to impose additional restrictions on our current business.

As we continue to grow in scale and significance, we expect to face increased scrutiny, which will, at a minimum, result in our having to increase our investment in compliance and related capabilities and systems. The increasing sophistication and development of our customer base will also increase the need for higher standards of customer protection, privacy protection and dispute management. Any increased involvement in inquiries or investigations could result in significantly higher legal and other costs and diversion of management and other resources, as well as negative publicity, which could materially and adversely affect our business, reputation, financial condition and results of operations.

Our operations depend on the performance of the mobile-based systems, telecommunications networks and digital infrastructure in China.

Our new retail business model relies heavily on mobile-based systems, telecommunications networks and digital infrastructure. Almost all access to the internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology. Moreover, we primarily rely on a limited number of telecommunication service providers to provide us with data communications capacity through local telecommunications lines and internet data centers to host our servers. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's internet infrastructure or the fixed telecommunications networks provided by telecommunication service providers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our mobile apps. We cannot assure you that the digital infrastructure and the telecommunications networks in China will be able to support the demands associated with the continued growth in digital usage.

In addition, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and digital services rise significantly, our results of operations may be materially and adversely affected. Furthermore, if data access fees or other charges to mobile users increase, our user traffic may decline and our business may be harmed.

If we fail to manage our inventory effectively, our results of operations, financial condition and liquidity may be materially and adversely affected.

Our inventories are mostly coffee beans, coffee condiments, tea leaves, tea powder and pre-made food and beverage items with short shelf life, which require us to manage our inventory effectively. We rely on our demand forecasts for various kinds of raw materials and pre-made products to make purchase decisions and to manage our inventory. Such demand, however, can change significantly between the time inventory is ordered and the date by which we hope to sell it. Demand may be affected by seasonality, new product launches, pricing and discounts, product defects, changes in customer spending patterns, changes in customer tastes and other factors, and our customers may not order products in the quantities that we expect. In addition, when we begin selling a new product, it may be difficult to establish supplier relationships, determine appropriate product selection, and accurately forecast demand. The acquisition of certain types of inventory may require significant lead time and prepayment and they may not be returnable.

Furthermore, as we plan to continue expanding our product offerings, we expect to include a wider variety of products and raw materials in our inventory, which will make it more challenging for us to manage our inventory and logistics effectively. We cannot guarantee that our inventory levels will be able to meet the demands of customers, which may adversely affect our sales. We also cannot guarantee that all of our inventories can be consumed within their shelf lives. If we fail to manage our inventory effectively, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory value, and significant inventory write-downs or write-offs. Any of the above may materially and adversely affect our results of operations and financial condition. On the other hand, if we underestimate demand for our products, or if our suppliers fail to supply quality raw materials and pre-made products in a timely manner, we may experience inventory shortages, which might result in diminished brand loyalty and lost revenues, any of which could harm our business and reputation.

We have granted share-based awards in the past and will continue to grant share-based awards in the future, which may have an adverse effect on our future profit. Exercise of the share-based awards granted will increase the number of our shares in circulation, which may adversely affect the market price of our shares.

We adopted a share incentive plan in January 2019 (the “2019 Share Option Plan”) to enhance our ability to attract and retain exceptionally qualified individuals and to encourage them to acquire a proprietary interest in our growth and performance. The maximum aggregate number of Ordinary Shares we are authorized to issue pursuant to all awards under the 2019 Share Option Plan is 79,015,500 Ordinary Shares. As of the date of this annual report, 66,938,589 options (excluding any granted options that were subsequently canceled) have been granted with 45,459,688 vested yet not exercised and 14,993,389 unvested options under the 2019 Share Option Plan. We also adopted an equity incentive plan in January 2021 (the “2021 Equity Incentive Plan”) to retain, attract and motivate employees and directors by providing them with equity incentives. The maximum aggregate number of Ordinary Shares we are authorized to issue pursuant to all awards under the 2021 Equity Incentive Plan is 222,769,232 Ordinary Shares. As of the date of this annual report, restricted share units to receive ADSs representing 77,191,824 Class A Ordinary Shares (excluding any granted restricted share units that were subsequently canceled) have been granted with restricted share units to receive ADSs representing 32,581,592 Class A Ordinary Shares vested under the 2021 Equity Incentive Plan. See “Item 6. Directors, Senior Management and Employees—6.B. Compensation—Share Incentive Plan.” For the avoidance of doubt, the 2019 Share Option Plan (and any award offered thereunder) is not replaced or superseded by the 2021 Equity Incentive Plan and both plans continue to operate contemporaneously and independently.

We believe the granting of share-based awards is of significant importance to our ability to attract and retain key personnel and employees, and we expect to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

The growth and profitability of our business depend on the level of customer demand and discretionary spending in China. A severe or prolonged downturn in China's economy could materially and adversely affect our business, financial condition and results of operations.

China's coffee industry as well as China's food and beverage market in general is affected by macroeconomic factors, including changes in international, national, regional and local economic conditions, employment levels, customer demand and discretionary spending. All of our stores are located in China and accordingly, our results of operations are affected by the macroeconomic conditions in China. Any deterioration of the PRC economy, decrease in disposable customer income and fear of a recession may lead to a reduction of customer demand and average spending per customer at our stores, which could materially and adversely affect our business, financial condition and results of operations. Moreover, the occurrence of a financial crisis, sovereign debt crisis, banking crisis or other disruptions in the global financial markets may have a material and adverse impact on our operating results.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our results of operations and financial condition.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including revenue recognition, impairment of long-lived assets and other intangible assets, lease accounting, share-based compensation and recoverability of deferred tax assets are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition. New accounting guidance may require systems and other changes that could increase our operating costs and/or change our financial statements. For example, implementing the new lease standard issued by Financial Accounting Standards Board requires us to make significant changes to our lease management system, and results in changes to our financial statements. The adoption of the new accounting standard for leases may result in a higher amount of impairment loss on newly recognized right-of-use assets and negatively impact our results of operations. As a result of adoption of Accounting Standards Update No. 2016-02, Leases (Topic 842) ("ASC 842") from January 1, 2021, RMB1,237.7 million in right-of-use assets and RMB1,173.1 million in lease liability (both current and non-current) were recognized in the consolidated balance sheet as of December 31, 2021. See "Note 19 Leases" to the Company's consolidated financial statements included in this annual report.

We have limited insurance coverage, which could expose us to significant costs and business disruption.

We have obtained insurance to cover certain potential risks and liabilities that we face. However, insurance companies in China offer limited business insurance products. As a result, we may not be able to acquire insurance for all the potential risks we face in our operations in China, and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business or operations. We have no business interruption insurance to cover our operations and no product liability insurance to cover any potential product liabilities. We also do not maintain key-man life insurance. In addition, we currently do not have an effective director and officer liability insurance, and may not be able to obtain a director and officer liability insurance at reasonable cost or terms, or at all, in the future. Following disclosure of the Fabricated Transactions, we have had difficulties in obtaining desirable insurance coverage, or any insurance coverage, regarding legal proceedings, investigations and inquiries, and we cannot assure you with any certainty that we will be able to obtain such coverage in the future.

There can be no assurance that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

Our business is subject to seasonal fluctuations and unexpected interruptions.

We experience seasonality in our business. We generally experience fewer purchase orders during holiday seasons, such as the Chinese New Year holidays. We also experience fluctuations in the types of products sold as a result of weather changes that affect consumers' preference for different drinks, which have different average selling prices. For example, our sales in the third quarter of 2021 benefited from the relatively hot weather in the summer, as some of our higher margin iced drinks were predominantly sold in hotter months, as compared to relatively colder seasons. However, we cannot guarantee that we will continue to benefit from relatively hotter weather or that such trend will be indicative of our future performance. Therefore, our financial condition and results of operations for future quarters may continue to fluctuate and our historical quarterly results may not be comparable to future quarters. As a result, the trading price of the ADSs may fluctuate from time to time due to seasonality.

Risks Relating to Our Corporate Structure

We are a Cayman Islands holding company. As a result, you may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management based on foreign laws.

We are a holding company with no operations of our own. We conduct substantially all of our operations in China through our subsidiaries in China and substantially all of our assets are located in China. As such, investors in our ADSs are not purchasing equity securities of our subsidiaries that have substantive business operations in China but instead are purchasing equity securities of a Cayman Islands holding company. In addition, all our executive officers reside within China for a significant portion of the time and most are PRC nationals. As a result, it may be difficult for our shareholders to effect service of process upon us or those persons residing inside China. In addition, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands, United States and many other countries and regions.

Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

We established the VIE to hold certain foreign restricted licenses and permits that we might need in the future. There are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations, and rules relating to the agreements that establish the VIE structure, including potential future actions by the PRC government, which could affect the enforceability of our contractual arrangements with the VIE and, consequently, affect our financial condition and results of operations. If the PRC government finds such agreements noncompliant with relevant PRC laws, regulations, and rules, or if these laws, regulations, and rules or the interpretation thereof change in the future, we could be subject to severe penalties or be forced to relinquish our interests in the VIE.

PRC laws and regulations prohibit foreign ownership in certain telecommunication related businesses, for example, value-added telecommunication services. Pursuant to the list of special management measures for the market entry of foreign investment, or the Negative List, published by the National Development and Reform Commission and the Ministry of Commerce on December 27, 2021 and effective on January 1, 2022, with a few exceptions, foreign investors are not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider and the major foreign investor must have experience in providing value-added telecommunications services overseas and maintain a good track record. See "Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations Relating to Value-Added Telecommunication Services."

Additionally, on July 6, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly promulgated the Opinions on Strictly Cracking Down on Illegal Securities Activities in Accordance with Law, which require the relevant governmental authorities to accelerate rulemaking related to overseas issuance and listing of securities and cross-border data flow and legal enforcement. As there are still uncertainties regarding the interpretation and implementation of such regulatory guidance, we cannot assure you that we would be able to comply with new regulatory requirements relating to our future overseas capital raising activities or the maintenance of the status of overseas listing and we may become subject to more stringent requirements with respect to matters including data privacy, cross-border investigation and enforcement of legal claims.

We are a Cayman Islands company and our wholly owned PRC subsidiaries are currently considered foreign-invested enterprise. Accordingly, our PRC subsidiaries are not eligible to provide value-added telecommunication services in China. To hold the foreign restricted licenses and permits which we might need in the future, such as the ICP license, we established the VIE. Beijing WFOE has entered into a series of contractual arrangements with the VIE and its shareholders, which enable us to (i) exercise effective control over the VIE, (ii) receive substantially all of the economic benefits of the VIE, and (iii) have an exclusive option to purchase all or part of the equity interests and assets in the VIE when and to the extent permitted by PRC law. As a result of these contractual arrangements, we have control over and are the primary beneficiary of the VIE and hence consolidate its financial results under U.S. GAAP. See “Item 4. Information on the Company—4.C. Organizational Structure—Contractual Arrangements with the VIE and Its Nominee Shareholders” for further details.

If the PRC government finds that our contractual arrangements do not comply with its restrictions on foreign investment in the value-added telecommunication services, or if the PRC government otherwise finds that we or the VIEs are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, including the MIIT, would have broad discretion in dealing with such violations or failures, including, without limitation:

- revoking the business licenses and/or operating licenses of such entities;
- discontinuing or placing restrictions or onerous conditions on our operation through any transactions between our PRC subsidiaries and the VIE;
- imposing fines, confiscating the income from our PRC subsidiaries or the VIE, or imposing other requirements with which we or the VIE may not be able to comply;
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with the VIE and deregistering the equity pledges of the VIE, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over the VIE; or
- restricting or prohibiting our use of the proceeds of financing activities to finance our business and operations in China.

Any of these actions could cause significant disruptions to our business operations and severely damage our reputation, which would in turn materially and adversely affect our business, financial condition and results of operations. In addition, new PRC laws, regulations, and rules may be introduced to impose additional requirements, posing additional challenges to our corporate structure and contractual arrangements. If any of these occurrences results in our inability to direct the activities of the VIE or our failure to receive the economic benefits from the VIE and/or our inability to claim our contractual control rights over the assets of the VIE, we may not be able to consolidate the entity in our consolidated financial statements in accordance with U.S. GAAP.

Any failure by the VIE or its shareholders to perform their obligations under our contractual arrangements with them could have a material adverse effect on our business.

PRC laws and regulations prohibit foreign ownership in certain telecommunication related businesses. To comply with these foreign ownership restrictions, we rely on contractual arrangements with the VIE rather than equity ownership in it to use, or otherwise benefit from, certain foreign restricted licenses and permits that we might need in the future, such as the ICP license held by the VIE.

However, these contractual arrangements may not be as effective as direct ownership in providing us with control over our affiliated entities. Any of our affiliated entities, including the VIE and its shareholders, could breach their contractual arrangements with us by, among other things, failing to conduct their operations in an acceptable manner or taking other actions that are detrimental to our interests. In the event that the shareholders of the VIE breach the terms of these contractual arrangements and voluntarily liquidate the VIE, or the VIE declares bankruptcy and all or part of its assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to conduct some of our business operations or otherwise benefit from the assets held by our affiliated entities, which could have a material adverse effect on our business, financial condition and results of operations.

The enforceability of the contractual agreements between us, the VIE and its shareholders depends to a large extent upon whether the VIE and its shareholders will fulfill these contractual agreements. Their interests in enforcing these contractual agreements may not align with our interests or the interests of our shareholders. If their interest diverges from that of our company and other shareholders, it may potentially increase the risk that they could seek to act contrary to these contractual arrangements. If the VIE or its shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and contractual remedies, which we cannot assure you will be sufficient or effective under PRC law. Our contractual arrangements are governed by PRC law and provide for the resolution of disputes through litigation in China. Accordingly, these agreements would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a consolidated variable interest entity should be interpreted or enforced under PRC law. As a result, uncertainties in the PRC legal system and the interpretation of PRC laws could limit our ability to enforce these contractual arrangements.

There remain significant uncertainties regarding the ultimate outcome of such adjudication should legal action become necessary. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over the VIE, and our ability to hold the foreign restricted licenses and permits and conduct our business in the future may be negatively affected.

If any of our business operations carried out by our subsidiaries were to be restricted or prohibited from foreign investment or if our VIE structure were to be deemed as a method of foreign investment under any current or future PRC laws, regulations and rules, our current corporate structure, business, financial condition and results of operations may be materially and adversely affected.

On January 19, 2015, the PRC Ministry of Commerce (the “MOFCOM”), published the Draft Foreign Investment Law (2015). At the same time, MOFCOM published an accompanying explanatory note of the draft Foreign Investment Law (2015), which contains important information about the draft Foreign Investment Law (2015), including its drafting philosophy and principles, main table of contents, plans to transition to the new legal regime and treatment of business in China controlled by foreign-invested enterprises. The Draft Foreign Investment Law (2015) proposes significant changes to the PRC foreign investment legal regime and, when implemented, may have a significant impact on business in China controlled by foreign-invested enterprises primarily through contractual arrangements, such as our business. See “Item 4. Information on the Company—4.B. Business Overview— Regulation—Regulations on Foreign Investment” for further details. MOFCOM suggests both registration and approval as potential options for the regulation of variable interest entity structures, depending on whether they are “Chinese” or “foreign controlled.” One of the core concepts of the draft Foreign Investment Law (2015) is “*de facto* control,” which emphasizes substance over form in determining whether an entity is “Chinese” or “foreign-controlled”. “Chinese investors” are individuals who are Chinese nationals, Chinese government agencies and any domestic enterprise controlled by Chinese nationals or government agencies. “Foreign investors” are foreign citizens, foreign governments, international organizations and entities controlled by foreign citizens and entities.

It is unclear whether our current corporate structure will be considered “Chinese” under the scheme of the Draft Foreign Investment Law (2015). In the event that our contractual arrangements with our VIE and shareholders of our VIE are not treated as a domestic investment and/or the foreign restricted licenses and permits held by the VIE are classified as a “prohibited business” in the Prohibited List or a “restricted business” in the Restricted List under the Draft Foreign Investment Law (2015) when officially enacted, such contractual arrangements may be deemed as invalid and illegal and we may be required to unwind the contractual arrangements and/or dispose of such business.

In December 2018, the Standing Committee of the National People’s Congress of PRC published the Draft Foreign Investment Law (2018) for public comments. On March 15, 2019, the Foreign Investment Law was formally issued, which became effective on January 1, 2020. The Foreign Investment Law mainly focuses on foreign investment promotion, foreign investment protection and foreign investment management. Compared with the draft Foreign Investment Law (2015), the Foreign Investment Law does not mention concepts including “*De facto* control” and “controlling PRC companies by contracts or trusts,” nor did it specify the regulation on controlling through contractual arrangements.

However, since the Foreign Investment Law is relatively new, uncertainties still exist in relation to its interpretation and implementation. For example, the Foreign Investment Law of the PRC adds a catchall clause to the definition of “foreign investment” so that foreign investment, by its definition, includes “investments made by foreign investors in China through other means defined by other laws or administrative regulations or provisions promulgated by the State Council” without further elaboration on the meaning of “other means.” It leaves leeway for future legislation promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. The Implementing Regulation of the Foreign Investment Law Regulations, or the FIL Interpretations, adopted by the State Council on December 12, 2019 also did not provide further clarification for such “other means.” In accordance with the FIL Interpretations, where a party concerned claims an investment agreement to be invalid on the basis that it is for investment in prohibited industries under the Negative List or it is for investment in restricted industries under the Negative List and violates the restrictions set out therein, the courts should support such claim. It leaves leeway for future legislations to be promulgated by competent PRC legislative institutions to provide for contractual arrangements as a form of foreign investment. The most updated Negative List, issued on December 27, 2021 and became effective on January 1, 2022, stipulates that any PRC domestic enterprise engaging in prohibited industries under the Negative List shall obtain the consent of the relevant competent PRC authorities for overseas listing, and the foreign investors shall not participate in the operation and management of such enterprise, and the shareholding percentage of the foreign investors in such enterprise shall be subject to the relevant administrative provisions of the PRC domestic securities investment by foreign investors. Such Negative List does not further elaborate whether existing overseas listed enterprises like us will be subject to such requirements. The staff of the National Development and Reform Commission, or the NDRC, addressed in an interview on December 27, 2021 that certain existing overseas listed enterprises whose foreign investors’ shareholding percentage exceed the aforementioned threshold are not required to make adjustment or deduction. It is therefore uncertain whether our corporate structure will be seen as violating the foreign investment rules.

Furthermore, on December 19, 2020, the NDRC and MOFCOM promulgated the Foreign Investment Security Review Measures, which took effect on January 18, 2021. Under the Foreign Investment Security Review Measures, investments in military, national defense-related areas or in locations in proximity to military facilities, or investments that would result in acquiring the actual control of assets in certain key sectors, such as critical agricultural products, energy and resources, equipment manufacturing, infrastructure, transport, cultural products and services, IT, internet products and services, financial services and technology sectors, are required to be approved by designated governmental authorities in advance. Although the term “investment through other means” is not clearly defined under the Foreign Investment Security Review Measures, we cannot rule out the possibility that control through contractual arrangement may be regarded as a form of actual control and therefore require approval from the competent governmental authority. As the Foreign Investment Security Review Measures were recently promulgated, there are great uncertainties with respect to its interpretation and implementation. Accordingly, there are substantial uncertainties as to whether our VIE structure may be deemed as a method of foreign investment in the future. If our VIE structure were to be deemed as a method of foreign investment under any future laws, regulations and rules, and if any of our business operations were to fall under the Negative List for foreign investment, we would need to take further actions in order to comply with these laws, regulations and rules, which may materially and adversely affect our current corporate structure, business, financial condition and results of operations.

Contractual arrangements in relation to the VIE may be subject to scrutiny by the PRC tax authorities, and they may determine that we or the VIE owe additional taxes, which could negatively affect our financial condition and the value of your investment.

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year when the transactions are conducted. We could face material and adverse tax consequences if the PRC tax authorities determine that the VIE contractual arrangements were not entered into on an arm’s-length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and adjust the income of the VIE, if any, in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by the VIE for PRC tax purposes, which could in turn increase its tax liabilities without reducing our PRC subsidiaries’ tax expenses. In addition, the PRC tax authorities may impose late payment fees and other penalties on the VIE for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if the VIE’s tax liabilities increase or if it is required to pay late payment fees and other penalties.

You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited because we are incorporated under Cayman Islands law.

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Cayman Islands Companies Act (2022 Revision) and other applicable legislation and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by our minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands have a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, purchasers of our ADS do not have the same standing as purchasers of our ordinary shares under Cayman Islands law. Shareholders of Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our sixth amended and restated articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Moreover, certain judgments obtained against us by our shareholders may not be enforceable. Substantially all of our assets are located outside the United States, and substantially all of our operations are conducted in China. In addition, most of our directors and officers are nationals and residents of countries other than the United States. Substantially all of the assets of these persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

As a result of all of the above, investors who purchase our ADS may have more difficulty in protecting their interests in the face of actions taken by our management or the Board than they would as public shareholders of a company incorporated in the United States.

Centurium Capital, our controlling shareholder, has had and will continue to have effective control over the outcome of shareholder actions in our company. The interests of Centurium Capital may not be aligned with the interests of our other shareholders and holders of the ADSs.

As of April 10, 2022, Centurium Capital, our controlling shareholder, beneficially owns through its affiliates 19.4% of our total Class A ordinary shares, 100% of our total Class B ordinary shares and 96.0% of our total Senior Preferred Shares, representing 57.0% of the voting power of all of our Ordinary Shares and Senior Preferred Shares as a single class. See “Item 6. Directors, Senior Management and Employees—6.E. Share Ownership.” Centurium Capital’s voting power gives it the power to control certain actions that require shareholder approval under Cayman Islands law and our memorandum and articles of association, including authorization of a plan of merger, changes to our memorandum and articles of association and an increase of our authorized share capital.

Centurium Capital’s voting control may cause transactions to occur that might not be beneficial to our other shareholders or you as a holder of the ADSs and may prevent transactions that could have been beneficial to our other shareholders or to you. For example, Centurium Capital’s voting control may prevent a transaction involving a change of control in us, including transactions in which you as a holder of the ADSs might otherwise receive a premium for the ADSs over the then-current market price. In addition, Centurium Capital is not prohibited from selling the controlling interest in us to a third party and may do so without your approval and without providing for a purchase of your ADSs. If Centurium Capital is acquired, otherwise undergoes a change of control or is subject to a corporate restructuring, an acquirer, successor or other third party may be entitled to exercise the voting control and contractual rights of Centurium Capital, and may do so in a manner that could vary significantly from that of Centurium Capital.

Risks Relating to Doing Business in China

Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and operations.

Substantially all of our assets and operations are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally. The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Specifically, the PRC government has significant oversight over the conduct of our business and may intervene in our operations as the government deems appropriate, which may potentially result in a material adverse effect on our operations. The PRC government has also recently indicated an intent to exert more oversight over securities offerings that are conducted overseas and foreign investment in China-based issuers, which could impact our ability to raise capital in international capital markets. Any such action could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless.

While the Chinese economy has experienced significant growth over past decades, growth has been uneven, both geographically and among various sectors of the economy. Any adverse changes in economic conditions in China, in the policies of the Chinese government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business and operating results, lead to a reduction in demand for our products and adversely affect our competitive position. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the Chinese government has implemented certain measures, including interest rate adjustment, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and operating results.

Uncertainties with respect to the PRC legal system could adversely affect us.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, the interpretation and enforcement of these laws and regulations involve uncertainties. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory provisions and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. These uncertainties may affect our judgment on the relevance of legal requirements and our ability to enforce our contractual rights or tort claims. In addition, the regulatory uncertainties may be exploited through unmerited or frivolous legal actions or threats in attempts to extract payments or benefits from us.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all and may have a retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. In addition, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention.

The PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our investors of the benefits from such inspections.

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Because our auditor is located in a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is not currently inspected by the PCAOB.

This lack of the PCAOB inspections prevents the PCAOB from fully evaluating audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in our Ordinary Shares and/or ADS are deprived of the benefits of such PCAOB inspections. Such inability of the PCAOB to conduct inspections of auditors makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors in jurisdictions that are subject to the PCAOB inspections, which could cause investors and potential investors in our Ordinary Shares and/or ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Trading in our ADSs on the OTC may be prohibited under the HFCA Act, if the PCAOB is unable to inspect or fully investigate our auditors. On December 16, 2021, the PCAOB issued the HFCA Act Determination Report, according to which our auditor is subject to the determinations that the PCAOB is unable to inspect or investigate completely. The prohibition of trading in our ADSs on the OTC may materially and adversely affect the value of your investment. If this happens there is no certainty that we will be able to list our Ordinary Shares on a non-U.S. exchange or that a market for our Ordinary Shares will develop outside the United States.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China's, the Holding Foreign Companies Accountable Act, or the HFCA Act, has been signed into law on December 18, 2020. The HFCA Act requires the SEC to prohibit the trading of securities of a Chinese or non-U.S. company on U.S. securities exchanges or the over-the-counter market if the PCAOB has determined that it has been unable to inspect the company's accounting firm for three consecutive years because of a position taken by an authority in the company's jurisdiction. The HFCA Act also requires such companies to make certain disclosures about their ownership by governmental entities and their relationships with the Chinese Communist Party.

On December 2, 2021, the SEC adopted final amendments to its rules implementing the HFCA Act (the "Final Amendments"). The Final Amendments finalized the interim final rules adopted in March 2021 with two major modifications. First, the Final Amendments clarify how the requirements apply to variable interest entities. Second, the Final Amendments include requirements to disclose information, including the auditor name and location, the percentage of shares of the issuer owned by governmental entities, whether governmental entities in the applicable foreign jurisdiction with respect to the auditor has a controlling financial interest with respect to the issuer, the name of each official of the Chinese Communist Party who is a member of the board of the issuer, and whether the articles of incorporation of the issuer contains any charter of the Chinese Communist Party. The Final Amendments also establish procedures the SEC will follow in identifying issuers and prohibiting trading by certain issuers under the HFCA Act.

On December 16, 2021, PCAOB issued the HFCA Act Determination Report, according to which our auditor is subject to the determinations that the PCAOB is unable to inspect or investigate completely.

The HFCA Act or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of the ADSs could be adversely affected. Additionally, whether the PCAOB will be able to conduct inspections of our auditor in the three consecutive years or at all, is subject to substantial uncertainty and depends on a number of factors out of our control. If we are unable to meet the PCAOB inspection requirement in time, our ADSs will not be permitted for trading over-the-counter. Such prohibition would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with such prohibition would have a negative impact on the price of our ADSs.

If our ADS are prohibited from trading in the over-the-counter market in the United States, there is no certainty that we will be able to list our Ordinary Shares on a securities exchange outside the United States or that a market for our Ordinary Shares will develop outside the United States. Such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition and prospects.

The potential enactment of the Accelerating Holding Foreign Companies Accountable Act would decrease the number of non-inspection years from three years to two, thus reducing the time period before our ADSs may be prohibited from trading on the OTC.

On June 22, 2021, the U.S. Senate passed a bill, also known as the Accelerating Holding Foreign Companies Accountable Act, to amend Section 104(i) of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7214(i)) to prohibit securities of any registrant from being listed on any of the U.S. securities exchanges or traded over-the-counter if the auditor of the registrant's financial statements is not subject to PCAOB inspection for two consecutive years, instead of three consecutive years as currently required under the HFCA Act, after the law becomes effective. On February 4, 2022, the U.S. House of Representatives passed the America COMPETES Act of 2022, which includes the exact same amendments as the bill passed by the Senate. The America COMPETES Act of 2022 however includes a broader range of legislation not related to the HFCA Act in response to the U.S. Innovation and Competition Act passed by the U.S. Senate in 2021. The U.S. House of Representatives and U.S. Senate will need to agree on amendments to these respective bills to align the legislation and pass their amended bills before the U.S. President can sign into law. It is unclear when the U.S. Senate and U.S. House of Representatives will resolve the differences in the U.S. Innovation and Competition Act and the America COMPETES Act of 2022 bills currently passed, or when the U.S. President will sign on the bill to make the amendment into law, or at all. In the case that the bill becomes the law, it will reduce the time period before our ADSs may be prohibited from trading on the over-the-counter market.

Various legislative and regulatory developments related to U.S.-listed China-based companies and other developments due to political tensions between the United States and China may have a material adverse impact on our listing and trading in the United States and the trading prices of our ADSs.

We may be affected by the legislative and regulatory developments related to U.S.-listed China-based companies. For example, on July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council issued Several Opinions Concerning Lawfully and Strictly Cracking Down Illegal Securities Activities, pursuant to which the supervision of U.S.-listed China-based companies will be strengthened and the development of relevant regulatory systems in the PRC will be promoted. Furthermore, on July 30, 2021, Gary Gensler, the chair of the SEC, released a statement that, among other things, outlined efforts by the SEC to seek certain disclosures from offshore issuers associated with China-based operating companies before their registration statements will be declared effective. The statement also indicated efforts of the SEC to engage in targeted additional reviews of filings for companies with significant China-based operations. Our ADS prices may be materially and adversely affected as a result of investors' general concern over China-based companies in light of any such developments. In addition, the political tensions between the United States and China have escalated due to, among other things, trade disputes, the COVID-19 outbreak, sanctions imposed by the U.S. Department of Treasury on certain officials of the Hong Kong Special Administrative Region and the central government of the PRC and the president executive orders in August 2020 that prohibit certain transactions with certain Chinese companies and their applications. Rising political tensions could reduce levels of trades, investments, technological exchanges and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. Any of these factors could have a material adverse effect on our business, prospects, financial condition and results of operations. Furthermore, there have been recent media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets. If any such deliberations were to materialize, the resulting legislation may have material and adverse impact on the stock performance of China-based issuers listed in the United States.

We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.

We are a Cayman Islands holding company and we rely principally on dividends and other distributions on equity from our PRC subsidiaries for our cash requirements, including for services of any debt we may incur.

Our PRC subsidiaries' ability to distribute dividends is based upon their distributable earnings. Current PRC regulations permit our PRC subsidiaries to pay dividends to their respective shareholders only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries and our VIE are required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Before January 1, 2020, each of our PRC subsidiaries as a Foreign Invested Enterprise (the "FIE"), is also required to further set aside a portion of its after-tax profits to fund the employee welfare fund, although the amount to be set aside, if any, is determined at its discretion. These reserves are not distributable as cash dividends. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Any limitation on the ability of our PRC subsidiaries to distribute dividends or other payments to their respective shareholders could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends or otherwise fund and conduct our business.

In addition, the PRC Enterprise Income Tax Law and its implementation rules provide that a withholding tax rate of up to 10% will be applicable to dividends payable by Chinese companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC resident enterprises are incorporated.

The approval, filing or other requirements of the CSRC, the CAC or other PRC government authorities may be required under PRC law in connection with our offshore securities offering, and, if required, we cannot predict whether or for how long we will be able to obtain such approval.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, purport to require offshore special purpose vehicles that are controlled by PRC companies or individuals and that have been formed for the purpose of seeking a public listing on an overseas stock exchange through acquisitions of PRC domestic companies or assets to obtain CSRC approval prior to publicly listing their securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear. If CSRC approval under the M&A Rules is required, it is uncertain whether it would be possible for us to obtain the approval, and any failure to obtain or delay in obtaining CSRC approval for our future issuance of securities overseas would subject us to sanctions imposed by the CSRC and other PRC regulatory agencies.

Furthermore, the recently issued Opinions on Strictly Cracking Down on Illegal Securities Activities emphasized the need to strengthen the administration over “illegal securities activities” and the supervision on overseas listings by China-based companies, and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies, although such opinions did not specify the definition of “illegal securities activities.” On December 24, 2021, the CSRC published the draft Administrative Provisions of the State Council on the Overseas Issuance and Listing of Securities by Domestic Companies (Draft for Comments), or the Draft Overseas Listing Regulations, and the draft Measures for the Overseas Issuance and Listing of Securities Record-filings by Domestic Companies (Draft for Comments), the Draft Overseas Listing Measures, for public comments. These draft regulations stipulate that PRC domestic companies that seek to offer and list securities in overseas markets directly or indirectly shall complete the filing procedures with and report relevant information to the CSRC. Pursuant to these draft rules, if the issuer meets the following conditions, its securities offerings and listing will be deemed as an “indirect overseas offering and listing by a PRC domestic company” and is therefore subject to the filing requirement: (i) the revenues, profits, total assets or net assets of the Chinese operating entities in the most recent financial year accounts for more than 50% of the corresponding data in the issuer’s audited consolidated financial statements for the same period; (ii) the majority of senior management in charge of business operation are Chinese citizens or have domicile in PRC, and its principal place of business is located in PRC or main business activities are conducted in PRC. In addition, these draft rules prescribe that the domestic enterprises submit filing documents to CSRC within three business days after the submission of the application for overseas initial public offering, and after completing the filing procedures for an overseas initial public offering and listing, for the purposes of implementing and strengthening the CSRC’s supervision, the issuer will need to comply with continuous filing and reporting requirements after such offering and listing, among others, including the following: (i) reporting material events which arose prior to such offering and listing, (ii) filing for follow-on offerings after the initial offering and listing, (iii) filing for transactions in which the issuer issues securities to acquire assets, and (iv) reporting material events after the initial offering and listing. On April 2, 2022, the CSRC published the draft Provisions on Strengthening the Confidentiality and Archives Management Related to Overseas Issuance and Listing of Securities by Domestic Companies (Draft for Comments), or the Draft Confidentiality and Archives Management Provisions, for public comments. Pursuant to the Draft Confidentiality and Archives Management Provisions, PRC domestic companies that seek to offer and list securities in overseas markets shall establish confidentiality and archives system. The PRC domestic companies shall obtain approval from the competent authority and file with the confidential administration department at the same level when providing or publicly disclosing documents and materials related to state secrets or secrets of the governmental authorities to the underwriters or other agencies or the offshore regulatory authorities, and shall complete corresponding procedures when providing or publicly disclosing documents and materials which may adversely influence national security and the public interest. The PRC domestic companies shall provide written statements on the implementation on the aforementioned rules to the underwriter and other agencies and the PRC domestic companies shall not provide accounting files to an overseas accounting firm unless such firm complied with the corresponding procedures. However, the Draft Overseas Listing Regulations, the Draft Overseas Listing Measures and the Draft Confidentiality and Archives Management Provisions were released for public comment only, there remains substantial uncertainty, including but not limited to its final content, adoption timeline, effective date or relevant implementation rules. As of the date of this annual report, we cannot predict the impact of these regulations on maintain the listing status of our ADSs and/or other securities, or any of our future offerings of securities overseas in a foreign country.

In addition, on December 28, 2021, the CAC and several other regulatory authorities in China jointly promulgated the Cybersecurity Review Measures, which came into effect on February 15, 2022 and replaced its previous version promulgated on April 13, 2020. Pursuant to the Cybersecurity Review Measures, (i) where the relevant activity affects or may affect national security, a CIO that purchases network products and services, or an internet platform operator that conducts data process activities, shall be subject to the cybersecurity review, (ii) an application for cybersecurity review shall be made by an issuer who is an internet platform operator holding personal information of more than one million users before such issuer applies to list its securities on a foreign stock exchange, and (iii) relevant governmental authorities in the PRC may initiate cybersecurity review if they determine an operator’s network products or services or data processing activities affect or may affect national security. As the Cybersecurity Review Measures was newly issued, there remain uncertainties as to how it would be interpreted and enforced, and to what extent it may affect us.

If the CSRC or other relevant PRC regulatory agencies subsequently determine that prior approval is required for any of our future offerings of securities overseas or to maintain the listing status of our ADSs, we cannot guarantee that we will be able to obtain such approval in a timely manner, or at all. The CSRC or other PRC regulatory agencies also may take actions requiring us, or making it advisable for us, not to proceed with such offering or maintain the listing status of our ADSs. If we proceed with any of such offering or maintain the listing status of our ADSs without obtaining these regulatory agencies' approval to the extent it is required, or if we are unable to comply with any new approval requirements which might be adopted for offerings that we have completed prior to the publication of the above-referenced opinions, we may face regulatory actions or other sanctions from these regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in China, limit our ability to pay dividends outside China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from offering of securities overseas into China or take other actions that could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as the trading price of the ADSs.

Furthermore, if there are any other approvals, filings and/or other administration procedures to be obtained from or completed with the CSRC or other PRC regulatory agencies as required by any new laws and regulations for any of our future proposed offering of securities overseas or the listing of the ADSs, we cannot assure you that we can obtain the required approval or complete the required filings or other regulatory procedures in a timely manner, or at all. Any failure to obtain the relevant approvals or complete the filings and other relevant regulatory procedures may subject us to regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies, which may have a material adverse effect on our business, financial condition or results of operations.

If we fail to complete the NDRC filing in connection with any note offering, the NDRC may impose penalties or other administrative procedures on us.

On September 14, 2015, the NDRC promulgated the Notice of the National Development and Reform Commission on Promoting the Reform of Managing the External Debt Issuance by Enterprises with a Record Filing and Registration System (the "NDRC Notice"). Pursuant to the NDRC Notice, if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise wishes to issue bonds outside the PRC with a maturity of more than one year, such PRC enterprise must, in advance of issuing such bonds, file certain prescribed documents with the NDRC and obtain a registration certificate from the NDRC in respect of such issue. According to the NDRC Notice, the NDRC will decide whether to accept a submission within five working days upon receipt of the submission and is expected to issue a decision on the submission within seven working days after it accepts the submission. The enterprise must also report certain details of the bonds to the NDRC within 10 business days upon the completion of the bond issuance. Accordingly, we are required to complete the NDRC filing for any note offering outside the PRC and with a maturity of more than one year, for example, the New Notes issued as consideration for the Restructuring as described above. We submitted an application for such notes on September 16, 2021, and this application was approved by the NDRC on December 1, 2021. After the completion of issuance, we reported relevant details of the bonds as required by the NDRC Notice.

The NDRC Notice does not clarify the legal consequences of noncompliance with the relevant requirements thereunder. However, since the issuance of the NDRC Notice, the NDRC has issued some additional guidelines on its official website and the Notice of Improving the Market Restraint Mechanism and Strictly Preventing Foreign Debt Risks and Local Debt Risks, or the 2018 NDRC Notice, on May 11, 2018. These additional guidelines and the 2018 NDRC Notice state that companies, investment banks, law firms and other intermediaries involved in debt securities issuances that do not comply with the relevant regulations will be subject to a blacklist and sanctions. The 2018 NDRC Notice supplement that the liable parties will be restricted on filing for new applications or participating in other filing for foreign debts. The 2018 NDRC Notice is silent as to how such blacklist will be implemented or the exact sanctions that will be enacted by the NDRC, or any impact on the noteholders, in the event of noncompliance by us with the NDRC Notice. Since the NDRC Notice and 2018 NDRC Notice are without any detailed implementation procedures, there is no assurance that the NDRC will not issue further implementation rules or notices which may require additional steps in terms of the registration or provide sanctions or other administrative procedures the NDRC may impose in case of failure to obtain such registration certificate from the NDRC, or complete NDRC post issuance filing.

We may be subject to liability for placing advertisements with content that is deemed inappropriate or misleading under PRC laws.

PRC laws and regulations prohibit advertising companies from producing, distributing or publishing any advertisement with content that violates PRC laws and regulations, impairs the national dignity of the PRC, involves designs of the PRC national flag, national emblem or national anthem or the music of the national anthem, is considered reactionary, obscene, superstitious or absurd, is fraudulent, or disparages similar products. We may be subject to claims by customers misled by information on our mobile apps, website or other portals where we put our advertisements on. We may not be able to recover our losses from advertisers by enforcing the indemnification provisions in the contracts, which may result us in diverting management's time and other resources from our business and operations to defend against these infringement claims. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Our employment practices may be adversely impacted under the labor contract law of the PRC.

The PRC National People's Congress promulgated the Labor Contract Law which became effective on January 1, 2008 and was amended on December 28, 2012, and the State Council promulgated implementing rules for the labor contract law on September 18, 2008. The labor contract law and the implementing rules impose requirements concerning, among others, the execution of written contracts between employers and employees, the time limits for probationary periods, and the length of employment contracts. The interpretation and implementation of these regulations are still evolving, our employment practices may violate the labor contract law and related regulations and we could be subject to penalties, fines or legal fees as a result. If we are subject to severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected.

We may be subject to additional contributions of social insurance and housing fund and late payments and fines imposed by relevant governmental authorities.

Companies operating in China are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local government from time to time at locations where we operate our businesses. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. The relevant government authorities may examine whether an employer has made adequate payments of the requisite employee benefit payments, and employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties.

According to Notice of the General Office of the State Council on Accelerating the Reform of the "Five in One" and "One License One Code" Registration System, PRC subsidiaries shall no longer separately obtain any social insurance registration certificate. Under the Regulations on the Administration of Housing Fund, PRC subsidiaries shall register with applicable housing fund management centers and establish a special housing fund account in an entrusted bank. Both PRC subsidiaries and their employees are required to contribute to the employee benefits.

As of the date of this annual report, all of our PRC subsidiaries have completed the required social insurance and housing fund registration; however, we have not made adequate contributions to social insurance and housing fund for some of our employees. We have recorded accruals for the estimated underpaid amounts of social insurance and housing fund in our financial statements for the fiscal year ended December 31, 2021. Additionally, we were audited by Beijing Municipal Human Resources and Social Security Bureau in 2021 and made supplementary payment for contributions to employee benefit plans. Going forward, we may be required by relevant government authorities to pay any other outstanding amount, and we may also be subject to late fees or fines. If we fail to make the outstanding employee benefit plans contributions within the prescribed time frame, we may be subject to a fine of up to three times the amount of the overdue payment. If we are otherwise subject to investigations related to noncompliance with labor laws and are imposed severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected.

Noncompliance with labor-related laws and regulations of the PRC may have an adverse impact on our financial condition and results of operations.

We have been subject to stricter regulatory requirements in terms of entering into labor contracts with our employees and paying various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and childbearing insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law, or the Labor Contract Law, that became effective in January 2008 and was amended in December 2012 and its implementing rules that became effective in September 2008, employers are subject to stricter requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations. We engage independent third-party service providers to recruit some outsourced staff. A majority of our part-time storefront staff were such outsourced staff as of December 31, 2021. We believe that we are in compliance with labor-related laws and regulations of the PRC. However, the relevant governmental authorities may take a different view and impose punishment, such as fines, on us.

As the interpretation and implementation of labor-related laws and regulations are still evolving, our employment practice could violate labor-related laws and regulations in China, which may subject us to labor disputes or government investigations. If we are deemed to have violated relevant labor laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations could be materially and adversely affected.

The custodians or authorized users of our controlling non-tangible assets, including chops and seals, may fail to fulfill their responsibilities, or misappropriate or misuse these assets.

Under PRC law, legal documents for corporate transactions, including agreements and contracts are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with relevant PRC industry and commerce authorities.

In order to secure the use of our chops and seals, we have established internal control procedures and rules for using these chops and seals. In any event that the chops and seals are intended to be used, the responsible personnel will submit the application through our office automation system and the application will be verified and approved by authorized employees in accordance with our internal control procedures and rules. In addition, in order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to authorized employees. Although we monitor such authorized employees, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees could abuse their authority, for example, by entering into a contract not approved by us or seeking to gain control of one of our subsidiaries or VIE. If any employee obtains, misuses or misappropriates our chops and seals or other controlling non-tangible assets for whatever reason, we could experience disruption to our normal business operations, and we may have to take corporate or legal action, which could involve significant time and resources to resolve and divert management from our operations.

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

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in China. According to the relevant PRC regulations on FIEs in China, capital contributions to our PRC subsidiaries are subject to the reporting obligations to MOFCOM or their respective local branches and registration with a local bank authorized by the State Administration of Foreign Exchange (the "SAFE"). In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE or their respective local branches and (ii) our PRC subsidiaries may not procure loans which exceed the difference between their respective total investment amount and registered capital. Any medium or long-term loan to be provided by us to our VIE must be registered with the NDRC and SAFE or its local branches. We may not be able to complete such registrations on a timely basis, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries. If we fail to complete such registrations, our ability to use the proceeds of our offshore financing, and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

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

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government. It is difficult to predict how long such depreciation of Renminbi against the U.S. dollar may last and when and how the relationship between the Renminbi and the U.S. dollar may change again. All of our revenues and substantially all of our costs are denominated in Renminbi. We are a holding company and we rely on dividends paid by our operating subsidiaries in China for our cash needs. Any significant revaluation of Renminbi may materially and adversely affect our results of operations and financial position reported in Renminbi when translated into U.S. dollars, and the value of, and any dividends payable on, the ADSs in U.S. dollars. To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our Ordinary Shares, Senior Preferred Shares or the ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount.

Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company primarily relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of SAFE by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay dividends to our company. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries and VIE to pay off their respective debt in a currency other than Renminbi owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of the ADSs.

Certain PRC regulations may make it more difficult for us to pursue growth through acquisitions.

Among other things, the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Such regulation requires, among other things, that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, issued by the State Council in 2008, are triggered. Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the NPC, which became effective in 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by the MOFCOM before they can be completed. In addition, PRC national security review rules which became effective in September 2011 require acquisitions by foreign investors of PRC companies engaged in military-related or certain other industries that are crucial to national security be subject to security review before consummation of any such acquisition. We may pursue potential strategic acquisitions that are complementary to our business and operations.

Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval or clearance from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.

In July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment Through Special Purpose Vehicles (the "SAFE Circular 37"), to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents' Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles (the "SAFE Circular 75"), which ceased to be effective upon the promulgation of SAFE Circular 37. SAFE Circular 37 requires PRC residents (including PRC individuals and PRC corporate entities) to register with SAFE or its local branches in connection with their direct or indirect offshore investment activities. SAFE Circular 37 is applicable to our shareholders who are PRC residents and may be applicable to any offshore acquisitions that we make in the future.

Under SAFE Circular 37, PRC residents who make, or have prior to the implementation of SAFE Circular 37 made, direct or indirect investments in offshore special purpose vehicles (the "SPVs"), will be required to register such investments with SAFE or its local branches. In addition, any PRC resident who is a direct or indirect shareholder of an SPV is required to update its filed registration with the local branch of SAFE with respect to that SPV, to reflect any material change. Moreover, any subsidiary of such SPV in China is required to urge the PRC resident shareholders to update their registration with the local branch of SAFE. If any PRC shareholder of such SPV fails to make the required registration or to update the previously filed registration, the subsidiary of such SPV in China may be prohibited from distributing its profits or the proceeds from any capital reduction, share transfer or liquidation to the SPV, and the SPV may also be prohibited from making additional capital contributions into its subsidiary in China. On February 13, 2015, the SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment ("SAFE Notice 13"), which became effective on June 1, 2015. Under SAFE Notice 13, applications for foreign exchange registration of inbound foreign direct investments and outbound overseas direct investments, including those required under SAFE Circular 37, will be filed with qualified banks instead of SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of SAFE.

Some of our shareholders that we are aware of are subject to SAFE regulations, and some of our shareholders have completed all necessary registrations with the local SAFE branch or qualified banks as required by SAFE Circular 37. We cannot assure you, however, that all of these individuals have completed all necessary registrations required by SAFE 37 and will continue to make required filings or updates in a timely manner, or at all. We can provide no assurance that we are or will in the future continue to be informed of identities of all PRC residents holding direct or indirect interest in our company. Any failure or inability by such individuals to comply with SAFE regulations may subject us to fines or legal sanctions, such as restrictions on our cross-border investment activities or our PRC subsidiaries' ability to distribute dividends to, or obtain foreign exchange-denominated loans from, our company or prevent us from making distributions or paying dividends. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.

Furthermore, as these foreign exchange regulations are still relatively new and their interpretation and implementation have been constantly evolving, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our financial condition and results of operations. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

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

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, replacing earlier rules promulgated in 2007. Pursuant to these rules, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be the PRC subsidiaries of such overseas-listed company, and complete certain other procedures. In addition, an overseas-entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted share-based awards are subject to these regulations as our company is an overseas-listed company. Failure to complete the SAFE registrations may subject them to fines and legal sanctions, there may be additional restrictions on the ability of them to exercise their stock options or remit proceeds gained from the sale of their stock into the PRC. We also face regulatory uncertainties that could restrict our ability to adopt incentive plans for our directors, executive officers and employees under PRC law. See “Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations Relating to Stock Incentive Plans.”

Any adverse change in our tax treatment could have a material and adverse impact on our business and results of operations.

Our products and services are subject to value-added tax (the “VAT”), at a rate of 6%, 10% and 16% before April 1, 2019 and since then 6%, 9% and 13%. VAT is recorded as reduction of our revenue, which amounted to RMB207.3 million in 2019, RMB275.8 million in 2020 and RMB565.2 million (US\$88.7 million) in 2021. If the tax authority has a different view on our VAT accounting treatment, our results of operations may be adversely affected.

If our offshore companies are classified as a PRC resident enterprise for PRC enterprise income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders and the ADS holders.

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside the PRC with its “*de facto* management body” within the PRC is considered a “resident enterprise” and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “*de facto* management body” as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. In 2009, the State Administration of Taxation (the “SAT”) issued a circular, known as SAT Circular 82, which provides certain specific criteria for determining whether the “*de facto* management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular applies only to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT’s general position on how the “*de facto* management body” text should be applied in determining the tax resident status of all offshore enterprises.

According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “*de facto* management body” in China, and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and Board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe our offshore companies (i.e., our companies other than PRC subsidiaries and VIE) are not PRC resident enterprises for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “*de facto* management body.” If the PRC tax authorities determine that any of our offshore companies is a PRC resident enterprise for enterprise income tax purposes, we would be subject to PRC enterprise income on our worldwide income at the rate of 25%. Furthermore, the Company would be required to withhold a 10% tax from dividends it pays to its shareholders that are non-resident enterprises, including the holders of the ADSs. In addition, non-resident enterprise shareholders (including the ADS holders) may be subject to PRC tax at a rate of 10% on gains realized on the sale or other disposition of the ADSs, Senior Preferred Shares or Ordinary Shares, if such income is treated as sourced from within the PRC. Furthermore, if the Company is deemed a PRC resident enterprise, dividends paid to its non-PRC individual shareholders (including the ADS holders) and any gain realized on the transfer of the ADSs, Senior Preferred Shares or Ordinary Shares by such shareholders may be subject to PRC tax at a rate of 20% (which, in the case of dividends, may be withheld at source by the Company). These rates may be reduced by an applicable tax treaty, but it is unclear whether non-PRC shareholders of the Company would be able to obtain the benefits of any tax treaties between their country of tax residence and the PRC in the event that the Company is treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in the ADSs, Senior Preferred Shares or Ordinary Shares.

We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

On February 3, 2015, the SAT issued the Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises (the “SAT Bulletin 7”). SAT Bulletin 7 extends its tax jurisdiction to transactions involving the transfer of taxable assets through offshore transfer of a foreign intermediate holding company. In addition, SAT Bulletin 7 has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. SAT Bulletin 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets, as such persons need to determine whether their transactions are subject to these rules and whether any withholding obligation applies.

On October 17, 2017, the SAT issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source (the “SAT Bulletin 37”), which came into effect on December 1, 2017. The SAT Bulletin 37 further clarifies the practice and procedure of the withholding of non-resident enterprise income tax.

Where a non-resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and the transferee or other person who pays for the transfer is obligated to withhold the applicable taxes currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries and investments. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions, under SAT Bulletin 7 and/or SAT Bulletin 37. For transfer of shares in our company by investors who are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under SAT Bulletin 7 and/or SAT Bulletin 37. As a result, we may be required to expend valuable resources to comply with SAT Bulletin 7 and/or SAT Bulletin 37 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

Regulation and censorship of information disseminated over the internet in China may adversely affect our business and reputation and subject us to liability for information displayed on our website.

The PRC government has adopted regulations governing internet access and the distribution of news and other information over the internet. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying over the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is reactionary, obscene, superstitious, fraudulent or defamatory. Failure to comply with these requirements may result in the revocation of licenses to provide internet content and other licenses, and the closure of the concerned websites. The website operator may also be held liable for such censored information displayed on or linked to the websites. If our website is found to be in violation of any such requirements, we may be penalized by relevant authorities, and our operations or reputation could be adversely affected.

Risks Relating to the ADSs

Our dual-class share structure with different voting rights limits your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and the ADSs may view as beneficial.

We have adopted a dual-class share structure such that our Ordinary Shares consist of Class A ordinary shares and Class B ordinary shares. In respect of matters requiring the votes of shareholders, each Class A ordinary share is entitled to one vote and each Class B ordinary share is entitled to ten votes. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

Due to this dual-class share structure, our shareholders have experienced changes to their voting powers when certain Class B ordinary shares are converted into Class A ordinary shares, and our shareholders may experience future changes in the voting powers resulting from the factors including new Class B share conversion or future share issuances, among others. As of April 10, 2022, Class B ordinary shares constituted 5.8% of our total issued and outstanding share capital and 38.3% of the aggregate voting power of our total issued and outstanding share capital. As of April 10, 2022, Centurium Capital and its affiliates hold 100% of our Class B ordinary shares.

As a result of this dual-class share structure, the holders of our Class B ordinary shares have concentrated control over the outcome of matters put to a vote of shareholders and have significant influence over our business, including decisions regarding mergers, consolidations, liquidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. The holders of Class B ordinary shares may take actions that are not in the best interest of us or our other shareholders or holders of the ADSs. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the trading price of the ADSs. This concentrated control limits your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial. In addition, future issuances of Class B ordinary shares may be dilutive to the holders of Class A ordinary shares. As a result, the market price of our Class A ordinary shares could be adversely affected.

Our Senior Preferred Shares have rights, preferences and privileges that are not held by, and are preferential to, the rights of our Ordinary Shares and ADSs, which could result in the interests of the holders of our Senior Preferred Shares differing from those of the holders of our Ordinary Shares and ADSs.

In April 2021, we announced that we had entered into an investment agreement (the “Investment Agreement”) with an affiliate of Centurium Capital, as the lead investor, and Joy Capital. On December 1, 2021, we announced that we closed the Investment Agreement with the lead investor, pursuant to which we issued and sold a total of 295,384,615 Senior Preferred Shares to the lead investor. On January 7, 2022, we closed the Investment Agreement with Joy Capital, pursuant to which we issued and sold a total of 12,307,692 Senior Preferred Shares to an affiliate controlled by Joy Capital.

The holders of our Senior Preferred Shares have certain rights that are preferential to the rights of the holders of our Ordinary Shares and ADSs, such as certain customary protective provisions and certain downside protection provisions intended to mitigate the impact of certain regulatory risks in connection with the previously disclosed Fabricated Transactions, including but not limited to the following.

- The approval of the holders of a majority of the then issued and outstanding Senior Preferred Shares shall be required for any adverse alteration to the rights and privileges of the holders of Senior Preferred Shares, any creation, authorization or issuance of any class or series of equity securities of the Company that are superior to or on a parity with the Senior Preferred Shares and certain other actions of the Company set forth in the Certificate of Designation.
- In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of Senior Preferred Shares shall be entitled to receive distribution in cash out of the assets of the Company available for distribution in preference to the holders of other Shares.
- Each Senior Preferred Share can be convertible into a number of Class A ordinary share(s) of the Company (or an equivalent number of ADSs) at the ratio calculated using the then applicable conversion price, which shall initially be the original issue price and is subject to adjustment from time to time.
- With respect to each Senior Preferred Share, during the period from April 15, 2021 to the third anniversary of its original issuance, if upon an announcement or reporting by any person of any U.S. governmental authority (other than the SEC) entering into an agreement with us, imposing penalty or restriction in connection with the previously disclosed Fabricated Transactions, the trading prices of our ADSs are negatively affected, as determined in accordance with the mechanisms set forth in the Certificate of Designation, the then applicable conversion price of such Senior Preferred Share shall be adjusted downward to reflect the impact of such event.

See “Item 10. Additional Information—10.B. Memorandum and Articles of Association—Certificate of Designation.” The existence of the aforesaid rights, preferences and privileges of our Senior Preferred Shares and other rights, preferences and privileges of our Senior Preferred Shares as set forth in the Certificate of Designation, may reduce the value of our Ordinary Shares and ADSs, cause dilution to holders of our Ordinary Shares and ADSs, result in divergent interests between the holders of our Senior Preferred Shares and the holders of our Ordinary Shares and ADSs, make it harder for us to sell ADSs in offerings in the future and/or prevent or delay a change of control.

The trading price of the ADSs has been and may continue to be volatile, which could result in substantial losses to investors.

Our ADSs were listed on NASDAQ Global Select Market (the “Nasdaq”), since our SEC-registered initial public offering in May 2019. We received a delisting notice from Nasdaq on May 15, 2020 and requested a hearing on May 22, 2020. We received another delisting notice from Nasdaq for failure to file our annual report on June 17, 2020. We notified Nasdaq of the Company’s decision to withdraw its request for the hearing on June 24, 2020. On July 1, 2020, we were delisted from Nasdaq when the staff of the Nasdaq Stock Market LLC filed a Form 25 Notification of Delisting. Our ADSs have been quoted on the OTC Pink Limited Information initially under the symbol “LKNCY” since the Nasdaq suspended the trading of our ADSs on June 29, 2020.

The OTC Market is a significantly more limited market than Nasdaq. The quotation of our ADSs on the OTC Market may result in a less liquid market available for existing and potential stockholders to trade our ADSs, could depress the trading price of our ADSs and could have a long-term adverse impact on our ability to raise capital in the future.

For the period from January 1, 2020 to June 29, 2020 (suspension by the Nasdaq of the trading of our ADSs on the Nasdaq), the daily closing trading prices of our ADSs ranged from US\$1.38 to US\$50.02 per ADS. The daily closing trading prices of our ADSs ranged from US\$5.69 to US\$17.48 per ADS in 2021. Since our ADSs have been quoted on the OTC market, the daily closing trading prices of our ADSs ranged from US\$1.54 to US\$17.48 per ADS up to the date of this annual report. The trading price of the ADSs has been volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, including the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. In addition to market and industry factors, the price and trading volume for the ADSs may be highly volatile for factors specific to our own operations, including the following:

- variations in our revenues, earnings and cash flows;
- announcements of new investments, acquisitions, strategic partnerships or joint ventures by us or our competitors;
- announcements of new offerings and expansions by us or our competitors;
- changes in financial estimates by securities analysts;
- detrimental adverse publicity about us, our products and services or our industry;
- announcements of new regulations, rules or policies relevant for our business;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities;
- sales of additional ADSs in the public market or other equity-linked securities, or the perception of these events;
- convertible arbitrage strategy employed by certain investors in our Notes, including related short selling of our ADSs; and
- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which the ADSs will trade.

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

In the past, shareholders of public companies have often brought securities class action suits against those companies following periods of instability in the market price of their securities. Our involvement in such class actions could divert a significant amount of our management's attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our results of operations. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations. Substantial future sales or perceived potential sales of ADSs in the public market or other equity-linked securities could cause the price of ADSs to decline. See "—Risks Relating to Our Internal Investigation, Restatement of Our Consolidated Financial Statements, Internal Control, Offshore Restructuring and Related Matters—We have been named as a defendant in a number of lawsuits filed by purchasers of our securities, including class action lawsuits that, absent settlement, could have a material adverse impact on our business, financial condition, results of operations and cash flows, and our reputation."

Sales of substantial amounts of ADSs in the public market or other equity-linked securities, or the perception that these sales could occur, could adversely affect the trading price of ADSs. Certain holders of our Ordinary Shares and Senior Preferred Shares have the right to cause us to register under the Securities Act the sale of their shares. Registration of these shares under the Securities Act would result in ADSs representing these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the form of ADSs in the public market could cause the price of the ADSs to decline.

The voting rights of holders of the ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to direct the voting of your Class A ordinary shares underlying the ADSs.

Holders of the ADSs do not have the same rights as our registered shareholders. As a holder of the ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which attach to the Class A ordinary shares underlying the ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depositary, as holder of the Class A ordinary shares underlying the ADSs. If we ask for your instructions, then upon receipt of your voting instructions, the depositary will try to vote the underlying Class A ordinary shares in accordance with those instructions. If we do not instruct the depositary to ask for your instructions, you can still give instructions, and the depositary may vote in accordance with instructions you give, but it is not required to do so. You will not be able to directly exercise any right to vote with respect to the underlying Class A ordinary shares unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. When a general meeting is convened, you may not receive sufficient advance notice of the meeting to enable you to withdraw the shares underlying the ADSs and become the registered holder of such shares prior to the record date for the general meeting to allow you to attend the general meeting and to vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our sixth amended and restated articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the Class A ordinary shares underlying the ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. Where any matter is to be put to a vote at a general meeting, the depositary will notify you of the upcoming vote and to deliver our voting materials to you if we ask it to. We cannot assure you that you will receive the voting material in time to ensure you can direct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct how the shares underlying the ADSs are voted, and you may have no legal remedy if the shares underlying the ADSs are not voted as you requested.

Because we do not expect to pay dividends periodically in the foreseeable future, you may mainly rely on a price appreciation of the ADSs for a return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay cash dividends periodically in the foreseeable future. Therefore, you should not rely on an investment in the ADSs as a source for any future dividend income.

Techniques employed by short sellers and/or the convertible bond arbitrage strategy employed by investors in our Notes may drive down the trading price of the ADSs.

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller's interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. These short attacks have, in the past, led to selling of shares in the market.

We have been and may in the future again become the subject of short selling, the target of harassing or other detrimental conduct by third parties. We have to expend a significant amount of resources to investigate such allegations. Such a situation could be costly and time-consuming, and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact our business operations, and any investment in the ADSs could be greatly reduced or even rendered worthless.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the trading price for the ADSs and trading volume could decline.

The trading market for the ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades the ADSs or publishes inaccurate or unfavorable research about our business, the trading price for the ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the trading price or trading volume for the ADSs to decline.

You may experience dilution of your holdings due to the inability to participate in rights offerings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depository will not distribute rights to holders of the ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of the ADSs, or are registered under the provisions of the Securities Act. The depository may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of the ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

Anti-takeover provisions contained in our memorandum and articles of association and our shareholder rights plan could have a material adverse effect on the rights of holders of our Ordinary Shares and the ADSs.

Our memorandum and articles of association contain provisions which limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. For example, our Board has the authority subject to any resolution of the shareholders to the contrary, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our Ordinary Shares. Using such authority, we issued and sold a total of 295,384,615 Senior Preferred Shares to an affiliate of Centurium Capital and a total of 12,307,692 Senior Preferred Shares to an affiliate controlled by Joy Capital, each of which pursuant to an investment agreement that we entered into with these two investors in April 2021. For more details, see "Item 4. Information on the Company—4.A. History and Development of the Company." Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our Board decides to issue preferred shares, the trading price of the ADSs may fall and the voting and other rights of the holders of our Ordinary Shares and the ADSs may be materially and adversely affected.

In addition, on October 14, 2021, we adopted a shareholder rights plan (the “Rights Plan”), which is filed as Exhibit 4.21 to this annual report, incorporated by reference to Exhibit 4.1 of the Company’s Current Report on Form 6-K, furnished on October 14, 2021. Pursuant to the Rights Plan, if a person or group acquires 10% or more of our shares or voting power, except as specifically permitted under the Rights Plan, our shareholders other than such acquiring person or group will have the right to purchase additional securities from us at potentially a substantial discount to those securities’ fair market value, thus causing substantial dilution to the ownership of such acquiring person or group.

The anti-takeover provisions contained in our memorandum and articles of association and the existence of the Rights Plan may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for the ADSs and could have the effect of depriving our shareholders and ADS holders of an opportunity to realize such premium by discouraging third parties from seeking to obtain control of our company in a tender offer or other similar transaction.

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

As a public company, we incur significant legal, accounting and other expenses. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC, impose various requirements on the corporate governance practices of public companies. We expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 and the other rules and regulations of the SEC.

We expect the rules and regulations applicable to public companies to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. For example, as a public company, we need to adopt policies regarding internal control and disclosure control and procedures. We also expect that operating as a public company makes it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. In addition, we incur additional costs associated with our public company reporting requirements. It is also more difficult for us to find qualified persons to serve on our Board or as executive officers.

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

Our status as a passive foreign investment company (a “PFIC”) for U.S. federal income tax purposes for certain prior taxable years is subject to uncertainty, and there is a risk that we will be a PFIC for the current and future taxable years, which would result in adverse U.S. federal income tax consequences to U.S. investors in our ADSs or Class A ordinary shares.

In general, a non-U.S. corporation is a PFIC for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the average value of its assets (generally determined on a quarterly basis) consists of assets that produce, or are held for the production of, passive income. For purposes of the above calculations, a non-U.S. corporation that owns at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. Passive income generally includes dividends, interest, rents, royalties and investment gains. Cash is generally a passive asset for these purposes. Goodwill is an active asset under the PFIC rules to the extent attributable to activities that produce active income.

The determination of our PFIC status is subject to certain uncertainties and is made by applying principles and methodologies that are in some circumstances unclear. Because we hold a substantial amount of cash, our PFIC status for any taxable year will likely depend on the value of our goodwill. The value of our goodwill may be determined by averaging (on a quarterly basis) the excess of the sum of our market capitalization and liabilities over the value of our other assets. If the value of our goodwill for 2019 and 2020 is determined in such manner, based on the actual trading prices of our ADSs we will not have been a PFIC for our taxable years of 2019 and 2020. However, because our market capitalization declined significantly since the second quarter of 2020 and throughout 2020, there can be no assurance that the Internal Revenue Service will not assert that the true value of our goodwill for 2019 and the first quarter of 2020 is in fact lower. If the assertion of that position is successful, we would likely be treated as a PFIC for our taxable years of 2019 and 2020, but our PFIC status will depend on the value of our goodwill for those years. Based on the composition of our income and assets and the value of our assets (including goodwill), we believe that we were not a PFIC for our 2021 taxable year. However, because we continue to hold substantial amounts of cash and financial investments, we may be a PFIC for 2022 or other taxable years, particularly if our market capitalization declines. Our PFIC status for our 2022 taxable year can be determined only after the end of the year as it will depend on the composition of our income and assets and the value of our assets (including the value of our goodwill, which as described above may be determined, in large part, by reference to our market capitalization, which may be volatile). Moreover, it is not entirely clear how the contractual arrangements between us and our VIE will be treated for purposes of the PFIC rules, and we may be or become a PFIC if our VIE is not treated as owned by us. For these reasons, our PFIC status is uncertain.

If we are a PFIC for any taxable year during which a U.S. investor owns our ADSs or Class A ordinary shares (even if we cease to be a PFIC in a later taxable year), certain adverse U.S. federal income tax consequences and additional reporting obligations will apply to such U.S. investor. See “Item 10. Additional Information—10.E. Taxation—U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Rules.”

U.S. Holders should consult their tax advisers regarding our PFIC status for any taxable year.

ADS holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable outcomes to the plaintiff(s) in any such action.

The deposit agreement governing the ADSs representing our Class A ordinary shares provides that, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depository arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

If we or the depository opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement, by a federal or state court in the City of New York, which has non-exclusive jurisdiction over matters arising under the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to the deposit agreement and the ADSs. It is advisable that you consult legal counsel regarding the jury waiver provision before entering into the deposit agreement.

If you or any other holders or beneficial owners of ADSs bring a claim against us or the depositary in connection with matters arising under the deposit agreement or the ADSs, including claims under federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us and/or the depositary. If a lawsuit is brought against us and/or the depositary under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have had, including results that could be less favorable to the plaintiff(s) in any such action.

Nevertheless, if this jury trial waiver provision is not permitted by applicable law, an action could proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depositary of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

Item 4. Information on the Company

4.A. History and Development of the Company

In June 2017, we incorporated Lucky Coffee Inc. under the laws of the Cayman Islands as our offshore holding company, which later changed its name to Luckin Coffee Inc. in September 2017. We are known as Luckin Coffee. In June 2017, we incorporated Lucky Coffee Inc. under the laws of the British Virgin Islands as Luckin Coffee Inc.'s wholly owned subsidiary and our intermediate holding company to facilitate financing, which later changed its name to Luckin Coffee Investment Inc. in December 2017. Lucky Coffee (China) Limited was incorporated in June 2017 as Luckin Coffee Investment Inc.'s wholly owned subsidiary in Hong Kong, which changed its name to Luckin Coffee (Hong Kong) Limited in October 2018, or Hong Kong Luckin. In April 2019, Luckin Coffee Investment Inc. incorporated another two wholly owned subsidiaries, Luckin Coffee Roasting (Hong Kong) Limited and Luckin Coffee Roastery (Hong Kong) Limited, in Hong Kong.

In October 2017, December 2017 and March 2018, Hong Kong Luckin incorporated Beijing Luckin Coffee Co., Ltd., or Beijing WFOE, Luckin Investment (Tianjin) Co., Ltd. and Luckin Coffee (China) Co., Ltd., or Luckin China, as its wholly owned subsidiaries in the PRC successively and began to operate coffee retail business.

See “—4.C. Organizational Structure.”

In July 2018 and September 2018, Beijing WFOE entered into a series of contractual arrangements with the VIE established in June 2017, which enable us to obtain control over the VIE through Beijing WFOE. Such contractual arrangements consist of proxy agreement and power of attorney, confirmation and guarantee letters, spousal consent letter, share pledge agreement, master exclusive service agreement, business cooperation agreement and exclusive option agreement. See “—4.C. Organizational Structure—Contractual Arrangements with the VIE and Its Nominee Shareholders.”

Luckin Coffee Inc. issued one Ordinary Share in June 2017 and issued one Ordinary Share in August 2017. In March 2018, Luckin Coffee Inc. increased Ordinary Shares to 750 shares and effected a share split, pursuant to which, the 750 Ordinary Shares were subdivided into 750,000 Ordinary Shares. After that, Luckin Coffee Inc. (i) issued 915,750 angel-1 shares, 513,000 angel-2 shares and 544,688 Series A convertible redeemable preferred shares in June 2018; (ii) issued 272,343 Series B convertible redeemable preferred shares in November 2018; (iii) issued 6,809 Series B convertible redeemable preferred shares in January 2019; and (iv) issued 188,393 Series B-1 convertible redeemable preferred shares in April 2019, to certain investors.

In May 2019, we completed the IPO in which we offered and sold an aggregate of 264,000,000 Class A ordinary shares in the form of ADSs. Concurrently with the IPO, we issued and sold 23,529,412 Class A ordinary shares to Louis Dreyfus Company B.V. Upon the IPO, 1,587,886,000 Class B ordinary shares and 7,605,500 Class A ordinary shares were automatically converted from our outstanding Ordinary Shares, angel shares and preferred shares prior to the IPO and after the 1:500 share split. On May 17, 2019, the ADSs began trading on the NASDAQ Global Select Market, under the symbol “LK.” In June 2019, we closed on the exercise in full of the over-allotment option to purchase an additional 39,600,000 Class A ordinary shares in the form of ADSs by the underwriters of our IPO. We received net proceeds of approximately US\$607.2 million from our IPO and US\$50.0 million from the concurrent private placements to Louis Dreyfus Company B.V. in May 2019 and exercise of over-allotment option after deducting underwriting discounts and commissions and other offering expenses payable by us.

In January 2020, we completed a follow-on public offering in which we and a selling shareholder offered and sold an aggregate of 110,400,000 Class A ordinary shares in the form of ADSs, concurrent with a US\$400,000,000 aggregate principal amount of the Notes. In the same month, we closed on the exercise in full of the over-allotment option to purchase an additional 16,560,000 Class A ordinary shares in the form of ADSs by the underwriters of our follow-on public offering and an additional US\$60,000,000 principal amount of Notes by the initial purchasers of our convertible note offering. We received net proceeds of approximately US\$418.3 million from our public offering in January 2020 and exercise of over-allotment option after deducting underwriting discounts and commissions and other offering expenses payable by us. And we received net proceeds of approximately US\$448.5 million from our convertible note offering in January 2020 and exercise of over-allotment option after deducting initial purchasers discounts and commissions and other offering expenses payable by us.

In May 2020, we received delisting notice from Nasdaq and requested a hearing. We received another delisting notice from Nasdaq for failure to file our annual report on June 17, 2020. We notified Nasdaq of the Company's decision to withdraw its request for the hearing on June 24, 2020. On July 1, 2020, we were delisted from Nasdaq when the staff of the Nasdaq Stock Market LLC filed a Form 25 Notification of Delisting. Our ADSs have been quoted on the OTC Pink Limited Information initially under the symbol "LKNCY" since the Nasdaq suspended the trading of our ADSs on June 29, 2020.

In July 2020, the Cayman Court appointed Alexander Lawson of Alvarez & Marsal Cayman Islands Limited and Wing Sze Tiffany Wong of Alvarez & Marsal Asia Limited to act as "light-touch" JPLs. The JPLs were appointed on the application of the Company in response to the presentation of a winding up petition by a creditor of the Company in the Cayman Islands. During the provisional liquidation, we operated our business under the day-to-day control of our Board under the supervision of the JPLs, in accordance with a protocol executed on October 16, 2020, which set out the terms upon which the JPLs and our Board would cooperate with respect to the management of the Company. Pursuant to the protocol, we were required to obtain the JPLs' approval in respect of key management matters, such as our cash allocation, certain outward payments and any steps proposed to be taken by our Board outside of the ordinary course of the business of the Company and its subsidiaries.

During the provisional liquidation, we negotiated the Restructuring under the supervision of the JPLs. On March 16, 2021, we announced that we had entered into an RSA with holders of a majority of the aggregate principal amount outstanding under the Notes. We were required to complete certain milestones under the RSA, including obtaining reasonable assurance of funding outside the PRC in an amount sufficient to satisfy the cash consideration to be distributed to the holders of the Notes (the "Financing Milestone"). On June 15, 2021, we announced that we had completed the PRC regulatory approval process, including obtaining relevant approvals from The State Administration of Foreign Exchange (the "SAFE") of the PRC through a designated PRC foreign exchange handling bank, to transfer such sufficient amount of funds out of the PRC through a planned capital reduction, which satisfied the Financing Milestone under the RSA. On September 1, 2021, we announced that the Company, the JPLs and the holders of a majority of the Notes had extended the milestone to launch the scheme of arrangement (the "Scheme") from September 1, 2021 to September 22, 2021. In accordance with the terms of the RSA (as amended), on September 20, 2021, we filed a summons and a petition in the Cayman Court seeking sanction of the Scheme and directions to convene a meeting of creditors affected by the Scheme. On November 30, 2021, the Scheme was unanimously approved by all creditors who attended the Scheme meeting (in person or by proxy), representing approximately 97.7% of the aggregate outstanding principal amount of the Notes. On December 14, 2021, we announced that the Cayman Court had sanctioned the Scheme, which became fully effective in accordance with its terms on December 17, 2021 following the entry of a final order of the U.S. Bankruptcy Court recognizing and enforcing the Scheme in the territorial jurisdiction of the United States. On December 17, 2021, the Board entered into the Scheme Supervisor Protocol by which the JPLs were appointed in the capacity as Scheme Supervisors in respect of the Company and granted certain rights, powers and duties to oversee and monitor the finances and operations of the Company and its subsidiaries beyond the end of the provisional liquidation, subject to the terms of the Scheme Supervisor Protocol.

On January 28, 2022, the Restructuring of the Notes as contemplated by the Scheme became effective, and was substantially consummated. Subsequently, the parties to the amended winding up petition (filed in substitution on January 7, 2021) applied consensually to the Cayman Court for leave to withdraw or have the petition dismissed. By order of the Cayman Court dated February 25, 2022, the petition was dismissed and the JPLs were formally discharged with effect from March 4, 2022, bringing the provisional liquidation to a close. In addition, a final report was filed with the U.S. Bankruptcy Court on March 4, 2022 requesting entry of an order closing the Chapter 15 Case, and the U.S. Bankruptcy Court entered an order closing the Chapter 15 Case on April 8, 2022. In aggregate, in exchange for the Notes, we have issued consideration to creditors under the Scheme totaling US\$245.5 million of cash, US\$109.9 million of 9.00% series B senior secured notes due 2027 (the “New Notes”) and 9,527,601 ADSs representing 76,220,808 Class A ordinary shares, which includes 291,699 ADSs issued on April 4, 2022 pursuant to the top-up mechanism under the Scheme. See “Note 22 Subsequent Events—Dismissal of Provisional Liquidation” to the Company’s consolidated financial statements included in this annual report.

In April 2021, we announced that we entered into the Investment Agreement with an affiliate of Centurium Capital, as the lead investor, and Joy Capital. Both Centurium Capital and Joy Capital are leading private equity investment firms in China and then current shareholders of the Company. Pursuant to the Investment Agreement, (i) Centurium Capital agreed to an investment, through a private placement, totaling US\$240 million in Senior Preferred Shares of the Company, and (ii) Joy Capital agreed to an investment, through a private placement, totaling US\$10 million in Senior Preferred Shares (collectively, the “Transactions”). On December 1, 2021, we announced that we closed the Investment Agreement with the lead investor, pursuant to which we issued and sold a total of 295,384,615 Senior Preferred Shares to the lead investor, with aggregate gross proceeds of US\$240 million. On January 7, 2022, we closed the Investment Agreement with Joy Capital, pursuant to which we issued and sold a total of 12,307,692 Senior Preferred Shares to an affiliate controlled by Joy Capital, with aggregate gross proceeds of US\$10 million. We used and plan to use the proceeds of the Transactions to facilitate the Restructuring and fulfill our obligations under the settlement with the SEC. For the SEC settlement, see “Item 8. Financial Information—8.A. Consolidated Statements and Other Financial Information—Legal Proceedings—Governmental and Regulatory Inquiries—SEC Investigation and Settlement.”

On September 20, 2021, we entered into a binding term sheet with the lead plaintiffs in the provisionally certified class action *In re Luckin Coffee Inc. Securities Litigation*, Case No. 1:20-cv-01293-JPC-JLC (SDNY) to fully resolve all claims that have been or could be filed on behalf of the provisionally certified class of purchasers Company’s ADS between May 17, 2019 through July 15, 2020, inclusive, and on October 20, 2021, we entered into a Stipulation and Agreement of Settlement reflecting the terms of the settlement (the “Federal Class Settlement”). The amount of the Federal Class Settlement is US\$175 million. The Federal Class Settlement was sanctioned by the Cayman Court overseeing the Company’s “light touch” provisional liquidation on October 21, 2021, and received preliminary approval from the U.S. Court overseeing the class action on October 26, 2021. The Federal Class Settlement remains contingent on our ability to fund the settlement amount and final approval of the settlement from the U.S. Court. A hearing for final approval of the Federal Class Settlement has been scheduled by the U.S. Court for July 22, 2022.

On January 21, 2022, we received a request from a Centurium Capital led buyer consortium that also includes IDG Capital and Ares SSG Capital Management (the “Buyer Consortium”) to consent to close Centurium Capital’s previously announced transaction to purchase an aggregate of 383,425,748 Class A ordinary shares (the “Sale Shares”) from certain sellers (the “Secondary Sale”). The sellers are Primus Investment Fund, L.P. (in official liquidation) (“Primus”), Haode Investment Inc. (in liquidation) (“Haode”) and Summer Fame Limited (in liquidation) (“Summer Fame”, and collectively with Primus and Haode, the “Sellers”). The Sellers are affiliates of and were formerly controlled by Mr. Charles Zhengyao Lu and Ms. Jenny Zhiya Qian, former management members of the Company, and their families (the “Former Management Members”). The Sellers were ordered to be wound up and are currently in liquidation pursuant to an order of the Cayman Court in respect of Primus, and pursuant to orders of the Eastern Caribbean Supreme Court in the High Court of Justice of the British Virgin Islands (the “BVI Court”) in respect of Haode and Summer Fame. The joint liquidators appointed in respect of the Sellers have exercised their statutory powers to enter into definitive documents to give effect to the Secondary Sale. Proceeds of the Secondary Sale are to be distributed by the joint liquidators to the creditors and stakeholders of each of the Sellers in accordance with the joint liquidators’ statutory duties. Accordingly, we did not receive any of the proceeds from the Secondary Sale. By judgement dated January 17, 2022, the BVI Court sanctioned transactions that form part of the Secondary Sale, as required by the securities purchase agreement that gave effect to the Secondary Sale. After careful consideration, our Board and JPLs of the Company determined the Secondary Sale to be in the long-term best interest of the Company, and accordingly approved the transaction. On January 25, 2022, after receiving consent from the Company, the Buyer Consortium closed the Secondary Sale. Upon the closing of the Secondary Sale, the Former Management Members ceased to have any interest in the Sale Shares and Centurium Capital became our controlling shareholder, holding more than 50% of the voting interest of the Company.

Our corporate headquarters is located at 28th Floor, Building T3, Haixi Jingu Plaza, 1-3 Taipei Road, Siming District, Xiamen, Fujian, PRC. Our telephone number at this address is +86-592-3386666. Our registered office in the Cayman Islands is located at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our agent for service of process in the United States is Cogeneity Global Inc. located at 122 East 42nd Street, 18th Floor, New York, N.Y. 10168.

The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. We maintain our website at <http://investor.lkcoffee.com/>.

Recent Regulatory Development

Cybersecurity Review Measures

On December 28, 2021, the CAC and several other regulatory authorities in China jointly promulgated the Cybersecurity Review Measures, which came into effect on February 15, 2022 and replaced its previous version promulgated on April 13, 2020. Pursuant to the Cybersecurity Review Measures, (i) where the relevant activity affects or may affect national security, a CIO that purchases network products and services, or an internet platform operator that conducts data process activities, shall be subject to the cybersecurity review, (ii) an application for cybersecurity review shall be made by an issuer who is an internet platform operator holding personal information of more than one million users before such issuer applies to list its securities on a foreign stock exchange, and (iii) relevant governmental authorities in the PRC may initiate cybersecurity review if they determine an operator's network products or services or data processing activities affect or may affect national security.

As of the date of this annual report, uncertainties still exist in relation to the interpretation and implementation of the Cybersecurity Review Measures. Although we have not been identified as a CIO by any regulatory authority, we cannot rule out the possibility that we, or certain of our customers or suppliers, may be deemed as a CIO. If we are deemed as a CIO, our purchases of network products or services, if deemed to be affecting or may affect national security, will need to be subject to cybersecurity review, before we can enter into agreements with relevant customers or suppliers, and before the conclusion of such procedures, these customers will not be allowed to use our products or services, and we are not allowed to purchase products or services from our suppliers. For details of the associated risks, see "Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—Our business generates and processes a large amount of data, which subjects us to evolving governmental regulations and other legal obligations related to privacy, cybersecurity, information security and data protection, many of which are subject to changes and uncertain interpretations. Any failure to comply with these governmental regulations and legal obligations, improper use or disclosure of such data by us, our employees or our business partners could subject us to significant reputational, financial, legal and operational consequences."

As of the date of this annual report, we have not been involved in any investigations or become subject to a cybersecurity review initiated by the CAC based on the Cybersecurity Review Measures, and we have not received any inquiry, notice, warning, sanctions in such respect or any regulatory objections to our listing status from the CAC.

Potential CSRC Approval Required for the Maintenance of Trading of our ADSs

On July 6, 2021, certain PRC regulatory authorities issued Opinions on Strictly Cracking Down on Illegal Securities Activities. These opinions call for strengthened regulation over illegal securities activities and supervision on overseas listings by China-based companies and propose to take effective measures, such as promoting the development of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As of the date of this annual report, no official guidance and related implementation rules have been issued in relation to these recently issued opinions and the interpretation and implementation of these opinions remain unclear at this stage.

On December 24, 2021, the CSRC published the draft Administrative Provisions of the State Council on the Overseas Issuance and Listing of Securities by Domestic Companies (Draft for Comments), or the Administrative Provisions, and the draft Measures for the Overseas Issuance and Listing of Securities Record-filings by Domestic Companies (Draft for Comments) for public comments. These draft regulations stipulate that PRC domestic companies that seek to offer and list securities in overseas markets directly or indirectly shall complete the filing procedures with and report relevant information to the CSRC. Pursuant to these drafts, if the issuer meets the following conditions, its offering and listing will be deemed as an “indirect overseas offering and listing by a PRC domestic company” and is therefore subject to the filing requirement: (i) the revenues, profits, total assets or net assets of the Chinese operating entities in the most recent financial year accounts for more than 50% of the corresponding data in the issuer’s audited consolidated financial statements for the same period; (ii) the majority of senior management in charge of business operation are Chinese citizens or have domicile in PRC, and its principal place of business is located in PRC or main business activities are conducted in PRC. The domestic enterprises should submit filing documents to CSRC within three business days after the submission of the application for overseas initial public offering, and after completing the filing procedures for an overseas initial public offering and listing, for the purposes of implementing and strengthening the CSRC’s supervision, the issuer will need to comply with continuous filing and reporting requirements after such offering and listing, among others, including the following: (i) reporting material events which arose prior to such offering and listing, (ii) filing for follow-on offerings after the initial offering and listing, (iii) filing for transactions in which the issuer issues securities for acquiring assets, and (iv) reporting material events after the initial offering and listing. However, the Draft Overseas Listing Regulations and the Draft Overseas Listing Measures were released for public comment only, there remains substantial uncertainty, including but not limited to its final content, adoption timeline, effective date or relevant implementation rules. As of the date of this annual report, we cannot predict the impact of these regulations on maintaining the listing status of our ADSs and/or other securities, or any of our future offerings of securities overseas in a foreign country.

We cannot assure you that we will not be required to obtain the approval of or complete the filing with the CSRC or other regulatory authorities to maintain the trading status of our ADSs or to conduct overseas securities offerings in the future. For details of the associated risks, see “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Corporate Structure—The approval, filing or other requirements of the CSRC, the CAC or other PRC government authorities may be required under PRC law in connection with our offshore securities offering, and, if required, we cannot predict whether or for how long we will be able to obtain such approval.” We have been closely monitoring regulatory developments in China regarding any necessary approvals from the CSRC, the CAC, or other PRC regulatory authorities required for overseas listings and securities offerings. As of the date of this annual report, we have not received any inquiry, notice, warning, sanctions or regulatory objection from the CSRC in this regard.

Contractual Arrangements and Corporate Structure

We established the VIE to hold certain foreign restricted licenses and permits that we might need in the future, such as the ICP license. We exercise effective control over the VIE through contractual arrangements among the Beijing WFOE, the VIE and its shareholders.

The contractual arrangements allow us to:

- exercise effective control over the VIE;
- receive substantially all of the economic benefits of the VIE; and
- have an exclusive option to purchase all or part of the equity interest in and/or assets of the VIE when and to the extent permitted by laws.

As a result of these contractual arrangements, we are the primary beneficiary of the VIE and, therefore, have consolidated the financial results of the VIE in our consolidated financial statements in accordance with U.S. GAAP. Financial results of the VIE have not been material to the Group and are not expected to be material in the future. In 2019, 2020 and 2021, the VIE did not generate any revenue. As of December 31, 2020 and 2021, total assets of the VIE, excluding amounts due from other companies in the Group, equaled to 0.64% and 0.05% of our consolidated total assets as of the same dates, respectively.

In the opinion of King & Wood Mallesons:

- the ownership structure of the VIE is not in violation of applicable PRC laws and regulations currently in effect; and

- the contractual arrangements among the Beijing WFOE, the VIE and the shareholders of the VIE, governed by PRC law are legal, valid, binding and enforceable in accordance with its terms and applicable PRC laws.

However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC legal counsel. For a description of the risks related to these contractual arrangements and our corporate structure, please see “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Corporate Structure.”

Material Licenses and Permits

Our PRC subsidiaries and the VIE have obtained all material licenses and approvals required for our operations in China, except as disclosed in “Item 3. Key Information—3.D. Risk Factors—Risk Related to Our Business and Industry— Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.” For risks relating to licenses and approvals required for our operations in China, see “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry.”

Pursuant to the relevant laws and regulations in PRC where our PRC subsidiaries and the VIE operate their business, we are required to maintain various approvals, licenses and permits to operate our business, including but not limited to business licenses, food operation licenses, environmental impact assessment filings and fire safety inspections. If we fail to receive or maintain the necessary licenses, permits and approvals, we may be subject to fines, confiscation of the gains derived from the related operations or the suspension of related operations. If we inadvertently conclude that certain permissions or approvals are not required while the PRC regulatory authorities take a view that is contrary to our interpretation, we may be subject to fines, confiscation of the gains derived from the related operations or the suspension of related operations. If applicable laws, regulations or interpretations change and we are required to obtain certain permissions or approvals in the future, there can be no assurance that we will be able to obtain such permissions or approvals required for our existing business operations in a timely manner or at all, which could adversely affect our business operations.

Restrictions on Foreign Exchange and the Ability to Transfer Cash between Entities, Across Borders and to U.S. Investors

Luckin Coffee Inc.’s ability to pay dividends, if any, to its shareholders and ADS holders and to service any debt it may incur will depend upon dividends paid by our PRC subsidiaries. Under PRC laws and regulations, our PRC subsidiaries are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets offshore to Luckin Coffee Inc. In particular, under the current effective PRC laws and regulations, dividends may be paid only out of distributable profits. Distributable profits are the net profit as determined under PRC GAAP, less any recovery of accumulated losses and appropriations to statutory and other reserves required to be made. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profits each year, after making up previous years’ accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. As a result, our PRC subsidiaries may not have sufficient distributable profits to pay dividends to us in the near future.

Furthermore, if certain procedural requirements are satisfied, the payment of current account items, including profit distributions and trade and service related foreign exchange transactions, can be made in foreign currencies without prior approval from State Administration of Foreign Exchange (the “SAFE”) or its local branches. However, where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses, such as the repayment of loans denominated in foreign currencies, approval from or registration with competent government authorities or its authorized banks is required. The PRC government may take measures at its discretion from time to time to restrict access to foreign currencies for current account or capital account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our offshore intermediary holding companies or ultimate parent company, and therefore, our shareholders or investors in our ADSs. Further, we cannot assure you that new regulations or policies will not be promulgated in the future, which may further restrict the remittance of RMB into or out of the PRC. We cannot assure you, in light of the restrictions in place, or any amendment to be made from time to time, that our current or future PRC subsidiaries will be able to satisfy their respective payment obligations that are denominated in foreign currencies, including the remittance of dividends outside the PRC. If any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing such debt may restrict its ability to pay dividends to Luckin Coffee Inc. In addition, our PRC subsidiaries are required to make appropriations to certain statutory reserve funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies.

For PRC and United States federal income tax consideration of an investment in the ADSs, see “Item 10. Additional Information—10.E. Taxation.”

Implication of the Holding Foreign Companies Accountable Act

The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. The HFCA ACT states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 16, 2021, PCAOB issued the HFCA ACT Determination Report, according to which our auditors are subject to the determinations. Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the PRC authorities, our auditor is currently not inspected by the PCAOB. Final rules implementing the submission and disclosure requirements in the HFCA ACT were adopted by the SEC on December 2, 2021 and generally become effective on January 10, 2022. The prohibition of public trading of our ADSs, or the threat of their being prohibited, may materially and adversely affect the value of your investment. The PCAOB is currently unable to inspect our auditors in relation to their audit work performed for our financial statements and inability of the PCAOB to conduct inspections over our auditors deprives our investors of the benefits from such inspections. For the details of the risks associated with the enactment of the HFCA ACT, see “Item 3. Key Information—3.D. Risk Factors—Risks Related to Doing Business in China—Trading in our ADSs on the OTC may be prohibited under the HFCA Act, if the PCAOB is unable to inspect or fully investigate our auditors. On December 16, 2021, the PCAOB issued the HFCA Act Determination Report, according to which our auditor is subject to the determinations that the PCAOB is unable to inspect or investigate completely. The prohibition of trading in our ADSs on the OTC may materially and adversely affect the value of your investment. If this happens there is no certainty that we will be able to list our Ordinary Shares on a non-U.S. exchange or that a market for our Ordinary Shares will develop outside the United States.”

4.B. Business Overview

Our Mission

To create lucky moments and inspire.

Our Vision

To build a world-class coffee brand and become a part of everyone’s daily life.

Our Values

At Luckin, our five core values define who we are and guide us in carrying out our mission and realizing our vision:

- **Integrity** — We strive to be transparent and do what’s right. This includes following the rules, speaking the truth and being objective, honest and transparent.
- **Craftsmanship** — We strive to provide products and services of the highest quality. This includes maintaining strict quality control measures, being receptive to the needs of our customers and continuously improving our products and services.
- **Innovation** — We strive to stay curious and be open-minded about new ideas. This includes stepping out of our comfort zone and exploring ways to be at the forefront of new ideas and technology.
- **Ownership** — We strive to work with passion and reach for excellence in whatever we do. This includes having an optimistic and proactive attitude to solving problems and being accountable for our actions.
- **Cooperation** — We strive to build an environment of trust with every partner. This includes respecting the views of our partners, sharing information with our partners and thinking from the perspective of our partners.

Overview

We believe we are one of the largest coffee networks in China in terms of the number of stores as of December 31, 2021. We have pioneered a technology-driven new retail model to provide coffee, tea and other products with high quality, high convenience and high affordability to our customers. We believe that our disruptive model has fulfilled the large unmet demand for coffee and driven its mass market consumption in China, while allowing us to achieve significant scale and growth since our inception.

Driven by technology, our new retail model is built upon our mobile apps and store network.

- **Mobile apps:** Our mobile apps cover the entire customer purchase process, offering our customers a cashier-less environment. This enhances our customer experience, improves our operating efficiency, and allows us to stay connected with our customers and engage them anytime, anywhere.
- **Store network:** We operate most stores on our own. While operating three types of stores (pick-up stores, relax stores and delivery kitchens), we strategically focus on pick-up stores, which accounted for 97.1% of our total self-operated stores as of December 31, 2021. Our pick-up stores have limited seating and are typically located in areas with high demand for coffee, such as office buildings, malls, shopping districts and university campuses. This enables us to stay close to our target coffee customers and expand rapidly with low rental and decoration costs. Additionally, we cooperate with our selective retail partners to open partnership stores they operate. We launched our retail partnership model initiative in September 2019 and opened the first partnership store in October 2019. This retail partnership model will complement our existing store network expansion strategy and enable us to penetrate new markets, especially lower tier cities, more efficiently and with limited capital requirements.

By disrupting the status quo of the traditional coffee shop model, we have gained significant cost advantages and provided attractive value propositions to our customers.

Technology is at the core of our business. With our centralized technology system, we are able to simplify and standardize our operations to improve operational efficiency and to quickly expand and scale up our business. We leverage our operating experiences and deep understanding of the coffee market in China, which enable us to continually enhance our products and services, drive customer engagement and improve customer retention. We also leverage our proprietary technologies in store operations and supply chain to support our business, such as new store selection, inventory management and workforce management.

We offer premium coffee, tea and other high-quality products to our customers. We source premium Arabica coffee beans from prominent suppliers and engage World Barista Champion teams to design our coffee recipes. We procure coffee machines and coffee condiments from renowned global suppliers such as Schaerer. Our Espresso blend coffee beans have won numerous awards, including the Gold Medal in the IAC International Coffee Tasting competition in four consecutive years, from 2018 to 2021. We launched our Newer Latte in September 2020 and SOE coffee series in November 2020, which became popular and were well received by our customers. We also won the Platinum Medal in the IAC International Coffee Tasting competition in 2020 for the Yirgacheffe coffee beans used for our SOE coffee series. In 2021, we launched our coconut milk series, which became a fast-selling product series that spread quickly and widely on social media and achieved record-breaking sales. We sold over 70 million cups of coconut milk latte in 2021. Our coconut milk series were listed on 2021 Living Trend of China by New Weekly, and our coconut milk latte was selected as the Phenomenal Product in the 2021 Boom Grand. To diversify our product offering and provide different experiences for our customers, we also partner with reputable suppliers for other products such as tea and light meals.

We have also been able to cultivate a large and loyal customer base and achieve strong growth. We expanded from a single trial store in Beijing to 4,397 self-operated stores, 1,627 partnership stores and 1,102 Luckin Coffee EXPRESS machines in over 220 cities in China as of December 31, 2021. We had 92.0 million cumulative transacting customers as of December 31, 2021. As of March 31, 2022, we had 4,675 self-operated stores, 1,905 partnership stores and 1,119 Luckin Coffee EXPRESS machines in China and had nearly 100 million cumulative transacting customers.

China's coffee market is highly underpenetrated. Inconsistent quality, high prices and inconvenience have hampered the growth of the freshly brewed coffee market in China. We believe that our model has successfully driven mass market coffee consumption in China by addressing these pain points.

Our Strengths

We believe that the following strengths contribute to our success:

- Leading and fast growing player with extensive coffee network in China;
- Pioneer of disruptive new retail model anchored upon strong technology capabilities;
- Robust product development capabilities;
- Superior customer propositions: high quality, high affordability and high convenience; and
- Premium brand recognition.

Our Strategies

We intend to achieve our mission and further grow our business by pursuing the following strategies:

- Serve more people and further enhance customer retention and frequency;
- Expand our sales network through a well-balanced mix of self-operated and partnership stores;
- Continuously launch new product offerings with a focus on coffee-related SKUs;
- Further enhance our technological capabilities;
- Expand and optimize the management of our supply chain;
- Prudently explore expansion into overseas markets; and
- Improve operational efficiency by leveraging technological innovations, increased scale and enhanced organizational agility.

Our Store Network

We believe we are one of the largest coffee networks in China in terms of number of stores as of December 31, 2021. Most of our stores are self-operated and located in the economically vibrant regions in China. We operate three types of stores, namely pick-up stores, relax stores and delivery kitchens, for different purposes. We strategically focus on pick-up stores, which are typically located in areas with high demand for coffee, such as office buildings, commercial areas and university campuses. This enables us to stay close to our target coffee customers and expand rapidly with low rental and decoration costs. We have continued to optimize our store portfolio and in particular during the second half of 2020. Following a detailed review of store performance, we strategically closed a substantial number of underperforming stores while opening new stores based on strict store opening criteria in strategic locations.

Self-Operated Store Model

We opened our first trial store in October 2017, and have rapidly expanded our self-operated store network. As of December 31, 2021, we had 4,397 self-operated stores in operation, including 4,270 pick-up stores and 127 relax stores. The table below sets forth a breakdown of our self-operated stores by store formats as of the dates indicated. Our self-operated store network covered over 50 cities, the majority of which are tier I and tier II cities, as of December 31, 2021.

	As of																							
	March 31, 2019		June 30, 2019		September 30, 2019		December 31, 2019		March 31, 2020		June 30, 2020		September 30, 2020		December 31, 2020		March 31, 2021		June 30, 2021		September 30, 2021		December 31, 2021	
	# of stores	% of total stores	# of stores	% of total stores	# of stores	% of total stores	# of stores	% of total stores	# of stores	% of total stores	# of stores	% of total stores	# of stores	% of total stores	# of stores	% of total stores	# of stores	% of total stores	# of stores	% of total stores	# of stores	% of total stores	# of stores	% of total stores
Pick-up stores	2,163	91.3	2,741	92.5	3,433	93.3	4,239	94.1	4,257	94.4	4,085	95.7	3,798	96.1	3,791	96.5	3,801	96.5	3,883	96.6	4,077	96.9	4,270	97.1
Relax stores	109	4.6	123	4.2	138	3.8	142	3.2	142	3.1	141	3.3	142	3.6	134	3.4	134	3.4	132	3.3	129	3.1	127	2.9
Delivery kitchens	98	4.1	99	3.3	109	2.9	126	2.7	112	2.5	41	1.0	12	0.3	4	0.1	4	0.1	3	0.1	0	0.0	0	0.0
Total	2,370	100.0	2,963	100.0	3,680	100.0	4,507	100.0	4,511	100.0	4,267	100.0	3,952	100.0	3,929	100.0	3,939	100	4,018	100	4,206	100	4,397	100.0

Pick-up Stores

We strategically focus on pick-up stores, which accounted for 97.1% of our stores as of December 31, 2021. Pick-up stores are small-sized stores where our customers can pick up their orders or have their orders delivered to them.

Our pick-up stores are typically located in areas with high demand for coffee, such as office buildings, commercial areas and university campuses.

The majority of these stores generally range from 20 to 60 square meters in size and have limited seating. Such store set-up allows us to get closer to our coffee customers and expand rapidly by virtue of the low rental and decoration costs.

We leverage delivery services to achieve greater geographic coverage and serve more customers, especially when we expand into new areas and cities. Our delivery orders as a percentage of total orders were 21.8%, 20.6% and 27.4% in 2019, 2020 and 2021, respectively.

Relax Stores

We open relax stores for branding purposes. Our relax stores accounted for 2.9% of our stores as of December 31, 2021. Relax stores are generally spacious and larger than 120 square meters in size.

Delivery Kitchens

We used to expand into a new city or area by opening delivery kitchens as they could be set up quickly with low costs. Powered by our strong capabilities in site selection and upgraded technology system, we have successfully scaled up our business and no longer rely on delivery kitchens to expand. As of December 31, 2021, all of our delivery kitchens were closed.

Store Network Expansion and Development

Our store network strategically focuses on economically vibrant regions in China. We typically locate our self-operated stores in areas with high demand for coffee, such as office buildings, commercial areas and university campuses.

When entering a new city, we strategically set up pick-up stores and accumulate valuable operating experiences. We leverage such experiences and our understanding of consumer behavior to precisely identify customer demand and guide us for network expansion plan.

Site Selection

Our headquarters formulates our national store expansion strategy and identifies potential sites for expansion. By leveraging our advanced technology platform, close cooperation with our city branches and our operational experience, we have developed site selection methodology that has significantly enhanced the effectiveness of our site selection. We have also devised a dedicated training program for our store development personnel, to pass on the relevant know-how to continuously optimize our site selection criteria.

Licenses and Compliance

We have standard internal protocols in place guiding city branches and our strategic expansion team in obtaining necessary licenses and permits before opening our stores, including but not limited to business licenses, food operation licenses and environmental impact assessment filings. However, given local PRC administrative authorities vary in interpreting, implementing and enforcing relevant laws and regulations, we and our retail partners might not be able to obtain all applicable licenses and permits in a timely manner. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.”

Store Renovation and Other Preopening Preparation

We have an in-house renovation team responsible for the renovation and decoration of our self-operated stores. To maintain our consistent brand image and store quality, our headquarters prepares the design of all stores. We adopt standardized design for our pick-up stores, and such standardization allows us to carry out renovation procedures effectively, and recycle furnishing materials efficiently. In 2019, 2020 and 2021, the average renovation and decoration expenses per our self-operated store was around RMB183,000, RMB188,000 and RMB184,000, respectively.

As part of the preopening preparation, we install machines, equipment and procure raw materials as well as other materials and consumables. Typically, each of our self-operated stores is equipped with two to three coffee machines and other equipment, such as ice machine and freezer. In 2019, 2020 and 2021, the average costs for the procurement of coffee machines per our self-operated store was around RMB100,800, RMB104,000 and RMB102,000, respectively. For more information on procurement, see “—Procurement.”

Retail Partnership Model

Since September 2019, we started to cooperate with selective partners to operate our partnership stores. As of December 31, 2019, 2020 and 2021, we had 282,874 and 1,627 partnership stores, respectively.

We leverage our retail partners to efficiently expand our footprint, and we strategically select our partners to penetrate lower-tier cities. This partnership model has proved highly complementary to our self-operated store strategy. The partnership stores enable us to penetrate new markets and generate revenue without significant investment in assets. Additionally, we are able to leverage our local partners to enhance our customer insight to further improve our product design and service capabilities.

Under our retail partnership model, we provide our retail partners with our storefront design and other marketing materials to ensure a consistent brand image. We also provide our partners with our logistics network, as well as raw materials and equipment. Most importantly, we provide training to our partners, and the products sold at our partnership stores are subject to our strict product

quality control. To ensure our partnership stores comply with our standards, we conduct regular store operation reviews. We do not charge a franchise fee and will begin to share in the profits of our partners only when the partnership stores reach a certain profitability threshold. Such arrangement provides incentives for these partners to work with us.

Luckin Coffee EXPRESS

We officially launched Luckin Coffee EXPRESS in January 2020. Luckin Coffee EXPRESS is an unmanned machine that prepares and offers a selection of freshly brewed drinks. As of December 31, 2021, we had 1,102 Luckin Coffee EXPRESS machines in operation. At the time we launched Luckin Coffee EXPRESS, we also launched Luckin Pop Mini, an unmanned vending machine that offers a wide range of consumer products. We have ceased the operation of Luckin Pop Mini since December 2020.

Our Mobile Apps

Our mobile apps offer customers a cashier-less environment, enabling them to purchase coffee, tea and other product items at their fingertips. Our mobile apps cover the entire customer purchase process with user-friendly interfaces. Through our mobile apps, our customers can easily choose the nearest store automatically recommended and view other store options, place orders in advance without queuing, make payment, watch live streams of the preparation of their drinks and receive real-time order status updates.

We offer an array of product selections, including coffee, tea, snacks, light meals and other products, and design our mobile apps to optimize the customer experiences. For example, once a customer adds his or her preference settings for a drink to favorites, our mobile apps will display their preference settings for the same drink the next time he or she places an order.

Our stores offer pick-up and/or delivery options. When placing orders, customers can choose between these two options and our mobile apps will give our customers estimated time for pick-ups or deliveries. Customers placing pick-up orders may specify the stores where they plan to pick up or dine-in. Delivery orders are assigned to the most suitable stores based on a number of factors such as the stores' distance to the customers, order processing capacity and inventory.

Our mobile apps offer multiple payment options to our customers. We accept a variety of payment methods, including Weixin Pay, Alipay and Union Pay. Customers may also purchase our drinks using the vouchers stored in the "Coffee Wallet" of our Luckin mobile app.

To provide our customers with real-time updates on their orders, we have specially designed a live-streaming feature in our mobile apps to give our customers the option to watch the drinks preparation process. This feature helps us build trust among our customers and also offers them a novel customer experience.

We notify customers via Weixin message, in-app notifications and short messaging service. This way, our customers can pick up their orders without queuing up at the stores. For delivery orders, we partner with our delivery service providers and provide real-time location, delivery rider contact details and estimated arrival time on our mobile apps. See "—Delivery Services."

Furthermore, we have additional features on our mobile apps for corporate account customers. Our corporate clients may grant authorization to their employees so that their employees can place orders via the corporate account and enjoy corporate prices.

Our Product Offerings

We offer a wide variety of high-quality food and beverage items, mainly freshly brewed coffee. We offer both hot and iced freshly brewed coffee such as Americano, Latte, Cappuccino, Macchiato, Flat White and Mocha, and from time to time also offer specialty coffee based on market and seasonal trends. Our coffee recipes are tailored to Chinese customers' palette based on results of extensive study and research.

Our success is powered by our robust product development capabilities. We have a product development center, staffed with over 60 dedicated employees as of December 31, 2021 and expanding, committed to developing cutting-edge product design and premium product quality. In 2021, we launched 113 new SKUs of freshly brewed drinks. With our blockbuster products, such as coconut milk latte, and leading frequency of product releases, we believe our product development capabilities stand at the frontline of the coffee industry in China.

We have been constantly rolling out new products that became popular among customers and well recognized by KOLs. Our major selective product releases include:

- *Coconut milk series.* Launched in April 2021, our coconut milk series spread quickly and widely on social media and achieved record-breaking sales. Over 70 million cups of coconut milk latte were sold in 2021. The series were listed on 2021 Living Trend of China by New Weekly, and coconut milk latte was selected as the Phenomenal Product in the 2021 Boom Grand and the Next 30 in Global Tech: Innovative Consumer Products in the World Innovators Meet 2021.
- *Velvet series.* The velvet series were another of our widely celebrated product series. Known as “the first cup of velvet latte in autumn” on social media, our velvet latte has been one of our best-sellers since its launch in September 2021. We also released coconut milk velvet series to promote cross selling by leveraging the established market popularity of our coconut milk series.
- *SOE coffee series.* Our SOE coffee series, currently consisting of Yirgacheffe and Hambella, are representatives of our premium products that received recognition from coffee professionals. Featuring the award-winning Hambella 5.0 green beans from Ethiopia, our Hambella series have been one of the most talked about coffee products on social media in China and sold quickly since its release in 2022. We also won the Platinum Medal in the IAC International Coffee Tasting competition in 2020 for the Yirgacheffe coffee beans used for our SOE products.
- *Newer series.* Launched in September 2020, the Newer series are one of our signature innovative products and have been contributing to our sales. With creamy milk add-ons that balance the bitterness of natural coffee, our Newer series have been well received by Chinese consumers and successfully attracted new customers who were not used to drinking coffee.
- *Luckin Exfreezo series.* Our Exfreezo drink series are one of our most successful non-coffee products. With a wide variety of flavors and fast-adapting seasonal offerings, Luckin Exfreezo series complement our product portfolio to cover incremental customer demand and to accommodate changing consumer preferences.

Going forward, we aspire to drive the trend in coffee consumption in China and endeavor to continuously offer innovative food and beverage products that have strong demand and high quality, with a focus on freshly brewed coffee drinks.

We also explore supplemental product offerings in addition to coffee. For example, as tea drinks have become increasingly popular, particularly among young people in China, we offer selective tea drinks to cater to certain consumers’ preferences. We also work with reputable suppliers to offer pre-made beverages and pre-made food items, such as pastries, sandwiches and snacks.

In addition, we provide various “Luckin Pop” e-commerce offerings, such as our premium instant coffee, inspirational cups, tote bags and other creative merchandises, in our mobile apps. Such diversity of our product offerings expands the foothold of our Luckin brand, enhance our brand power and increase customer loyalty.

We are committed to maintaining and improving product quality. We source premium Arabica coffee beans from prominent suppliers and engage World Barista Champion teams to design our coffee recipes. We also source our premium SOE coffee beans in China (Yunnan), Columbia and Ethiopia. We procure coffee machines and coffee condiments from renowned global suppliers such as Schaerer. Our coffee beans have won numerous awards, including winning the Gold Medal in the IAC International Coffee Tasting competition for four consecutive years from 2018 to 2021. We also partner with reputable suppliers for our other products such as light meals. See “— Procurement.”

Branding, Marketing and Sales

Since inception, we have successfully built a premium brand of distinguished value propositions—high quality, high convenience and high affordability. We believe we are one of the leading coffee brands in China, with strong brand equity and a brand image of professionalism, youth, fashion and wellness, captured by our new slogan “Livin’ Young, Luckin On”. In 2021, Luckin was ranked No.1 in the coffee chain industry for the first time in the “Topbrands” report, a research conducted by YiMagazine for 13 years about the brand preference of the commuters in China. Luckin Coffee also won the 2021 Young Consumer Favorite Brand by China Consumer Reports in 2021. Our brand ambassadors include several world-renowned baristas and celebrities welcomed especially by

young generations in China. Our superior brand and distinguished value propositions allow us to expand our business through word of mouth.

Starting from April 2020, we have implemented two cost-effective initiatives to refine our customer operations, grow our customer base and increase our wallet share, which we believe are critical to our success. First, we leverage our operating experiences and technology capabilities to deepen our understanding of the coffee market in China and to learn and discover patterns of customer behavior, so that we are able to improve our customer experience and in turn to increase customer engagement and sales of our products. Secondly, we endeavor to build private domain traffic in our Luckin mobile app, Weixin mini program and Weixin ecosystem, cultivating a comprehensive private domain ecosystem that enables us to acquire and retain our customers with continuous consumptions. We successfully developed various blockbuster products that spread quickly and widely on social media and sold quickly, partially as a result of our marketing efforts and keen understanding of consumers. See “—Our Product Offerings.”

We have adopted a multi-channel branding and advertising strategy. We collaborate with popular cultural and sports icons, sponsor events and movies as well as initiate viral and interactive marketing and advertising. In addition, we leverage our existing customer base and their social networks to promote our products by strategically placing ads on social network platforms, such as Weixin, to attract customers. We also promote our products by engaging KOLs and broadcasting in trendy content channels, including video live streaming platforms to boost marketing effectiveness.

Delivery Services

We fulfill customer orders with speedy delivery so that they can enjoy our coffee, tea and other products on time. Our delivery fee schedule is competitively priced, and we offer our customers a discount on the delivery fee if the total order value (based on item list price) exceeds a certain threshold. We have outsourced delivery services to various selected delivery companies. Through our own delivery system and the integration with delivery companies' system, we are able to improve order-rider matching based on our store location, customer locations and real-time locations of delivery riders, and monitor and track the delivery process. In 2021, approximately 99.6% of our orders were delivered on time.

Customer Services

Leveraging our new retail model and strong technology capabilities, we stay connected with our customers and engage them virtually anytime, anywhere. We also offer our customers a cashier-less environment, limit their queuing time, and enable them to purchase coffee, tea and other product items at their fingertips. See “—Our Mobile Apps” and “—Our Store Network.”

Our mobile apps enable us to track each order placed with us. We evaluate and track our customers' feedback 24/7 through our mobile apps, Weixin Official Account and other social media channels. Our customers can ask questions, provide reviews and file complaints through our mobile apps or Weixin Official Account or call our service representatives. We leverage self-service tools and AI-powered automated customer service chatbots to answer frequently asked questions from our customers efficiently, and also engage a dedicated customer service team to address more complicated issues.

We value our customers' opinions and encourage our customers to give reviews. We regularly analyze our customer feedback, through which we identify causes of customer dissatisfaction and improve our products and services accordingly. To motivate and maintain high-quality customer service at storefronts, we consider customer feedback a key performance indicator when evaluating individual store performance.

Procurement

We source a variety of high-quality raw materials, including coffee beans, coffee condiments, ingredients, and tea leaves, as well as pre-made food and beverage items, from selected suppliers. We also purchase different equipment, such as coffee machines, ice machines, packaging materials and other consumables in bulk from our suppliers. Due to our significant scale, we are able to procure high-quality products from our suppliers at favorable prices.

To help ensure the stable supply of our major raw materials, we have identified a number of reliable suppliers and established strong relationships with them. Based on our relationships with these suppliers, we believe the risk of systematic shortage of our major raw materials is generally low. However, we may experience temporary supply shortages or transportation delays due to unexpected

circumstances, such as changes in customer demand and behaviors as well as impacts of the COVID-19 pandemic. For example, we experienced a shortage in coconut juice supply due to the surging customer demand for our coconut milk series products in the second quarter of 2021. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—Any disruption to our supply chain and delivery services would negatively impact our business.”

Coffee Beans

Suppliers

We source premium green coffee beans from renowned plantations in China (Yunnan), Guatemala, Brazil, Ethiopia and Colombia, among others, and we only cooperate with selective coffee bean suppliers to ensure the high quality of our products. As of the date of this annual report, our main roasted coffee bean suppliers include an affiliate of Yeuan Yeou Enterprise Co., Ltd., a well-known roasting company in Taiwan, and Luckin Coffee Roasting (Pingnan) Co., Ltd., one of our PRC subsidiaries. To solidify our control over the process of sourcing and roasting coffee beans, we endeavor to construct and operate our own coffee roasting plants. As of the date of this annual report, we own one coffee roasting facility in Pingnan, Fujian with approximately 45,000 square meters. We have been negotiating with coffee bean providers who are interested in investing in our coffee roasting plants.

Quality Control

We set detailed specifications for the green coffee beans procured by our roasted coffee bean suppliers, including size, taste and moisture based on their origin and grades. Together with our roasted coffee bean suppliers, we screen for defective beans in each batch of green coffee beans through sampling to ensure that they meet our specifications before admitting them to roasting.

We set the quality control standards for the testing process of roasted coffee beans. We work with our coffee bean suppliers and a third-party inspection agency in conducting various testing on roasted coffee beans. Our roasted coffee bean suppliers conduct the first round of physical and chemical properties testing on the roasted coffee beans, and deliver the batches that passed the test to us.

Upon receipt, we conduct another round of similar testing together with a third-party inspection agency, and return any batch with high defect rate.

Condiments and Ingredients

Suppliers

Coffee condiments, mainly dairy products and syrup, are crucial to the overall quality of our coffee. We source our dairy products, mainly milk and cream, from leading suppliers to ensure their freshness and syrup mainly from distributors of imported syrup. We also source ingredients such as fruits from leading suppliers to ensure that we provide high-quality products for our customers.

Quality Control

Similar to coffee beans, we have in place stringent quality control measures regarding condiments and ingredients. For example, we work with our dairy suppliers in conducting various testing on dairy products.

Tea Leaves and Tea Powder Suppliers

We source various kinds of premium tea leaves, including green tea, Oolong tea and black tea, and tea powder, such as matcha, from leading suppliers to ensure their fresh taste and aroma.

Quality Control

We set detailed specifications for the tea leaves procured by our suppliers, including weight and packaging requirements, places of origin, shape, fragrance and color of tea leaves. We conduct sample testing on tea leaves before preparing our tea drinks and reject any products which fail to meet our standards.

Pre-made Food and Beverage Items Suppliers

We purchase high-quality pre-made food and beverage items, including water, pastries and breads, from a few selected national, regional and local sources. We are actively seeking additional suppliers to increase our product offerings.

Quality Control

We require our suppliers to supply products according to agreed-upon specifications, including weight and packaging requirements for standardized products and weight of each ingredient, plate presentation and production procedures for customized products, and are entitled to return any products that fail to meet such standards.

Machines and Equipment Suppliers

We use premium coffee machines and other machines and equipment from renowned global suppliers. We primarily procure coffee machines directly from manufacturers and rely on a combination of manufacturers and distributors for other machines and equipment.

Quality Control

Our coffee machines and other machines generally come with one to two years' warranty, during which period the manufacturers will provide training on installation and maintenance of the machines and also provide free repair and maintenance services. We have also assembled an engineering team which is in charge of daily repair and maintenance of machines. We have a centralized monitoring system that automatically monitors the performance of our coffee machines and promptly reports any repair and maintenance requests. We are in the process of integrating all our coffee machines into our centralized monitoring system.

Packaging Materials and Other Consumables Suppliers

In addition to food and beverage items, we procure a broad range of paper and plastic products, such as cups, straws and cutlery, from a number of suppliers.

Quality Control

We inspect the categories, specifications and qualities of our packaging materials and other consumables supplies against our standards set out in the respective supply agreements.

Warehouse and Fulfillment

We do not own any warehouses, and currently cooperate with three renowned third-party warehouse and fulfillment service providers, for our inventory storage, fulfillments between warehouses, and fulfillments from warehouses to our stores. Our warehouse and fulfillment service providers are responsible for the management of our inventory stored at their warehouses, in collaboration with our employees we assign to these warehouses. As of December 31, 2021, we leased approximately 30 warehouses across China from third-party logistics providers.

We maintain an intelligent warehouse management system and order management system that are integrated with the systems of our warehouse and fulfillment service providers. Our systems enable real-time analysis of the sales status at each store and automated order placement with our leased warehouses for replenishment purposes. We are also able to track inventory level at each leased warehouse in real-time, and monitor and administer warehouse operations from the moment goods enter the warehouses until they are dispatched and delivered to our stores.

Food Safety and Quality Control

We pay close attention to food safety and quality control, monitoring each step in the food and beverage preparation process from procurement to store operation and from warehousing to delivery. In 2021, we set up a cross-functional Food Safety and Quality Control Committee chaired by our CEO to oversee important food safety matters.

Suppliers. We carefully select our suppliers through a stringent selection process and assess the performance of our suppliers on a regular basis. During the supplier selection process, we review their qualifications and conduct onsite visits and inspection. Once the suppliers are on board, we monitor their daily operations and conduct regular evaluations. In our agreements with suppliers, we have in place anti-kickback policies to ensure the integrity of our food safety and quality control and procurement systems.

Inventories. We send our staff to each leased warehouse regularly to make sure that inventories are well categorized and properly stored, that our suppliers and warehouse and fulfillment service providers are following our food safety and quality control protocols, and that any defective goods are immediately disposed.

Stores. We have established an efficient reporting structure and mechanism for monitoring the daily operations of our stores. We are determined to maintain high-level and consistent service quality across all of our stores. We have a detailed employee code of conduct, including specific requirements on the usage and storage of raw materials and other food and beverage items, equipment handling, store environment and delivery service management. We regularly evaluate the performance of our store managers and employees, the results of which are linked to their performance-based salary and promotion opportunities. When selecting our retail partners, we usually conduct comprehensive evaluations based on a set of stringent criteria. We also provide extensive training to our retail partners. We will also supervise our retail partners, and we reserve the right to terminate our cooperation with them if they fail to adhere to our standards.

We conduct onsite inspection to check whether the operations of stores meet our criteria of food safety and quality control. We also conduct environmental microbiological testing at our stores to ensure a hygienic coffee-making environment, and initiate proposals from time to time to improve our store operations and enhance customer experience.

Technology

Technology is at the core of our business. Our technology covers every aspect of our business, from customer engagement, storefront operations to supply chain management. We continually leverage our operation experience to optimize our technology systems, coping with our business needs. Our focus on technologies has enabled us to optimize customer experience, operate efficiently and grow rapidly while maintaining quality control.

We leverage our capabilities in data analytics to deepen our understanding of the market. Equipped with such understanding, we are able to recommend products to our customers with more precision and personalize their menus for easy ordering, so that we can offer superior user experience to our customers and improve the efficiency of our operations.

We leverage our strong technology capabilities to streamline our storefront operations and optimize workforce management. Our smart scheduling system automatically schedules staff shifts and order assignments. We also have an automated in-store inventory management system that connects our stores with our warehouses, which analyzes sales, supply and inventory status for each store in real time, and enables us to timely and sufficiently stock up our stores and limit overall waste.

Our smart supply chain management system integrates intelligent warehousing management and order management functions, enabling us to accurately predict demand and manage our inventory. Supported by our strong data analytics capabilities and smart supply chain management system, we are able to intelligently forecast demand, analyze inventory and place orders directly with suppliers, which allows us to further reduce our procurement costs and improve operational efficiency.

Intellectual Property

We develop and protect our intellectual property portfolio by registering our trademarks, copyrights and domain names. As of the date of this annual report, we own 1,477 registered trademarks with the Trademark Office of the PRC National Intellectual Property Administration, 18 registered copyrights of software and 17 registered copyrights of works with the PRC National Copyright Administration, and 10 domain names with Ministry of Industry and Information Technology.

In addition, we have entered into standard employee confidentiality agreements with our technology development employees, which provides that the employees own confidentiality obligations in relation to our trade and technology secrets and we own intellectual property rights of works developed within the scope of employment of the employees.

User Privacy and Data Security

Various laws and regulations, such as the Civil Code of the PRC, the Cybersecurity Law of the PRC, the Data Security Law of the PRC, which took effect on September 1, 2021, and the Personal Information Protection Law of the PRC, which took effect on November 1, 2021, govern the collection, use, retention, sharing and security of the personal data we receive from and about our users. Privacy groups and government bodies have increasingly scrutinized the ways in which companies link personal identities and data associated with particular users with data collected through the internet, and we expect such scrutiny to continue to increase.

We have adopted policies, procedures and guidelines and update these policies, procedures and guidelines from time to time, in order to comply with these laws and regulations and protect the personal privacy of our customers and the security of their data. We also conduct regular information security training for our employees to further elevate their awareness. In addition, we have a dedicated cybersecurity team, who is responsible for formulating and implementing systems related to user privacy and data security, as well as monitoring system vulnerabilities and detecting coding errors. To keep abreast with recent regulatory developments, we have engaged external cybersecurity experts to advise on and evaluate the security performance of our information system and maintained active communication with regulatory authorities. In December 2021, our self-developed Luckin mobile app's level of classified protection was graded level 3 by China Software Test Center pursuant to the Information Security Technology – Evaluation Requirement for Classified Protection of Cybersecurity issued by the PRC Standardization Administration. Our self-developed Luckin mobile app is also being evaluated by the China Cybersecurity Review Technology and Certification Center (the “CCRC”), upon which completion our Luckin mobile app will obtain the CCRC-APP security certification.

Our Board has general oversight power over cybersecurity issues and delegates the daily supervision responsibility to our chief executive officer, Dr. Guo. The head of our IT department directly reports cybersecurity status to Dr. Guo, and in case of a cybersecurity incident, Dr. Guo will report the incident to our Board to take appropriate and timely measures in response to the incident. In 2021 and up to the date of this annual report, we did not experience any leakage or loss of user data or any other data security incidents, nor did we receive any regulatory notification regarding user privacy and data security issues.

See also “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—Our business generates and processes a large amount of data, which subjects us to evolving governmental regulations and other legal obligations related to privacy, cybersecurity, information security and data protection, many of which are subject to changes and uncertain interpretations. Any failure to comply with these governmental regulations and legal obligations, improper use or disclosure of such data by us, our employees or our business partners could subject us to significant reputational, financial, legal and operational consequences.”

Competition

We face intense competition in China's coffee industry and food and beverage sector in general. Our current or potential competitors are mainly coffee shop operators.

We believe that the principal competitive factors in China coffee industry include the following:

- Store network;
- Product quality and safety;
- Product pricing;
- Supply chain management and operating efficiency;
- Quality of customer service;
- Brand recognition and reputation;
- Effectiveness of sales and marketing; and
- Customer experience.

We believe that we are well positioned to effectively compete on the basis of the factors listed above. However, our competitors may have longer operating history, greater brand recognition, more capital, better supplier relationships and a larger customer base. For discussion of risks relating to our competitors, see “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—We face intense competition in China’s coffee industry and food and beverage sector in general, and our products are not proprietary. If we fail to compete effectively, we may lose market share and customers, and our business, financial condition and results of operations may be materially and adversely affected.”

Compliance, Licenses and Permits

For compliance requirements related to our business, including applicable licenses and permits, see “Item 4. Information on the Company—4.B. Business Overview—Regulation.” For risks in relation to deficiencies of applicable license and permits, see “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.”

Insurance

We provide social security insurance including medical insurance, maternity insurance, workplace injury insurance, unemployment insurance and pension benefits for our employees. We provide personal accident insurance for certain of our management. Consistent with customary industry practice in China, we have no business interruption insurance to cover our operations and no product liability insurance to cover any potential product liabilities. We have obtained insurance to cover certain potential risks and liabilities, such as public liability insurance, property all risks, engineering all risks and safety manufacturing insurance. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—We have limited insurance coverage, which could expose us to significant costs and business disruption.”

Regulation

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

Regulations on Food Safety and Licensing Requirement for Customer Food Services

Food Safety Law

In accordance with the *Food Safety Law* of the PRC, or the Food Safety Law, as effective on June 1, 2009 and most recently amended on April 29, 2021, the State Council implements a licensing system for the food production and trading. A person who engages in food production, food selling or catering services shall obtain the license in accordance with the Food Safety Law.

According to the Food Safety Law, the State Council shall establish a food safety committee whose duties shall be defined by the State Council. The food safety supervision and administration department under the State Council shall exercise supervision and administration over food production and trading activities according to the duties defined by the law and the State Council. The health administrative department under the State Council shall organize the implementation of risk monitoring and risk assessment of food safety according to the duties defined by the Food Safety Law, and shall formulate and issue national food safety standards together with the food safety supervision and administration department under the State Council. Other relevant departments under the State Council shall carry out relevant food safety work according to the duties defined by the Food Safety Law.

The Food Safety Law sets out, as penalties for violation, various legal liabilities in the form of warnings, orders to rectify, confiscations of illegal gains, confiscations of utensils, equipment, raw materials and other articles used for illegal production and operation, fines, recalls and destruction of food in violation of laws and regulations, orders to suspend production and/or operation, revocations of production and/or operation license, and even criminal punishment.

The *Implementation Rules of the Food Safety Law*, as effective on July 20, 2009 and most recently amended on October 11, 2019 and effective on December 1, 2019, further specify the detailed measures to be taken and conformed to food producers and business operators in order to ensure food safety as well as the penalties that shall be imposed should these required measures not be implemented.

Food Operation Licensing

On August 31, 2015, the China Food and Drug Administration promulgated the *Administrative Measures for Food Operation Licensing*, which was amended on November 17, 2017. According to the *Administrative Measures for Food Operation Licensing*, a food operation license shall be obtained in accordance with the law to engage in food selling and catering services within China. The principle of one license for one site shall apply to the licensing for food operation, that is, a food operator shall obtain a food operation license to engage in food operation activities in one operation site. Food and drug administrative authorities shall implement classified licensing for food operation according to food operators' types of operation and the degree of risk of their operation projects.

The issuance date of a food operation license is the date when the decision on granting the license is made and the license is valid for five years. Food operators shall hang or place their food operation license originals in prominent places of their operation sites.

Where the licensing items that are indicated on a food operation license change, the food operator shall, within ten business days after the changes take place, apply to the food and drug administrative authority that originally issued the license for alteration of the operation license. Those who fail to obtain a food operation license and engage in food operation activities shall be punished by the local food and drug administrative authorities at or above the county level according to Article 122 of the Food Safety Law, which states that the authorities shall confiscate their illegal income, the food or food additives illegally produced or dealt in, and the tools, equipment, raw materials, and other items used for illegal production or operation; and impose a fine of not less than RMB50,000 but not more than RMB100,000 on them if the goods value of the food or food additives illegally produced or dealt in is less than RMB10,000 or a fine of not less than 10 times but not more than 20 times the goods value if the goods value is RMB10,000 or more.

Online Catering Services

In accordance with the *Measures for the Supervision and Administration of the Safety of Food Offered through Online Catering Services*, as effective on January 1, 2018 and amended on October 23, 2020, online catering service providers shall have their own physical stores and have obtained the food operation licenses according to the law, and shall carry out business activities pursuant to the business forms and business items specified on their own food operation licenses, and they shall not do business beyond the business scope. The provider of a third-party online catering service platform shall, within 30 business days upon approval by the competent communications department, undergo the recordation formalities with the provincial food and drug supervision and administration department at the place where it is located. A catering service provider with a self-built website shall, within 30 business days after undergoing the recordation formalities with the competent communications department, undergo the recordation formalities with the food and drug administrative authority at the county level at the place where it is located. The headquarters of a catering service chain company that provides online trading service for its stores by its website shall be governed by reference to the requirements on providers of third-party online catering service platforms.

Regulations on Single-Purpose Commercial Prepaid Cards

The *Administrative Measures for Single-Purpose Commercial Prepaid Cards (for Trial Implementation)* were issued on September 21, 2012, and amended on August 18, 2016. The law applies to business in the retail industry, accommodation and catering industry, and resident service industry that conduct single-purpose commercial prepaid card business within China. A card issuer shall undergo filing formalities within 30 days from the day it conducts single-purpose card business.

Regulations on Environmental Protection

Environmental Protection Law

The *Environmental Protection Law* of the PRC, or the Environmental Protection Law, was promulgated and effective on December 26, 1989, and most recently amended on April 24, 2014. This Environmental Protection Law has been formulated for the purpose of protecting and improving both the living environment and the ecological environment, preventing and controlling pollution and other public hazards and safeguarding people's health.

According to the provisions of the Environmental Protection Law, in addition to other relevant laws and regulations of the PRC, the Ministry of Environmental Protection and its local counterparts take charge of administering and supervising said environmental protection matters. Pursuant to the Environmental Protection Law, the environmental impact statement on any construction project must assess the pollution that the project is likely to produce and its impact on the environment, and stipulate preventive and curative measures; the statement shall be submitted to the competent administrative department of environmental protection for approval.

Installations for the prevention and control of pollution in construction projects must be designed, built and commissioned together with the principal part of the project.

Permission to commence production at or utilize any construction project shall not be granted until its installations for the prevention and control of pollution have been examined and confirmed to meet applicable standards by the appropriate administrative department of environmental protection that examined and approved the environmental impact statement. Installations for the prevention and control of pollution shall not be dismantled or left idle without authorization. Where it is absolutely necessary to dismantle any such installation or leave it idle, prior approval shall be obtained from the competent local administrative department of environmental protection.

The Environmental Protection Law makes it clear that the legal liabilities of any violation of said law include warning, fine, rectification within a time limit, compulsory ceasing of operation, compulsory reinstallation of dismantled installations of the prevention and control of pollution or compulsory reinstallation of those left idle, compulsory shutout or closedown, or even criminal punishment.

Law on Environment Impact Assessment

Pursuant to the *Law of the People's Republic of China on Environment Impact Assessment*, which was issued on October 28, 2002 and most recently amended on December 29, 2018, the State implements a classification-based management on the environmental impact assessment, or EIA, of construction projects according to the impact of the construction projects on the environment. Construction units shall prepare an Environmental Impact Report, or EIR, or the Environmental Impact Statement, or EIS, or fill out the Environmental Impact Registration Form, or EIRF (hereinafter collectively referred to as the "EIA documents"), according to the following rules:

- For projects with potentially serious environmental impacts, an EIR shall be prepared to provide a comprehensive assessment of their environmental impacts;
- For projects with potentially mild environmental impacts, an EIS shall be prepared to provide an analysis or specialized assessment of their environmental impacts; and
- For projects with very small environmental impacts so that an EIA is not required, an Environmental Impact Registration Form shall be filled in.

According to the *Classification Administration Catalogue of Environmental Impact Assessments for Construction Projects* issued on September 2, 2008 and most recently amended on November 30, 2020, the food and beverage services were classified as to fill in an Environmental Impact Registration Form before January 1, 2021. Where the construction entity fails to fill in the Environmental Impact Registration Form in accordance with the law, the environmental protection administrative department at or above the county level shall order it to fill it in, and impose a fine of not more than RMB50,000 on it. Since January 1, 2021, construction projects of food and beverage services are not specified in the catalogue and shall not be included in the management on the EIA.

Regulations on Fire Prevention

Fire Protection Design Approval and Filing

The *Fire Prevention Law of the PRC*, or the Fire Prevention Law, was adopted on April 29, 1998 and last amended on April 29, 2021. According to the Fire Prevention Law and other relevant laws and regulations of the PRC, the emergency management authority of the State Council and its local counterparts at or above county level shall monitor and administer the fire prevention affairs. The fire and rescue department of such a people's government is responsible for implementation. The Fire Prevention Law provides that the fire prevention design or construction of a construction project must conform to the national fire prevention technical standards (as the case may be). According to the *Interim Provisions on the Administration of the Fire Protection Design Review and Final Inspection of Construction Projects*, issued on April 1, 2020 and effective on June 1, 2020, for those construction projects for a café with entertainment functions with more than 500 square meters, the construction entity shall apply to the housing and urban-rural development authority for fire protection design approval. For the construction projects other than the conditions foregoing, the construction entity shall provide fire protection design drawings or technical information as needed for construction to the housing and urban-rural development authority when applying for a construction permit or a construction commencement report.

Fire Protection Final Inspection or Filing

Upon completion of a construction project to which a fire prevention design has been applied, according to the requirements of relevant regulations on fire prevention, such project must go through a final inspection on fire prevention by, or filed with, the relevant housing and urban-rural development authority. For construction projects with more than 500 square meters, the construction entity or entity using such venue shall, prior to use and operation of any business thereof, apply for a final inspection on fire prevention with the relevant housing and urban-rural development authority at or above the county level where the venue is located. For the construction projects other than the conditions foregoing, the construction entity shall submit the filing for final inspection of the project to the relevant housing and urban-rural development authority.

Fire Safety Inspection

The Fire Prevention Law requires that the employer or user entity apply to the fire and rescue department of the local people's government at or above the county level for a fire safety inspection before a public gathering place is put into use or opens for business. The fire and rescue department shall examine the materials submitted by the applicant; and if the application materials are complete and of the statutory form, it shall grant a permit. Any construction illegally putting into use or operating a public gathering place without obtaining the permit of the fire safety inspection or without satisfying the fire safety requirements upon inspection shall be ordered to stop construction, stop use or stop production or business operation and be fined not less than RMB30,000 but not more than RMB300,000.

Regulations on Commercial Franchising

Pursuant to the *Regulations on the Administration of Commercial Franchising*, or the Franchising Regulations, which took effect on May 1, 2007, commercial franchising refers to the business activities where a franchisor, being an enterprise possessing registered trademarks, corporate logos, patents, proprietary technology or other business resources, licenses its business resources to the franchisees, being other business operators, through contracts, and the franchisees carry out business operation under the uniform business model and pay franchising fees to the franchisor pursuant to the contracts. The Franchising Regulations set forth a number of prerequisite requirements for the franchisors, including the possession of a mature business model, the capability to provide business guidance, technical support and business training to the franchisees, and the ownership of at least two direct stores, all of which shall have been in operation for at least one year in China. The Franchising Regulations also set forth a number of requirements governing the franchise agreements; for example, the franchisors and franchisees are required to enter into franchising agreements containing certain required terms, and the franchise term thereunder shall not be less than three years unless agreed by the franchisee.

Pursuant to the *Administrative Measures on the Filing of the Commercial Franchise*, which took effect on February 1, 2012, and the Franchising Regulations, within 15 days after executing the first franchise agreement, the franchisors shall file with the MOFCOM or its local counterparts for record, and if there occurs any change to the franchisee network and franchisee stores throughout China, the franchisor shall file such change to MOFCOM for the record within 30 days after the occurrence of the change. Furthermore, within the first quarter of each year, the franchisors shall report the execution, renewal, termination and revocation of the franchise agreements that occurred in the last year to MOFCOM or its local counterparts. Any failure to comply with the aforementioned requirement may result in being ordered to stop the illegal business operations by the competent department, confiscation of the illegal proceeds and fines ranging from RMB 100,000 to RMB 500,000.

Furthermore, the franchisors are required to implement an information disclosure system. The *Administrative Measures on the Information Disclosure of Commercial Franchising*, which took effect on April 1, 2012, provide a list of information that the franchisors shall disclose to the franchisees in writing at least 30 days before execution of the franchising agreements, and if there is any material change to the disclosed information, the franchisor shall notify the franchisees in a timely manner.

Regulations Relating to Customer Rights Protection

The *PRC Customer Rights and Interests Protection Law*, or Customer Protection Law, as amended on October 25, 2013 and effective on March 15, 2014, sets out the obligations of business operators and the rights and interests of the customers. Pursuant to this law, business operators must guarantee that the commodities they sell satisfy the requirements for personal or property safety, provide customers with authentic information about the commodities, and guarantee the quality, function, usage and term of validity of the commodities. Failure to comply with the Customer Protection Law may subject business operators to civil liabilities such as refunding purchase prices, exchange of commodities, repairing, ceasing damages, compensation, and restoring reputation, and even subject the business operators or the responsible individuals to criminal penalties if business operators commit crimes by infringing the legitimate rights and interests of customers.

Regulations on Foreign Investment

MOFCOM and NDRC promulgated the *Special Management Measures (Negative List) for the Access of Foreign Investment*, or the Negative List, effective on January 1, 2022. The Negative List expands the scope of permitted industries by foreign investment by reducing the number of industries that fall within the Negative List where restrictions on the shareholding percentage or requirements on the composition of Board or senior management still exist. Foreign investment in value-added telecommunications services (except for e-commerce) falls within the Negative List.

Pursuant to the *Provisions on Administration of Foreign-Invested Telecommunications Enterprises* promulgated by the State Council in December 2001 and most recently amended in February 2016, or the FITE Regulations, the ultimate foreign equity ownership in a value-added telecommunications services, or the VATS, provider may not exceed 50%. Moreover, for a foreign investor contemplating to acquire any equity interest in a value-added telecommunication business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating good track records and experience in operating value-added telecommunication business overseas. Pursuant to the *Decision of the State Council to Amend and Repeal Certain Administrative Regulations (2022)* which was promulgated on March 29, 2022 and will be effective on May 1, 2022, except as otherwise stipulated by the state, the ultimate foreign equity ownership in a VATS provider may not exceed 50% and the foreign

investor contemplating to acquire equity interest in a VATS provider in China will not be required to demonstrate good track records and experience in operating value-added telecommunication business overseas.

In June 2015, MIIT issued the *Circular on Removing the Restrictions on Equity Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operating E-Commerce) Business* to amend the relevant provisions in the FITE Regulations, allowing foreign investors to own more than 50% of equity interest in an operator that “conducts e-commerce” business. However, other requirements provided by the Foreign Investment Telecommunications Rules (such as the track record and experience requirement for a major foreign investor) still apply, and foreign investors are still prohibited from holding more than 50% of equity interest in a provider of other subcategories of value-added telecommunications services.

Draft Foreign Investment Law (2015)

In January 2015, MOFCOM published a *Draft Foreign Investment Law (2015)* for public comment. According to the *draft Foreign Investment Law (2015)*, foreign investments in the restricted industries must apply for approval from the foreign investment administration authority, whereas foreign investments in business sectors outside of the “negative list” will only be subject to filing procedures.

MOFCOM suggests both registration and approval as potential options for the regulation of variable interest entity structures, depending on whether they are “Chinese controlled” or “foreign controlled.” One of the core concepts of the *Draft Foreign Investment Law (2015)* is “de facto control,” which is broadly defined and emphasizes substance over form in determining whether an entity is “Chinese controlled” or “foreign controlled.” “De facto control” can be established if a person has the power to exert decisive influence on an entity, via contractual or trust arrangements, over the subject entity’s operations, financial matters or other key aspects of business operations. The *Draft Foreign Investment Law (2015)* specifically provides that entities established in China but “controlled” by foreign investors, such as via contracts or trusts, will be treated as FIEs, whereas an investment in China in the foreign investment-restricted industries by a foreign investor may nonetheless apply for treatment as a PRC domestic investment if the foreign investor is determined to be “controlled” by PRC entities and/or citizens. According to the *Draft Foreign Investment Law (2015)*, VIEs would also be deemed to be FIEs if they are ultimately “controlled” by foreign investors, and be subject to the restrictions on foreign investments.

Foreign Investment Law and the Implementation Regulations

In December 2018, the Standing Committee of the National People’s Congress of PRC published the *Draft Foreign Investment Law (2018)* for public comments. On March 15, 2019, the National People’s Congress adopted the *Foreign Investment Law of the PRC* (the “Foreign Investment Law”). Upon taking effect on January 1, 2020, the Foreign Investment Law has replaced the *Law of the People’s Republic of China on Chinese-Foreign Equity Joint Ventures*, the *Law of the People’s Republic of China on Wholly Foreign-Owned Enterprises*, and the *Law of the People’s Republic of China on Chinese-Foreign Cooperative Joint Ventures* to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law mainly focuses on the foreign investment promotion, foreign investment protection and foreign investment management.

The Foreign Investment Law defines “foreign investment” as any investment activity directly or indirectly carried out in the PRC by one or more foreign natural persons, enterprises or other organizations (the “Foreign Investor(s)”), and specifically stipulates four forms of investment activities as foreign investments, namely, (i) establishment of a foreign-invested enterprise in the PRC by a Foreign Investor, either individually or collectively with any other investor; (ii) obtaining shares, equities, property shares or any other similar rights or interests of an enterprise in the PRC by a Foreign Investor; (iii) investment in any new construction project in the PRC by a Foreign Investor, either individually or collectively with any other investor; and (iv) investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council.

Compared with the *draft Foreign Investment Law (2015)*, the Foreign Investment Law does not mention concepts such as “de facto control” and “controlling PRC companies by contracts or trusts,” nor did it specify the regulation requirements on controlling through contractual arrangements.

In order to ensure the effective implementation of the Foreign Investment Law, the Ministry of Justice, the Ministry of Commerce, the National Development and Reform Commission and other departments have jointly studied and drafted the regulations for the implementation of the Foreign Investment Law. On November 1, 2019, the Ministry of Justice published the Implementation Regulations of Foreign Investment Law (Draft for Comments). On December 12, 2019, the State Council promulgated *the Implementation Regulations of Foreign Investment Law*, or the Implementation Regulations, which have simultaneously come into force with the Foreign Investment Law from January 1, 2020. The Implementation Regulations provides specific operation rules for the principles of investment protection, investment promotion and investment management in the Foreign Investment Law.

Foreign Investment Security Review Measures

On December 19, 2020, the NDRC and MOFCOM promulgated the *Foreign Investment Security Review Measures*, which took effect on January 18, 2021. Under the Foreign Investment Security Review Measures, investments in military, national defense-related areas or in locations in proximity to military facilities, or investments that would result in acquiring the actual control of assets in certain key sectors, such as critical agricultural products, energy and resources, equipment manufacturing, infrastructure, transport, cultural products and services, IT, internet products and services, financial services and technology sectors, are required to be approved by designated governmental authorities in advance. Although the term “investment through other means” is not clearly defined under the Foreign Investment Security Review Measures, we cannot rule out the possibility that control through contractual arrangement may be regarded as a form of actual control and therefore require approval from the competent governmental authority. As the Foreign Investment Security Review Measures were recently promulgated, there are great uncertainties with respect to its interpretation and implementation. Accordingly, there are substantial uncertainties as to whether our VIE structure may be deemed as a method of foreign investment in the future.

Regulations Relating to Value-Added Telecommunication Services

Among all of the applicable laws and regulations, the *Telecommunications Regulations of the People’s Republic of China*, or the Telecom Regulations, promulgated by the PRC State Council on September 25, 2000 and most recently amended on February 6, 2016, are the primary governing law, and sets out the general framework for the provision of telecommunications services by domestic PRC companies. Under the Telecom Regulations, telecommunications service providers are required to procure operating licenses prior to their commencement of operations. The *Telecom Regulations* distinguish “basic telecommunications services” from VATS. VATS are defined as telecommunications and information services provided through public networks. The *Telecom Catalogue* was issued as an attachment to the Telecom Regulations to categorize telecommunications services as either basic or value-added. In February 2003, December 2015 and June 2019 the *Telecom Catalogue* was updated respectively, categorizing online data and transaction processing and information services, among others, as VATS.

The *Administrative Measures on Telecommunications Business Operating Licenses*, issued on March 1, 2009 and most recently amended on July 3, 2017, set forth more specific provisions regarding the types of licenses required to operate VATS, the qualifications and procedures for obtaining such licenses and the administration and supervision of such licenses. Under these regulations, a commercial operator of VATS must first obtain a VATS license, from the MIIT or its provincial level counterparts, otherwise such operator might be subject to sanctions including corrective orders and warnings from the competent administration authority, fines and confiscation of illegal gains and, in the case of significant infringements, the websites may be ordered to close.

In September 2000, the State Council promulgated the *Administrative Measures on Internet Information Services*, or the Internet Measures, most recently amended on January 8, 2011. Under the Internet Measures, commercial internet content-related services operators shall obtain a VATS license for internet content provision business, or the ICP license, from the relevant government authorities before engaging in any commercial internet content-related services operations within China.

Our VIE holds a valid ICP license.

Regulation on Information Security

The Standing Committee of the National People's Congress promulgated the *Cybersecurity Law of the PRC*, or the Cybersecurity Law, which became effective on June 1, 2017, to protect cyberspace security and order. Pursuant to the Cybersecurity Law, any individual or organization using the network must comply with the constitution and the applicable laws, follow the public order and respect social moralities, and must not endanger cybersecurity, or engage in activities by making use of the network that endanger the national security, honor and interests; incite subversion of state power; overthrow the socialist system; incite secession, undermining national unity, terrorism and extremism promotion, ethnic hatred and discrimination; spread violence and disseminate pornographic information, fabricating and spreading false information that disturbs economic and social order; or infringe on the fame, privacy, intellectual property and other legitimate rights and interests of others. The Cybersecurity Law sets forth various security protection obligations for network operators, which are defined as "owners and administrators of networks and network service providers," including, among others, complying with a series of requirements of tiered cyber protection systems; verifying users' real identity; localizing the personal information and important data gathered and produced by key information infrastructure operators during operations within the PRC; and providing assistance and support to government authorities where necessary for protecting national security and investigating crimes.

On January 4, 2022, the Cyberspace Administration of China, or the CAC, the NDRC, the MIIT, and several other administrations jointly promulgated the Cybersecurity Review Measures, which took effect on February 15, 2022. The Cybersecurity Review Measures replaces its previous version promulgated on April 13, 2020. According to the Cybersecurity Review Measures, (i) when the purchase of network products and services by a critical information infrastructures operator or the data processing activities conducted by a network platform operator affect or may affect national security, a cybersecurity review shall be conducted pursuant to the Cybersecurity Review Measures. The aforesaid operators shall file for a cybersecurity review with Cybersecurity Review Office under the CAC if their behavior affects or may affect national security; (ii) an application for cybersecurity review shall be made by an issuer who is a network platform operator holding personal information of more than one million users before such issuer applies to list its securities on a foreign stock exchange; and (iii) the relevant PRC governmental authorities may initiate cybersecurity review if such governmental authorities determine that the issuer's network products or services, or data processing activities affect or may affect national security. Cybersecurity reviews focus on assessing the following national security risks factors associated with relevant objects or circumstances: (i) the risk of illegal control, interference or destruction of critical information infrastructure, arising from the purchase and utilization of network products and services; (ii) the harm on the business continuity of critical information infrastructure incurring from a disruption of network products and services supply; (iii) the safety, openness, transparency, diversity of sources of network products and services; the reliability of suppliers; and the risk of supply disruption due to political, diplomatic, trade and other reasons; (iv) the level of compliance with the PRC laws, administrative regulations and ministry rules of the suppliers of network products and services; (v) the risk of core data, important data or a large amount of personal information being stolen, leaked, destroyed, and illegally used or illegally exited the country; (vi) the risk of critical information infrastructure, core data, important data or a large amount of personal information being affected, controlled, or maliciously used by foreign governments and the network information security risk in relation to listing abroad; and (vii) other factors that may harm critical information infrastructure, cyber security and/or data security.

To comply with these laws and regulations, we have adopted security policies and measures to protect our cyber system and customer information.

Regulation on Internet Privacy

Pursuant to the *Administrative Provisions on Mobile Internet Applications Information Services*, effective on August 1, 2016, owners or operators of mobile applications that provide information services are required to be responsible for information security management; establish and improve the protective mechanism for user information; observe the principles of legality, rightfulness and necessity; and expressly state the purpose, method and scope of, and obtain user consent to, the collection and use of users' personal information. In addition, the Cybersecurity Law also requires network operators to strictly keep confidential users' personal information that they have collected and to establish and improve user information protective mechanism. On May 8, 2017, the Supreme People's Court and the Supreme People's Procuratorate released the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information, which clarifies several concepts regarding the crime of "infringement of citizens' personal information" stipulated by Article 253A of the *Criminal Law of the People's Republic of China*, including "citizen's personal information," "provision" and "unlawful acquisition of citizens' personal information." Also, it specifies the standards for determining "serious circumstances" and "particularly serious circumstances" of this crime.

On June 10, 2021, the *Data Security Law* was promulgated by the Standing Committee of the National People's Congress and became effective on September 1, 2021. The Data Security Law mainly sets forth specific provisions regarding establishing basic systems for data security management, including a hierarchical data classification management system, risk assessment system, monitoring and early warning system, and emergency disposal system. In addition, it clarifies the data security protection obligations of organizations and individuals carrying out data activities and implementing data security protection responsibility.

On August 20, 2021, the *Personal Information Protection Law* was promulgated by the Standing Committee of the National People's Congress and will become effective on November 1, 2021. The Personal Information Protection Law provides for various requirements on personal information protection, including the legal basis for data collection and processing, requirements on data localization and cross-border data transfer, requirements for consent of personal data collection and processing, and requirements on processing sensitive personal information. The Personal Information Protection Law also provides that the customers shall be entitled to opt out of the information recommendation or commercial marketing to individuals conducted by means of automated decision-making, or to be provided simultaneously with options not specific to individuals' characteristics.

On August 27, 2021, the Cybersecurity Administration of China released the draft of the Regulations on Algorithm Recommendation Management of Internet Information Service for public comment, pursuant to which the algorithm recommendation service provider shall fulfill the principal responsibility of algorithm security, establish and improve management systems and be equipped with professional staff and technical support suitable for the scale of the algorithm recommendation service.

To comply with these laws and regulations, we collect and use personal information and data from our customers with their prior consent, and have established information security systems to protect customers' privacy. The Data Security Law was recently promulgated and became effective, and the Personal Information Protection Law was recently promulgated. There are substantial uncertainties with respect to the interpretation and implementation of these data security laws and regulations, so our data-related measures may be subject to additional compliance requirements and regulatory burdens, and we may be required to make further adjustments to our business practices to comply with the interpretation and implementation of such laws.

Regulations on E-Commerce

The Standing Committee of the National People's Congress of PRC enacted the *PRC E-Commerce Law* on August 31, 2018, which became effective on January 1, 2019. Under the PRC E-Commerce Law, e-commerce refers to operating activities of selling goods or providing services through the internet or other information networks. The PRC E-Commerce Law generally applies to: (i) platform operators, which refer to legal persons or unincorporated organizations that provide network places of business, transaction matching, information release and other services to enable the transaction parties to carry out independent transaction activities; (ii) operators on the platform, which refer to e-commerce operators that sell goods or provide services to customers through e-commerce platforms; and (iii) other e-commerce operators that sell goods or provide services through self-established websites or other network services. The PRC E-commerce Law also provides rules in relation to e-commerce contracts, dispute settlements, e-commerce development as well as legal liabilities involved in e-commerce.

Regulations on Foreign Exchange

Pursuant to the *Foreign Exchange Administration Regulations*, as amended in August 2008, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside the PRC, unless SAFE's prior approval is obtained and prior registration with SAFE is made. In May 2013, SAFE promulgated the *Circular of the SAFE on Printing and Distributing the Administrative Provision on Foreign Exchange in Domestic Direct Investment by Foreign Investors and Relevant Supporting Documents*, which provides for and simplifies the operational steps and regulations on foreign exchange matters related to direct investment by foreign investors, including foreign exchange registration, account opening and the use, receipt and payment of funds, and the settlement and sales of foreign exchange.

Pursuant to the *Circular on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles* or the SAFE Circular 37, promulgated by SAFE and which became effective on July 4, 2014, (a) a PRC resident shall register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, or Overseas SPV, that is directly established or controlled by the PRC resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of the Overseas SPV's PRC resident shareholder(s), the name of the Overseas SPV, the term of operation, or any increase or reduction of the Overseas SPV's registered capital, a share transfer or swap, and a merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the *Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-Related Foreign Exchange Administration Policies*, or the SAFE Notice 13, which was promulgated on February 13, 2015 and with effect from June 1, 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment is directly reviewed and handled by banks in accordance with the SAFE Notice 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

Regulations Relating to Dividend Distributions

Before the Foreign Investment Law came into effect on January 1, 2020, the principal regulations governing the distribution of dividends paid by wholly foreign-owned enterprises include the *PRC Wholly Foreign-Owned Enterprise Law* issued in April 1986 and most recently amended in September 2016, and the *PRC Implementation Regulations on the Wholly Foreign-Owned Enterprise Law* issued in December 1990 and most recently amended in February 2014. Under these regulations, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until its cumulative total reserve funds reach 50% of its registered capital. These reserve funds, however, may not be distributed as cash dividends.

On January 1, 2020, the Foreign Investment Law and the Implementation Regulations came into effect, which repealed the *PRC Wholly Foreign-Owned Enterprise Law* and the *Implementation Regulations on the Wholly Foreign-Owned Enterprise Law*.

Pursuant to the Foreign Investment Law, the corporate governance matters, including the distribution of dividends, shall be governed by the *Company Law of the PRC*, the *Partnership Law of the PRC*, or other laws of the PRC. Pursuant to the *Company Law of the PRC*, issued on December 29, 1993 and most recently amended on October 26, 2018, a company is required to set aside 10% of its after-tax profit of the current year to its general reserves until its cumulative total reserve funds reach 50% of its registered capital. If the reserve funds are insufficient to make up the company's losses of the previous year, the after-tax profit of the current year shall first be used for making up the losses before being set aside to reserve funds. After the losses have been made up and common reserves have been drawn, the remaining profits shall be distributed to shareholders.

According to the Foreign Investment Law and the Implementation Regulations, the foreign-invested enterprises established before January 1, 2020 may elect to maintain their current corporate governance rules, including the dividend distribution policy, adopted under the *Wholly Foreign-Owned Enterprise Law*, within five years after January 1, 2020.

Regulations Relating to Stock Incentive Plans

According to the *Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company*, or the Share Incentive Rules, which was issued by the SAFE in February 2012 and other regulations, directors, supervisors, senior management and other employees participating in any share incentive plan of an overseas publicly listed company who are PRC citizens or non-PRC citizens residing in China for a continuous period of not less than one year, subject to certain exceptions, are required to register with the SAFE. All such participants need to authorize a qualified PRC agent, such as a PRC subsidiary of an overseas publicly listed company to register with the SAFE and handle foreign exchange matters such as opening accounts, transferring and settlement of the relevant proceeds. The Share Incentive Rules further require an offshore agent to be designated to handle matters in connection with the exercise of share options and sale of proceeds for the participants of share incentive plans.

Failure to complete the SAFE registrations for our employee incentive plans after our listing may subject them to fines and legal sanctions, and may also limit our ability to contribute additional capital into our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to us.

Regulations Relating to Overseas Listings

In August 2006, six PRC regulatory authorities, including the China Securities Regulatory Commission, or the CSRC, jointly adopted the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the M&A Rules, amended in June 2009. The M&A Rules, among other things, require that if an overseas company established or controlled by PRC companies or individuals, or PRC citizens, intends to acquire equity interests or assets of any other PRC domestic company affiliated with the PRC citizens, such acquisition must be submitted to the MOFCOM for approval. The M&A Rules also require that an Overseas SPV formed for overseas listing purposes and controlled directly or indirectly by the PRC citizens shall obtain the approval of the CSRC prior to overseas listing and trading of such Overseas SPV's securities on an overseas stock exchange.

Our PRC legal counsel, King & Wood Mallesons, has advised us that, based on its understanding of the current effective PRC laws and regulations as of the date of this annual report, should we seek to list and trade our ADSs on the NASDAQ Global Select Market or other overseas stock exchange, we will not be required to submit an application to the CSRC for the approval of the listing and trading of the ADSs on the NASDAQ Global Select Market. However, our PRC legal counsel has further advised us that there are substantial uncertainties as to how the M&A Rules will be interpreted or implemented in the context of an overseas offering, and its opinions summarized above are subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to the M&A Rules.

On July 6, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly promulgated the *Opinions on Strictly Cracking Down on Illegal Securities Activities in Accordance with Law*, or the Opinions. The Opinions emphasized the need to strengthen the administration over illegal securities activities, and the need to strengthen the supervision over overseas listings by Chinese companies. Effective measures, such as promoting the construction of relevant regulatory systems will be taken to deal with risks and incidents of China-based overseas listed companies, and cybersecurity and data privacy protection requirements and etc. The Opinions and any related implementing rules to be enacted may subject us to compliance requirement in the future.

On December 24, 2021, the CSRC published the draft Administrative Provisions of the State Council on the Overseas Issuance and Listing of Securities by Domestic Companies (Draft for Comments), or the Administrative Provisions, and the draft Measures for the Overseas Issuance and Listing of Securities Record-filings by Domestic Companies (Draft for Comments) for public comments. These draft regulations stipulate that PRC domestic companies that seek to offer and list securities in overseas markets directly or indirectly shall complete the filing procedures with and report relevant information to the CSRC. Pursuant to these drafts, if the issuer meets the following conditions, its offering and listing will be deemed as an “indirect overseas offering and listing by a PRC domestic company” and is therefore subject to the filing requirement: (i) the revenues, profits, total assets or net assets of the Chinese operating entities in the most recent financial year accounts for more than 50% of the corresponding data in the issuer’s audited consolidated financial statements for the same period; (ii) the majority of senior management in charge of business operation are Chinese citizens or have domicile in PRC, and its principal place of business is located in PRC or main business activities are conducted in PRC. The domestic enterprises should submit filing documents to CSRC within three business days after the submission of the application for overseas initial public offering, and after completing the filing procedures for an overseas initial public offering and listing, for the purposes of implementing and strengthening the CSRC’s supervision, the issuer will need to comply with continuous filing and reporting requirements after such offering and listing, among others, including the following: (i) reporting material events which arose prior to such offering and listing, (ii) filing for follow-on offerings after the initial offering and listing, (iii) filing for transactions in which the issuer issues securities for acquiring assets, and (iv) reporting material events after the initial offering and listing. On April 2, 2022, the CSRC published the draft Provisions on Strengthening the Confidentiality and Archives Management Related to Overseas Issuance and Listing of Securities by Domestic Companies (Draft for Comments), or the Draft Confidentiality and Archives Management Provisions, for public comments. Pursuant to the Draft Confidentiality and Archives Management Provisions, PRC domestic companies that seek to offer and list securities in overseas markets shall establish confidentiality and archives system. The PRC domestic companies shall obtain approval from the competent authority and file with the confidential administration department at the same level when providing or publicly disclosing documents and materials related to state secrets or secrets of the governmental authorities to the underwriters or other agencies or the offshore regulatory authorities, and shall complete corresponding procedures when providing or publicly disclosing documents and materials which may adversely influence national security and the public interest. The PRC domestic companies shall provide written statements on the implementation of the aforementioned rules to the underwriter and other agencies and the PRC domestic companies shall not provide accounting files to an overseas accounting firm unless such firm complied with the corresponding procedures. However, the Draft Overseas Listing Regulations, the Draft Overseas Listing Measures and the Draft Confidentiality and Archives Management Provisions were released for public comment only, there remains substantial uncertainty, including but not limited to its final content, adoption timeline, effective date or relevant implementation rules.

Regulations on Labor

Labor Contract Law

As of January 1, 2008 and as amended on December 28, 2012, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers fall under the *Labor Contract Law of the PRC*, or the Labor Contract Law. Enterprises and institutions are forbidden to force the laborers to work beyond the time limit and the employers shall pay laborers overtime working compensation in accordance with national regulations. In addition, the labor wages shall not be lower than local standards on minimum wages and shall be paid to the laborers timely. According to the *Labor Law of the PRC* effective as of January 1, 1995, and as amended on December 29, 2018, enterprises and institutions shall establish and perfect their systems of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety and sanitation, and educate laborers of workplace safety and sanitation. Work place safety and sanitation facilities shall comply with state-fixed standards.

Regulations on Social Insurance and Housing Fund

According to the *Social Insurance Law of the PRC* effective as of July 1, 2011, and as amended on December 29, 2018, the *Regulations on Occupational Injury Insurance* effective as of January 1, 2004 and as amended on December 20, 2010, the *Interim Measures Concerning the Maternity Insurance for Enterprise Employees* effective as of January 1, 1995, the *Interim Regulations Concerning the Levy of Social Insurance* effective as of January 22, 1999 and amended on March 24, 2019 and the *Regulations Concerning the Administration of Housing Fund* effective as of April 3, 1999 and last amended on March 24, 2019, enterprises and institutions in the PRC shall provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance, as well as a housing provident fund and other welfare plans.

Regulations on Labor Dispatch

The *Interim Provisions on Labor Dispatch* were promulgated by the Ministry of Human Resources and Social Security and became effective on March 1, 2014. The *Interim Provisions on Labor Dispatch* set forth that labor dispatch should only be applicable to temporary, auxiliary or substitute positions, or the Three-Nature Requirements. Temporary positions shall mean positions subsisting for no more than six months, auxiliary positions shall mean positions of non-major business that serve positions of major businesses, and substitute positions shall mean positions that can be held by substitute employees for a certain period of time during which the employees who originally hold such positions are unable to work as a result of full-time study, being on leave or other reasons.

Regulations on Property Leasing

Under the *Administrative Measures on the Lease of Commodity Housing* issued by Ministry of Housing and Urban-Rural Development on December 1, 2010, the parties to a lease agreement shall go through the lease registration and filing process with the competent construction (real estate) departments of the municipalities directly under the PRC Government, cities and counties where the housing is located within 30 days after the lease agreement is signed. For those who fail to comply with the above regulations, such competent departments may impose a fine of between RMB1,000 and RMB10,000 per lease. Under the Civil Code of the PRC issued by the National People's Congress on May 28, 2020 and effective on January 1, 2021, where the parties fail to perform the registration and filing procedures for the leasing contract in accordance with the laws and administrative regulations, the validity of the contract is not affected.

Regulations on Intellectual Property Rights

Copyright

Pursuant to the *Copyright Law* of the PRC, as most recently amended in November 2020, copyrights include personal rights such as the right of publication and that of attribution as well as property rights such as the right of production and that of distribution.

Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law of the PRC, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, and offer an apology, pay damages, etc.

Pursuant to the *Computer Software Copyright Protection Regulations* promulgated on December 20, 2001 and amended on January 30, 2013, the software copyright owner may go through the registration formalities with a software registration authority recognized by the State Council's copyright administrative department. The software copyright owner may authorize others to exercise that copyright and is entitled to receive remuneration.

Trademark

Pursuant to the *Trademark Law of the PRC*, as most recently amended on April 23, 2019, and became effective on November 1, 2019, the right to exclusive use of a registered trademark shall be limited to trademarks that have been approved for registration and to goods for which the use of such trademark has been approved. The period of validity of a registered trademark shall be ten years, counted from the day the registration is approved. According to this law, using a trademark that is identical to or similar to a registered trademark in connection with the same or similar goods without the authorization of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. The infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, pay damages, etc.

Domain Name

Domain names are protected under the *Administrative Measures on the Internet Domain Names*, which were promulgated by the MIIT on August 24, 2017 and became effective on November 1, 2017. The MIIT is the major regulatory authority responsible for the administration of the PRC internet domain names. The registration of domain names in PRC is on a "first-apply-first-registration" basis. A domain name applicant will become the domain name holder upon completion of the application procedure.

Regulations Relating to Tax in the PRC

Income Tax

The *PRC Enterprise Income Tax Law* was promulgated in March 2007 and was most recently amended in December 2018. The PRC Enterprise Income Tax Law applies a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises, except where tax incentives are granted to special industries and projects. Under the PRC Enterprise Income Tax Law, an enterprise established outside China with “*de facto* management bodies” within China is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. Under the implementation regulations to the PRC Enterprise Income Tax Law, a “*de facto* management body” is defined as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise.

In April 2009, the Ministry of Finance, or MOF, and SAT jointly issued the *Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business*, or the Circular 59. In December 2009, SAT issued the *Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises*, or the Circular 698. Both Circular 59 and Circular 698 became effective retroactively as of January 2008. In March 2011, SAT issued the *Notice on Several Issues Regarding the Income Tax of Non-PRC Resident Enterprises*, or the SAT Circular 24, effective in April 2011. By promulgating and implementing these circulars, the PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise.

In February 2015, SAT issued the *Notice on Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-PRC Resident Enterprises*, or the SAT Circular 7, to supersede existing provisions in relation to the indirect transfer as set forth in Circular 698, while the other provisions of Circular 698 remain in force. SAT Circular 7 introduces a new tax regime that is significantly different from that under Circular 698. SAT Circular 7 extends its tax jurisdiction to capture not only indirect transfers as set forth under Circular 698 but also transactions involving transfer of immovable property in China and assets held under the establishment, and placement in China, of a foreign company through the offshore transfer of a foreign intermediate holding company. SAT Circular 7 also addresses transfer of the equity interest in a foreign intermediate holding company broadly. In addition, SAT Circular 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and introduces safe harbor scenarios applicable to internal group restructurings and the purchase and sale of equity through public securities markets. However, it also brings challenges to both the foreign transferor and transferee of the indirect transfer as they have to determine whether the transaction should be subject to PRC tax and to file or withhold the PRC tax accordingly. In October 2017, SAT issued the *Announcement on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises*, or the SAT Circular 37, amended in June 2018. The SAT Circular 37 superseded the Non-resident Enterprises Measures and SAT Circular 698 as a whole and partially amended some provisions in SAT Circular 24 and SAT Circular 7. SAT Circular 37 purports to clarify certain issues in the implementation of the above regime, by providing, among others, the definition of equity transfer income and tax basis, the foreign exchange rate to be used in the calculation of withholding amount, and the date of occurrence of the withholding obligation.

Specifically, SAT Circular 37 provides that where the transfer income subject to withholding at source is derived by a non-PRC resident enterprise in installments, the installments may first be treated as recovery of costs of previous investments. Upon recovery of all costs, the tax amount to be withheld must then be computed and withheld.

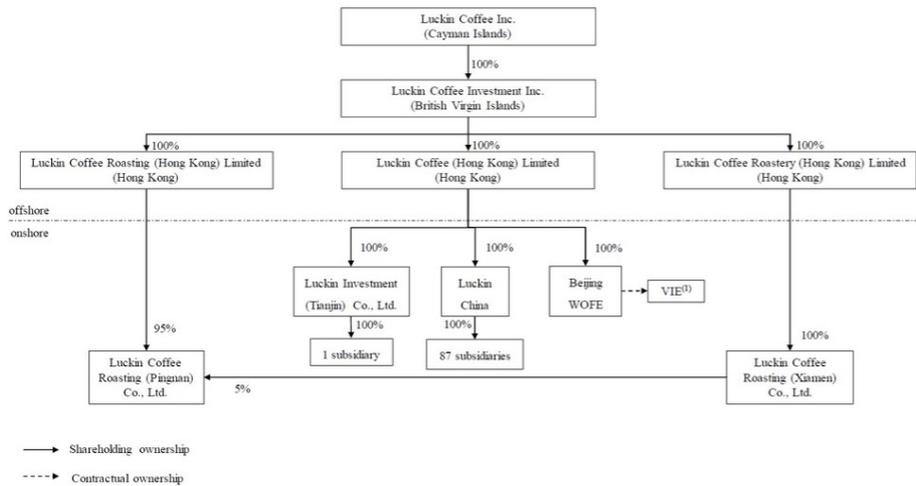
Value-Added Tax

Pursuant to the *Provisional Regulations on Value-Added Tax of the PRC* promulgated on December 13, 1993 and last amended on November 19, 2017 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax. Pursuant to the *Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-Added Tax in Lieu of Business Tax* (the “Circular 36”), which was promulgated by the Ministry of Finance and the State Administration of Taxation on March 23, 2016, implemented on May 1, 2016, and recently amended on March 20, 2019, the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner as of May 1, 2016, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax. Pursuant to the *Circular of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates* promulgated on April 4, 2018 and come to effect on May 1, 2018, by Ministry of Finance and State Administration of Taxation, where a taxpayer engages in a taxable sales activity for the value-added tax purpose or the imports of goods, the previous applicable 17% and 11% tax rates are adjusted to be 16% and 10% respectively.

Pursuant to the *Announcement on Relevant Policies for Deepening Value-Added Tax Reform* promulgated on March 20, 2019 by MOF, SAT and the General Administration of Customs and effective on April 1, 2019, with respect to VAT taxable sales or imported goods of a VAT general taxpayer, where the VAT rate of 16% and 10% applies currently, it shall be adjusted to 13 percent and 9 percent, respectively.

4.C. Organizational Structure

The following chart shows our corporate structure as of the date of this annual report, including our principal subsidiaries and our VIE.



(1) Ms. Jenny Zhiya Qian and Mr. Min Chen are nominal shareholders of the VIE, holding 83.33% and 16.67% of the equity interest, respectively. Both of Ms. Qian and Mr. Chen were terminated from the Company based on the Internal Investigation and have since ceased to be involved in the management of the Company. We are in the process of replacing the nominal shareholders or otherwise optimizing our VIE structure.

Contractual Arrangements with the VIE and Its Nominee Shareholders

We established our VIE to hold certain foreign restricted licenses and permits which we might need in the future, such as the ICP license. Our VIE does not currently generate any net revenue. We exercise effective control over our VIE through contractual arrangements among the Beijing WFOE, our VIE and its shareholders.

The contractual arrangements allow us to:

- exercise effective control over our VIE;
- receive substantially all of the economic benefits of our VIE; and
- have an exclusive option to purchase all or part of the equity interest in and/or assets of our VIE when and to the extent permitted by laws.

As a result of these contractual arrangements, we are the primary beneficiary of the VIE and, therefore, have consolidated the financial results of the VIE in our consolidated financial statements in accordance with U.S. GAAP.

In the opinion of King & Wood Mallesons:

- the ownership structure of the VIE is not in violation of applicable PRC laws and regulations currently in effect; and
- the contractual arrangements among the Beijing WFOE, the VIE and the shareholders of the VIE, governed by PRC law, are legal, valid, binding and enforceable in accordance with its terms and applicable PRC laws.

However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC legal counsel.

The following is a summary of the contractual arrangements by and among the Beijing WFOE, the VIE and the shareholders of the VIE and their spouses, as applicable.

Agreements That Provide Us with Effective Control over the VIE

Proxy Agreement and Power of Attorney. Pursuant to the Proxy Agreement and Power of Attorney among Beijing WFOE, the VIE and shareholders of the VIE, these shareholders irrevocably authorize Beijing WFOE or any person(s) designated by Beijing WFOE to act as his or her attorney-in-fact to exercise all of his or her rights as a shareholder of the VIE, including, but not limited to, the right to call and attend shareholders' meetings, execute and deliver any and all written resolutions and meeting minutes as a shareholder, vote by itself or by proxy on any matters discussed on shareholders' meetings, sell, transfer, pledge or dispose of any or all of the shares, nominate, appoint or remove the directors, supervisors and senior management, and other shareholders rights conferred by the articles of association of the VIE and the relevant laws and regulations. This agreement will remain in force as long as the VIE exists. The shareholders shall not have the right to terminate this agreement or revoke the appointment of the attorney-in-fact without the prior written consent of the Beijing WFOE.

Confirmation and Guarantee Letters. Each shareholder of the VIE has signed a Confirmation and Guarantee Letter. Under the Confirmation and Guarantee Letters, each of the shareholders of the VIE confirmed, represented and guaranteed that in no circumstances will their ability to exercise their rights in the VIE be affected or any act that may affect or hinder the fulfillment of their obligations under the contractual agreements be carried out by any other person that may be entitled to assume rights and interests in their equity rights in the VIE. Each of the shareholders of the VIE further confirmed that they will unwind the contractual agreements and transfer all of the shares of the VIE to Beijing WFOE or any party designated by Beijing WFOE as soon as the applicable laws of the PRC allow Beijing WFOE to operate the business operated by the VIE without the contractual agreements, and will return any consideration received through this to Beijing WFOE or any party designated by Beijing WFOE. Each of the shareholders of the VIE undertook that unless otherwise agreed by the Beijing WFOE in written form, they will not engage in, own or acquire any business that competes or might compete with the business of the VIE or its affiliated companies, will not give rise to conflict of interest between themselves and Beijing WFOE and will take any action as instructed by Beijing WFOE to eliminate the conflict once such conflict arises.

Spousal Consent Letter. The spouse of Mr. Min Chen has signed a spousal consent letter. Under the spousal consent letter, the spouse unconditionally and irrevocably waives any rights or entitlements whatsoever to such shares that may be granted to her pursuant to applicable laws and undertakes not to make any assertion of rights to such shares. The spouse agrees and undertakes that she will take all necessary actions to ensure the proper performance of the contractual arrangements, and will be bound by the contractual arrangements in case she obtains any equity of the VIE due to any reason.

Share Pledge Agreement. Pursuant to the Share Pledge Agreement among Beijing WFOE and the shareholders of the VIE, the shareholders of the VIE have pledged 100% equity interest in the VIE to Beijing WFOE to guarantee the performance by the VIE and its shareholders of their obligations under the Master Exclusive Service Agreement, Business Cooperation Agreement, Exclusive Option Agreement and agreements to be executed among Beijing WFOE, the VIE and the shareholders from time to time. If the VIE or its shareholders breach their contractual obligations under these agreements, Beijing WFOE, as pledgee, will have the right to dispose of the pledged shares entirely or partially. The shareholders of the VIE also agreed, without Beijing WFOE's prior written consent, not to transfer the pledged shares, establish or permit the existence of any security interest or other encumbrance on the pledged shares, or dispose of the pledged shares by any other means, except by the performance of the Exclusive Option Agreement. We have completed the registration of the pledge of equity interests in the VIE with the relevant office of Administration for Industry and Commerce in accordance with the PRC Property Rights Law.

Agreements That Allow Us to Receive Economic Benefits from the VIE

Master Exclusive Service Agreement. Pursuant to the Master Exclusive Service Agreement between Beijing WFOE and the VIE, Beijing WFOE or its designated affiliated entities have the exclusive right to provide the VIE with technical support and business support services in return for fees equal to 100% of the consolidated net profits of the VIE. Without Beijing WFOE's prior written consent, the VIE shall not, directly and indirectly, obtain the same or similar services as provided under this agreement from any third party, or enter into any similar agreement with any third party. Beijing WFOE has the right to determine the service fee charged to the VIE under this agreement by considering, among other things, the complexity of the services, the time spent by employees of the Beijing WFOE to provide the services, content and commercial value of the service provided, as well as the benchmark price of similar services in the market. Beijing WFOE will have the exclusive ownership of all intellectual property rights developed by performance of this agreement. This agreement will remain effective until it is terminated at the discretion of Beijing WFOE or upon the transfer of all the shares of the VIE to Beijing WFOE and/or a third party designated by Beijing WFOE.

Business Cooperation Agreement. Pursuant to the Business Cooperation Agreement among Beijing WFOE, the VIE and the shareholders of the VIE, the VIE and the shareholders of the VIE agreed and covenanted that, without obtaining Beijing WFOE's written consent, the VIE shall not, and the shareholders shall cause the VIE not to, engage in any transaction that may materially affect its asset, obligation, right or operation, including but not limited to any activities not within its normal business scope, or operating its business in a way that is inconsistent with its past practice, a merger, reorganization, acquisition or restructuring of its principal business or assets, or an acquisition or investment in any other form, in favor of a third party, selling to or acquiring any tangible or intangible asset other than in the ordinary course of business, incurrence of any encumbrance on any of its assets, or an amendment to its articles of association. The VIE shall accept, and the shareholders shall cause the VIE to accept, suggestions raised by Beijing WFOE over the employee engagement and replacement, daily operation, dividend distribution and financial management systems of the VIE. The shareholders of the VIE shall only appoint persons designated by Beijing WFOE to be the directors of the VIE. This agreement will remain effective until it is terminated at the discretion of Beijing WFOE or upon the transfer of all the shares of the VIE to Beijing WFOE and/or a third party designated by Beijing WFOE.

Agreements That Provide Us with the Option to Purchase the Equity Interests in the VIE

Exclusive Option Agreement. Pursuant to the Exclusive Option Agreement among Beijing WFOE, the VIE and its shareholders, the shareholders of the VIE irrevocably grant Beijing WFOE or any third party designated by Beijing WFOE an exclusive option to purchase all or part of their equity interests in the VIE at the lowest price permitted by applicable PRC laws. Those shareholders further undertake that they will neither allow the encumbrance of any security interest in the VIE, except for the pledge placed pursuant to the Share Pledge Agreement, nor transfer, mortgage or otherwise dispose of their legal or beneficial interests in the VIE without the prior written consent of Beijing WFOE, and will cause the shareholders' meeting and/or the board of directors and/or the executive directors of the VIE not to approve such proposal. This agreement will remain effective until it is terminated at the discretion of Beijing WFOE or upon the transfer of all the equity interest in the VIE to Beijing WFOE and/or a third party designated by Beijing WFOE.

4.D. Property, Plant and Equipment

Our principal executive office is located in Xiamen, China with an aggregate area of approximately 59,237.6 square meters. We are in the process of obtaining the real property ownership certificates of the building with such area.

We lease all of our self-operated store premises and some of our office space. For more information on our stores, see “4.B. Business Overview—Our Store Network.”

We own one parcel of site area of approximately 45,000 square meters in Pingnan, Fujian, China used as roasting facility. Its land use right has been granted with the expiry date on June 20, 2069.

In addition, we obtained the land use right certificate of one parcel of site area of approximately 35,342.6 square meters in Tongan, Xiamen in 2019, which was returned to Xiamen government in March 2021. We have also obtained the land use right certificate of one parcel of site area of approximately 35,243.9 square meters in Tianjin, China, which was returned to Tianjin government in August 2021. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—Unexpected termination of leases, failure to renew the lease of our existing premises or to renew such leases at acceptable terms, or failures to obtain necessary real-estate certificates, could materially and adversely affect our business.”

In connection with the construction of own coffee roasting plant, we had paid an aggregate of approximately RMB214.3 million (US\$33.6 million) for acquisition of land use rights, building of facilities and purchase of equipment as of December 31, 2021. We plan to expand our supply chain network by leasing, constructing or purchasing additional facilities across China over the next several years.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

You should read the following discussion together with our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion contains forward-looking statements about our business and operations. Our actual results may differ materially from those we currently anticipate as a result of many factors, including those we describe under “Item 3.D. Risk Factors” and elsewhere in this annual report.

5.A. Operating Results

General Factors Affecting Our Results of Operations

Our business and results of operations are affected by a number of general factors in China, including:

- China’s overall economic growth, level of urbanization and level of per capita disposable income;
- COVID-19 pandemic and its impact on the economic life;
- Growth in consumer expenditure, especially the expenditure on food and beverage;
- Consumers’ demand for coffee and tea, especially for freshly brewed coffee and tea drinks; and
- Increasing usage of mobile internet and increasing adoption of mobile payment.

Unfavorable changes in any of these general factors could materially and adversely affect our business and results of operations.

Specific Factors Affecting Our Results of Operations

Our ability to attract and engage customers

Our revenue growth is mainly driven by our ability to attract new customers and actively engage and retain existing customers. Driven by technology, our new retail model is built upon our mobile apps and store network, which allows us to stay close to our customers and engage them anytime, anywhere. We leverage our deep understanding of the coffee market in China and our operation experiences to analyze our customer behavior and industry trends, which enable us to attract new customers and retain and engage existing customers to increase items sold. As of December 31, 2021, we had 4,397 self-operated stores, 1,627 partnership stores and 1,102 Luckin Coffee EXPRESS machines in China and had 92.0 million cumulative transacting customers.

Increase product offerings and cross-sell

We offer a wide variety of high-quality food and beverage items, mainly freshly brewed coffee. Powered by our robust product development capabilities, we have been constantly rolling out new products that became popular among consumers and well recognized by KOLs, such as coconut milk series, velvet series and Newer series. Going forward, we endeavor to continuously offer innovative food and beverage products, as we believe that focusing on high-quality product development and strategically diversifying our product offerings will increase items sold and revenue per item. For the year ended December 31, 2021, we sold approximately 447.2 million coffee, tea and other product items, among which 24.7% were non-coffee products from our self-operated stores, while for the year ended December 31, 2020, we sold approximately 307.5 million coffee, tea and other product items, among which 34.9% were non-coffee products from our self-operated stores.

The optimization of our sales network

Our store network affects our business and revenue growth. We started our business in October 2017 and we believe we are one of the largest coffee networks in China in terms of number of stores as of December 31, 2021. The following tables set out the total number of our self-operated stores and retail partnership stores and their movement for the periods indicated.

	For the three months ended,											
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
Number of self-operated stores at the end of the period	2,370	2,963	3,680	4,507	4,511	4,267	3,952	3,929	3,939	4,018	4,206	4,397
Net increase/(decrease) in the number of self-operated stores during the period	297	593	717	827	4	(244)	(315)	(23)	10	79	188	191
	For the three months ended,											
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
Number of retail partnership stores at the end of the period	—	—	—	282	501	824	879	874	1,012	1,241	1,465	1,627
Net increase/(decrease) in the number of retail partnership stores during the period	—	—	—	282	219	323	55	(5)	138	229	224	162

In September 2019, we launched our retail partnership model initiative and opened the first partnership store in October 2019. Under this model, we will cooperate with selective retail partners to own and manage stores. This model will complement our self-operated store network and enable us to penetrate new markets more efficiently.

To improve profitability, we have conducted store performance reviews and upgraded our store opening criteria. In 2020, we opened certain new stores in areas with strong growth potential, while closing certain existing stores with relatively lower performance levels. As of December 31, 2021, we had 4,397 self-operated stores and 1,627 partnership stores.

Our scale, supported by technology, enables us to gain more bargaining power over our suppliers and lower our operating cost as a percentage of our revenue. Our expanding presence in the market will also enhance our brand image, which we believe will further reduce our customer acquisition costs. We believe that our new retail model can help create a virtuous cycle which reinforces our leadership position.

Effective selling prices of our products

We have adopted a market-oriented pricing model where we take into account a number of factors, including cost of materials and market demand for our products, as well as our customers' preferences. To achieve effective pricing, we leverage our deep understanding of the coffee market in China and operating experiences to learn the market dynamics and discover patterns of customer behavior. We implement incentive programs in the form of coupons and discount vouchers. The effective selling prices of our products represent our retail prices after applying such discounts. Our future profitability will be affected by our ability to properly manage the effective selling prices of our products.

Efficient store operations

We pursue and achieve store operational efficiency by leveraging technology. With our strong technology capabilities and smart supply chain management system, we are able to analyze sales and inventory status for each store on a real-time basis and efficiently replenish inventory. Our technology also helps us manage our overall workforce and enables us to maintain efficient storefront operations.

Our technology-driven new retail business model significantly improves our operational efficiency. We measure our store performance with store-level operating profit (loss), which is calculated by deducting cost of direct materials (including wastage in stores), cost of delivery packaging materials, storage and logistics expenses, store depreciation expense (including decoration loss for store closure), store rental and other operating costs, net delivery expense, transaction fees, rental deposit of closed stores and rental expense for reopening stores from our self-operated store revenue. We have changed the way we calculate our store-level operating profit (loss) to include all relevant store expenses at the store level (excluding sales and marketing expenses and general and administrative expenses) to align this metric with our internal KPIs. Our store-level operating loss accounted for 38.0% and 12.5% of our self-operated store revenue for the years ended December 31, 2019 and 2020, respectively. We achieved store-level operating profit which accounted for 20.2% of our self-operated store revenue for the year ended December 31, 2021.

Seasonality

We experience seasonality in our business, primarily as a result of order fluctuations in holiday seasons as well as the product mix sold for different seasons. For example, we generally experience fewer purchase orders during Chinese New Year holidays which fall between late January and February. The decrease of sales during the holiday seasons is a typical pattern in the coffee market, since commuters contribute significantly to coffee consumption. However, our partnership stores may benefit from the holiday seasons as many of them are located in shopping malls of lower-tier cities, which usually have higher foot traffic during holidays. We also experience fluctuations in the types of products sold as a result of weather changes that affect consumers' preference for different drinks. For example, our sales in the third quarter of 2021 benefited from the relatively hot weather in the summer, as some of our higher margin iced drinks were predominantly sold in hotter months, as compared to relatively colder seasons. For risks related to the seasonality of our business, see "Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—Our business is subject to seasonal fluctuations and unexpected interruptions."

Impact of COVID-19

We have formulated protocols and taken measures to reduce the impact of the COVID-19 pandemic on our store operations and to comply with national and local regulatory requirements related to containing the spread of COVID-19. For example, we strictly implement a set of measures for our stores in the high-risk or mid-risk areas identified by local government, including monitoring our storefront personnel's health conditions on an ongoing basis, ensuring the stores are adequately equipped with personal protection and sanitation supplies, and implementing sanitization policies and social-distancing rules for our in-store and delivery service process.

We began to open our stores and resume normal operations from March 2020 and our store operations were less adversely affected in 2021 than in 2020. However, the resurgence of COVID-19 outbreaks in various cities and regions in China since the end of 2021 have adversely impacted and continues to adversely impact our store operations. Since the end of 2021, cases of the Omicron variant have emerged in China, spreading to major cities including Beijing, Shanghai, Tianjin and Shenzhen. A lockdown in Xi'an, which started in December 2021, lasted nearly the whole month of January 2022. Shanghai, the leading city in coffee consumption in China and in which we have substantial business operations, has been experiencing an unprecedented surge of COVID-19 cases since early 2022. Shanghai's economic life has been sharply curtailed, and the local government has been imposing more stringent preventive measures, causing material interruptions to our store operations in the city. Starting from April 2022 and as of the date of this annual report, there has been effectively a full lockdown in Shanghai. As a result of this resurgence, our store operation was significantly affected, with daily closure of as many as 550 stores in Shanghai and more than 1,000 stores in China during this period. The COVID-19 situations have been evolving quickly and continuously, and as of the date of this annual report, we cannot predict with any clarity as to whether and when the restrictive measures taken by local government will be lifted, whether and to what extent the COVID-19 situation will deteriorate, and whether and to what extent our business, operations and financial condition will further suffer as a result. See also "Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—Our operations have been and may continue to be affected by the COVID-19 pandemic."

Key Operating Data

The following table presents our key operating data for the periods indicated:

	For the three months ended or as of											
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
Total stores	2,370	2,963	3,680	4,789	5,012	5,091	4,831	4,803	4,951	5,259	5,671	6,024
Total self-operated stores	2,370	2,963	3,680	4,507	4,511	4,267	3,952	3,929	3,939	4,018	4,206	4,397
Total partnership stores	—	—	—	282	501	824	879	874	1,012	1,241	1,465	1,627
Same-store sales growth for self-operated stores(1)	*	*	*	*	(31.4)%	(6.8)%	0.3%	9.2%	94.5%	71.8%	75.8%	43.6%
Average monthly transacting customers (in thousands)(2)	4,402	6,069	8,880	11,588	6,609	8,945	8,215	9,712	8,728	12,285	14,722	16,229

Notes:

- The growth rate of total revenue from self-operated stores that has been in operation as at comparable period beginning and was not closed before current period ending with the number of average operating days over 15 per month over both current period and last year's comparable period. Due to the limited operation history, the same-store sales growth for self-operated stores for the quarters in 2019 is not available.
- The total of each month's number of transacting customers divided by the number of months during the period (includes those of partnership stores and those only paid with free-coupons).

Key Components of Results of Operations

Net Revenues

The following table sets forth a breakdown of our net revenues for the periods indicated:

	For the year ended December 31,							
	2019		2020		2021		2021	
	RMB	%	RMB	%	RMB	%	US\$	%
Net revenues:	(in thousands, except for percentages)							
Revenues from product sales	3,009,590	99.5	3,716,791	92.1	6,659,218	83.6	1,044,977	83.6
<i>Freshly brewed drinks</i>	2,423,638	80.2	3,218,706	79.8	5,909,655	74.2	927,354	74.2
<i>Other products</i>	409,868	13.5	309,745	7.7	395,573	5.0	62,074	5.0
<i>Others</i>	176,084	5.8	188,340	4.6	353,990	4.4	55,549	4.4
Revenues from partnership stores	15,344	0.5	316,627	7.9	1,306,105	16.4	204,956	16.4
Total net revenues	3,024,934	100.0	4,033,418	100.0	7,965,323	100.0	1,249,933	100.0

Revenues from product sales. Revenues from product sales include:

- Revenues from freshly brewed drinks.* We offer an array of freshly brewed drinks, with a focus on freshly brewed coffee, supplemented with non-coffee drinks such as Luckin Exfreezo series. Net revenues from sales of freshly brewed drinks are recognized upon delivery to customers, net of VAT, surcharges and discounts, if any.
- Revenues from other products.* Other products mainly consist of food and beverage items, such as light meals and various merchandise, including cups, tote bags and other consumer goods.
- Revenues from others.* Our revenues from others mainly include delivery fees derived from self-operated stores paid by our customers.

Revenues from partnership stores. Revenues from partnership stores consist of sales of materials and equipment, other services including delivery and pre-opening services including design service of store decoration and provision of decoration materials, profit

sharing paid by retail partners for the right to use brand name of Luckin Coffee or Luckin Tea, promotion activities, a unified ordering and payment collections platform, and basic operation guidance on store management and sanitary conditions, among others.

Operating Expenses

The following table sets forth a breakdown of our total operating expenses for the periods indicated:

	For the year ended December 31,							
	2019		2020		2021		2021	
	RMB	%	RMB	%	RMB	%	US\$	%
	(in thousands, except for percentages)							
Operating expenses:								
Cost of materials	1,623,324	26.0	1,995,380	30.1	3,198,552	37.6	501,923	37.6
Store rental and other operating costs	1,597,125	25.6	1,726,619	26.1	2,036,772	23.9	319,614	23.9
Depreciation and amortization expenses	411,883	6.6	483,421	7.3	465,384	5.5	73,029	5.5
Delivery expenses	438,914	7.1	414,808	6.2	819,549	9.6	128,605	9.6
Sales and marketing expenses	812,592	13.0	462,112	7.0	336,855	4.0	52,860	4.0
General and administrative expenses	1,072,339	17.2	981,645	14.8	1,269,988	14.9	199,289	14.9
Store preopening and other expenses	71,623	1.1	9,982	0.2	16,352	0.2	2,566	0.2
Impairment loss of long-lived assets	209,249	3.4	71,467	1.1	21,368	0.3	3,353	0.3
Losses and expenses related to Fabricated Transactions and Restructuring	—	—	475,252	7.2	339,557	4.0	53,284	4.0
Total operating expenses	6,237,049	100.0	6,620,686	100.0	8,504,377	100.0	1,334,523	100.0

Cost of materials. Cost of materials consists primarily of raw material costs, costs for low-value consumables, storage fees, and logistic expenses for deliveries from warehouses to stores.

Store rental and other operating costs. Our store rental and other operating costs consist primarily of lease payments to lessors of our opened stores, payroll costs for our storefront employees, and utility expenses, among other operating expenses.

Depreciation and amortization expenses. Depreciation expenses consist primarily of depreciation charges for our machines and equipment and amortization expenses for the land use right and leasehold improvements.

Delivery expenses. Delivery expenses consist primarily of fees for delivery service providers that we cooperate with to provide delivery services to our customers.

Sales and marketing expenses. Sales and marketing expenses consist primarily of advertising expenses, commissions for third party service providers such as delivery platforms, cost of free products we offer to customers as part of our marketing initiative to attract new customers, which has ceased from May 2020, as well as payroll expenses for sales and marketing employees.

General and administrative expenses. General and administrative expenses consist primarily of payroll and other employee benefits for our administrative employees, share-based compensation for key eligible managements and employees, research and development expenses, rental expenses for our office buildings, regular professional service fees and other office expenses.

Store preopening and other expenses. Before opening new stores, it usually takes us some time to decorate the new stores and make preparation for store opening. Store preopening expenses primarily include rental costs incurred before opening of new stores. Other expenses mainly include lease exit costs.

Impairment loss of long-lived assets. Impairment loss of long-lived assets consists primarily of impairment loss of our long-lived assets whose fair value is less than the carrying amount. It consists of the impairment loss in connection with Luckin Coffee EXPRESS and Luckin Pop Mini, self-operating stores, idle equipment, and license of Linefriends food for products sold in Luckin Pop Mini.

Losses and expenses related to Fabricated Transactions and Restructuring. Losses and expenses related to Fabricated Transactions and Restructuring consist primarily of (i) our legal and professional fees incurred to respond to a number of legal proceedings and U.S. securities litigations negotiations and claims; (ii) professional fees and expenses reimbursed for the JPLs; (iii) advisory service fees and other professional fees for the Restructuring; (iv) legal fees reimbursed for security holders, underwriters of the Company's initial public offering and follow-on offering, and directors and officers; (v) professional fees related to the Internal Investigation; (vi) a penalty imposed by SAMR on two of our PRC subsidiaries and certain implicated third-party companies and relevant allowance as the result of Fabricated Transactions in connection with the legal proceedings and Restructuring; and (vii) contingent loss of VAT correction of Fabricated Transactions, etc.

Taxation

Cayman Islands

We are incorporated in the Cayman Islands. Under the current law of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

British Virgin Islands

Our subsidiary is incorporated in the British Virgin Islands. Under the current laws of the British Virgin Islands, it is not subject to income or capital gains tax under the current laws of the British Virgin Islands. The British Virgin Islands do not impose a withholding tax on dividends.

Hong Kong

Our subsidiaries incorporated in Hong Kong are subject to Hong Kong profit tax. Under the two-tiered profits tax rates regime, the first 2.0 million Hong Kong Dollar ("HKD") of profits of the qualifying group entity will be taxed at 8.25%, and profits above HKD2.0 million will be taxed at 16.5%. No Hong Kong profit tax has been levied as we did not have assessable profit that was earned in or derived from the Hong Kong subsidiary during the periods presented. Hong Kong does not impose a withholding tax on dividends.

PRC

Our subsidiaries incorporated in China and our VIE are subject to PRC enterprise income tax on their taxable income in accordance with the relevant PRC income tax laws. Pursuant to the PRC Enterprise Income Tax Law, or the EIT Law, which became effective on January 1, 2008 and most recently amended on December 29, 2018, a uniform 25% enterprise income tax rate is generally applicable to both foreign-invested enterprises and domestic enterprises, except where a special preferential rate applies. For example, enterprises qualified as "High and New Technology Enterprises" are entitled to a 15% enterprise income tax rate rather than the 25% uniform statutory tax rate. From January 1, 2019 to December 31, 2020, the first RMB1.0 million of assessable profit before tax is subject to the preferential income tax rate of 20% followed by a 75% exemption for subsidiaries that qualify as "Small Profit Enterprises," while the remaining assessable profit before tax under RMB3.0 million is subject to the tax rate of 20% followed by a 50% exemption. From January 1, 2021 to December 31, 2021, the first RMB1.0 million of assessable profit before tax is subject to the preferential income tax rate of 20% followed by an 87.5% exemption for subsidiaries that qualify as "Small Profit Enterprises," while the remaining assessable profit before tax under RMB3.0 million is subject to the tax rate of 20% followed by a 50% exemption. From January 1, 2022 to December 31, 2024, the first RMB1.0 million of assessable profit before tax is subject to the preferential income tax rate of 20% followed by an 87.5% exemption for subsidiaries that qualify as "Small Profit Enterprises," while the remaining assessable profit before tax under RMB3.0 million is subject to the tax rate of 20% followed by a 75% exemption. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards.

Our PRC subsidiaries are subject to value-added tax, or VAT, at a rate of 6%, 10% and 16% before April 1, 2019 and since then 6%, 9% and 13%, on our products and services, less any deductible VAT we have already paid or borne. They are also subject to surcharges on VAT payments in accordance with PRC law. As a Cayman Islands holding company, we may receive dividends from our PRC subsidiaries. The PRC EIT Law and its implementing rules provide that dividends paid by a PRC entity to a non-resident enterprise for income tax purposes are subject to PRC withholding tax at a rate of 10%, subject to reduction by an applicable tax treaty with China. Pursuant to the Arrangement between PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise may be reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or SAT Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to apply the reduced withholding tax rate: (i) it must be a company; (ii) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (iii) it must have directly owned such required percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. In October 2019, the State Administration of Taxation promulgated the State Taxation Administration on Issuing the Measures for Non-Resident Taxpayers' Enjoyment of Treaty Benefits, or SAT Circular 35, which became effective on January 1, 2020. SAT Circular 35 provides that non-resident enterprises are not required to obtain preapproval from the relevant tax authority in order to enjoy the reduced withholding tax. Instead, non-resident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and file necessary forms when performing tax filings and collect and retain supporting documents, which will be subject to post-tax filing examinations by the relevant tax authorities.

Accordingly, we may be able to benefit from the 5% withholding tax rate for the dividends received from PRC subsidiaries if we satisfy the conditions prescribed under SAT Circular 81 and other relevant tax rules and regulations. However, according to SAT Circular 81 and SAT Circular 35, if the relevant tax authorities consider that the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future.

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a "resident enterprise" under the PRC EIT Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See "Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—If our offshore companies are classified as a PRC resident enterprise for PRC enterprise income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders and the ADS holders."

Results of Operations

The following table sets forth our consolidated results of operations for the periods indicated, both in absolute amounts and as percentages of total net revenues. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	For the year ended December 31,							
	2019		2020		2021		2021	
	RMB	%	RMB	%	RMB	%	US\$	%
	(in thousands, except for percentages)							
Net revenues:								
Revenues from product sales	3,009,590	99.5	3,716,791	92.1	6,659,218	83.6	1,044,977	83.6
<i>Freshly brewed drinks</i>	2,423,638	80.2	3,218,706	79.8	5,909,655	74.2	927,354	74.2
<i>Other products</i>	409,868	13.5	309,745	7.7	395,573	5.0	62,074	5.0
<i>Others</i>	176,084	5.8	188,340	4.6	353,990	4.4	55,549	4.4
Revenues from partnership stores	15,344	0.5	316,627	7.9	1,306,105	16.4	204,956	16.4
Total net revenues	3,024,934	100.0	4,033,418	100.0	7,965,323	100.0	1,249,933	100.0
Cost of materials	(1,623,324)	(53.7)	(1,995,380)	(49.5)	(3,198,552)	(40.2)	(501,923)	(40.2)
Store rental and other operating costs	(1,597,125)	(52.8)	(1,726,619)	(42.8)	(2,036,772)	(25.6)	(319,614)	(25.6)
Depreciation and amortization expenses	(411,883)	(13.6)	(483,421)	(12.0)	(465,384)	(5.8)	(73,029)	(5.8)
Delivery expenses	(438,914)	(14.5)	(414,808)	(10.2)	(819,549)	(10.3)	(128,605)	(10.3)
Sales and marketing expenses	(812,592)	(26.9)	(462,112)	(11.5)	(336,855)	(4.2)	(52,860)	(4.2)
General and administrative expenses	(1,072,339)	(35.4)	(981,645)	(24.3)	(1,269,988)	(15.9)	(199,289)	(15.9)
Store reopening and other expenses	(71,623)	(2.4)	(9,982)	(0.2)	(16,352)	(0.2)	(2,566)	(0.2)
Impairment loss of long-lived assets	(209,249)	(6.9)	(71,467)	(1.8)	(21,368)	(0.3)	(3,353)	(0.3)
Losses and expenses related to Fabricated Transactions and Restructuring	—	—	(475,252)	(11.8)	(339,557)	(4.3)	(53,284)	(4.3)
Total operating expenses	(6,237,049)	(206.2)	(6,620,686)	(164.1)	(8,504,377)	(106.8)	(1,334,523)	(106.8)
Operating loss	(3,212,115)	(106.2)	(2,587,268)	(64.1)	(539,054)	(6.8)	(84,590)	(6.8)
Interest income	79,407	2.6	135,713	3.4	102,248	1.3	16,045	1.3
Interest and financing expenses	(31,629)	(1.0)	(116,471)	(2.9)	(35,490)	(0.4)	(5,569)	(0.4)
Foreign exchange gain/(loss), net	19,842	0.7	(70,937)	(1.8)	120,166	1.5	18,857	1.5
Other expenses, net	(6,303)	(0.2)	(58,635)	(1.5)	(16,513)	(0.2)	(2,591)	(0.2)
Change in the fair value of warrant liability	(8,322)	(0.3)	—	—	—	—	—	—
(Provision)/reversal for SEC settlement	—	—	(1,177,074)	(29.2)	1,146,474	14.4	179,907	14.4
Provision for equity litigants	—	—	(1,226,119)	(30.3)	(155,314)	(2.0)	(24,372)	(2.0)
Impairment of trust investments settlement	—	—	(1,140,000)	(28.3)	—	—	—	—
Net (loss)/income before income taxes	(3,159,120)	(104.4)	(6,240,791)	(154.7)	622,517	7.8	97,687	7.8
Income tax (expense)/benefit	(1,387)	(0.0)	637,801	15.8	63,861	0.8	10,021	0.8
Net (loss)/income	(3,160,507)	(104.4)	(5,602,990)	(138.9)	686,378	8.6	107,708	8.6

Discussion of the Years Ended December 31, 2021 and 2020

Net revenues

Our net revenues were RMB7,965.3 million (US\$1,249.9 million) in 2021, increased by 97.5% from RMB4,033.4 million in 2020. The growth of our net revenues was primarily attributable to the significant increase in the number of our transacting customers, the increase in our items sold, the increase in average selling price of items sold and the increase in our store footprint. As of December 31, 2021, we had 92.0 million cumulative transacting customers, compared to 64.9 million as of December 31, 2020. In 2021, our average monthly total items sold in self-operated stores and unmanned coffee machines were approximately 37.5 million, compared to 26.1 million in 2020. In 2021, the net increase in the number of our self-operated stores was 468, resulting in a year-over-year self-operated store unit growth of 11.9%, ending the year with 4,397 self-operated stores.

Revenues from product sales

Our revenues from product sales were RMB6,659.2 million (US\$1,045.0 million) in 2021, increased by 79.2% from RMB3,716.8 million in 2020.

Our revenues from product sales consist of revenues from freshly brewed drinks, revenues from other products and revenues from others.

(i) Revenues from freshly brewed drinks

Our net revenues from freshly brewed drinks were RMB5,905.7 million (US\$927.4 million) in 2021, increased by 83.6% from RMB3,218.7 million in 2020. The growth of our revenue from freshly brewed drinks was primarily driven by the increase in the number of our freshly brewed drinks sold and the increased price per item.

(ii) Revenues from other products

Our net revenues from other products were RMB395.6 million (US\$62.1 million) in 2021, increased by 27.7% from RMB309.7 million in 2020, primarily driven by the increase in the number of non-freshly brewed items sold and products sold through e-commerce platforms.

(iii) Revenues from others

Our revenues from others increased by 88.0% from RMB188.3 million in 2020 to RMB354.0 million (US\$55.5 million) in 2021, primarily as a result of our increased delivery service fees derived from self-operated stores due to the increase of number of delivery orders.

Revenues from partnership stores

Our revenues from partnership stores were RMB1,306.1 million (US\$205.0 million) in 2021, including sales of materials of RMB834.7 million (US\$131.0 million), sales of equipment of RMB178.8 million (US\$28.1 million), profit sharing of RMB144.8 million (US\$22.7 million) and other services, including delivery services, of RMB147.8 million (US\$23.2 million). Our revenues from partnership stores in 2021 increased by 312.5% from RMB316.6 million in 2020. The growth of our revenues was primarily driven by the significant increase in the number of our partnership stores, items sold and delivery services. As of December 31, 2021, we had 1,627 partnership stores compared to 874 stores in 2020, and our average monthly total items sold in partnership stores was approximately 12.0 million in 2021, compared with approximately 4.2 million in 2020.

Operating expenses

Our operating expenses were RMB8,504.4 million (US\$1,334.5 million) in 2021, compared to RMB6,620.7 million in 2020. The growth of our operating expenses was generally in line with our business expansion. Meanwhile, our operating expenses as a percentage of our net revenues decreased from 164.1% in 2020 to 106.8% in 2021, mainly driven by the increased economies of scale and our technology-driven operations.

Cost of materials

The following table sets forth the components of our costs of materials in absolute amounts and as percentages of total costs of materials for the periods indicated.

	For the year ended December 31,							
	2019		2020		2021		2021	
	RMB	%	RMB	%	RMB	%	US\$	%
	(in thousands, except for percentages)							
Cost of raw materials	1,373,555	84.5	1,430,050	71.7	2,020,606	63.2	317,077	63.2
<i>Freshly brewed drinks</i>	1,074,493	66.1	1,199,309	60.1	1,781,834	55.7	279,609	55.7
<i>Other products</i>	299,062	18.4	230,741	11.6	238,772	7.5	37,468	7.5
Low value consumables	51,335	3.2	42,876	2.1	41,657	1.3	6,537	1.3
Cost of partnership	—	—	280,563	14.1	863,222	27.0	135,458	27.0
Storage fees	82,173	5.1	101,830	5.1	110,633	3.5	17,361	3.5
Logistic expenses	116,261	7.2	140,061	7.0	162,434	5.0	25,490	5.0
Total	1,623,324	100.0	1,995,380	100.0	3,198,552	100.0	501,923	100.0

Our cost of materials was RMB3,198.6 million (US\$501.9 million) in 2021, compared to RMB1,995.4 million in 2020. The increase in the cost of materials was in line with the increase in the number of products sold.

Store rental and other operating costs

The following table sets forth the components of our store rental and other operating costs in absolute amounts and as percentages of total store rental and other operating costs for the periods indicated.

	For the year ended December 31,							
	2019		2020		2021		2021	
	RMB	%	RMB	%	RMB	%	US\$	%
	(in thousands, except for percentages)							
Store rental	525,650	32.9	645,155	37.4	677,869	33.3	106,372	33.3
Payroll	913,675	57.2	917,835	53.1	1,147,227	56.3	180,025	56.3
Utilities and other store expenses	157,800	9.9	163,629	9.5	211,676	10.4	33,217	10.4
Total	1,597,125	100.0	1,726,619	100.0	2,036,772	100.0	319,614	100.0

Our store rental and other operating costs were RMB2,036.8 million (US\$319.6 million) in 2021, compared to RMB1,726.6 million in 2020. The increased store rental and other operating costs in 2021 were primarily attributable to the increased expenses in relation to labor costs, the increased number of stores we operated and increased number of items sold per store.

Depreciation and amortization expenses

The following table sets forth the components of our depreciation expenses in absolute amounts and as percentages of total depreciation expenses for the periods indicated.

	For the year ended December 31,							
	2019		2020		2021		2021	
	RMB	%	RMB	%	RMB	%	US\$	%
	(in thousands, except for percentages)							
Depreciation of equipment	131,736	32.0	203,310	42.1	211,009	45.3	33,112	45.3
Amortization of leasehold improvements and others	279,979	68.0	279,969	57.9	254,228	54.7	39,894	54.7
Amortization of land use right	168	—	142	—	147	—	23	—
Total	411,883	100.0	483,421	100.0	465,384	100.0	73,029	100.0

Our depreciation and amortization expenses decreased from RMB483.4 million in 2020 to RMB465.4 million (US\$73.0 million) in 2021, primarily due to the decreased amortization of leasehold improvements as we recorded substantially less one-off write-down of leasehold improvement for stores closure in 2021 than in 2020, partially offset by the one-off write-down of decoration expenses for our previous Beijing office building as we moved to a new building in 2021.

Delivery expenses

Our delivery expenses increased from RMB414.8 million in 2020 to RMB819.5 million (US\$128.6 million) in 2021, primarily due to the increased number of delivery orders.

We separated delivery expenses out of sales and marketing expenses to optimize our disclosure and better reflect the nature of our expenses. This reclassification is retrospectively applied to our financial disclosures for 2019 and 2020 as reflected in this annual report.

Sales and marketing expenses

The following table sets forth the components of our sales and marketing expenses in absolute amounts and as percentages of total sales and marketing expenses for the periods indicated.

	For the year ended December 31,							
	2019		2020		2021		2021	
	RMB	%	RMB	%	RMB	%	US\$	%
	(in thousands, except for percentages)							
Advertising expenses	586,774	72.2	354,469	76.6	243,671	72.3	38,237	72.3
Free product promotion expenses	206,723	25.4	64,956	14.1	(18,498)	(5.5)	(2,903)	(5.5)
Commission	4,613	0.6	9,719	2.1	60,017	17.8	9,418	17.8
Others	14,482	1.8	32,968	7.2	51,665	15.4	8,108	15.4
Total	812,592	100.0	462,112	100.0	336,855	100.0	52,860	100.0

Our sales and marketing expenses were RMB336.9 million (US\$52.9 million) in 2021, compared to RMB462.1 million in 2020. The decrease in sales and marketing expenses was primarily attributable to the decrease in our advertising expenses and free product promotion expenses as we adopted more cost-effective approaches, such as the cultivation of private domain traffic pools, since April 2020 and ceased our free product promotion activities in May 2020. Such decrease was partially offset by the increased third-party delivery platforms commission as a result of increased number of delivery orders.

General and administrative expenses

The following table sets forth the components of our general and administrative expenses in absolute amounts and as percentages of total general and administrative expenses for the periods indicated.

	For the year ended December 31,							
	2019		2020		2021		2021	
	RMB	%	RMB	%	RMB	%	US\$	%
	(in thousands, except for percentages)							
Payroll	416,316	38.8	420,029	42.8	446,869	35.2	70,123	35.2
Research and development expenses	219,048	20.4	265,537	27.1	251,688	19.8	39,494	19.8
Share-based compensation	152,285	14.2	22,029	2.2	253,523	20.0	39,783	20.0
Professional fees	62,742	5.9	99,851	10.2	112,182	8.8	17,604	8.8
Others	221,948	20.7	174,199	17.7	205,726	16.2	32,285	16.2
Total	1,072,339	100.0	981,645	100.0	1,269,988	100.0	199,289	100.0

Our general and administrative expenses were RMB1,270.0 million (US\$199.3 million) in 2021, compared to RMB981.6 million in 2020. The increase in general and administrative expenses was primarily attributable to the increased share-based compensation to our officers, directors and eligible employees, as well as increased headquarter staff costs and professional service fees.

Store reopening and other expenses

Our store reopening and other expenses were RMB16.4 million (US\$2.6 million) in 2021, compared to RMB10.0 million in 2020. Our store reopening and other expenses increased in 2021 from 2020 primarily due to the increased rental costs for new store openings as we opened more stores in 2021.

Impairment loss of long-lived assets

Our impairment loss of long-lived assets was RMB21.4 million (US\$3.4 million) in 2021, compared to RMB71.5 million in 2020. The impairment loss of long-lived assets in 2021 was related to (i) the equipment that were no longer adaptable to our production as a result of product iteration, and (ii) adjustment for Luckin Tea stores opening plan.

Losses and expenses related to Fabricated Transactions and Restructuring

We incurred losses and expenses related to Fabricated Transactions and Restructuring in a total amount of RMB339.6 million (US\$53.3 million) in 2021, compared to RMB475.3 million in 2020, as we made significant efforts to respond to legal proceedings, comprehensively optimize our capital structure, restructure the Notes and negotiate on equity litigants, and settle penalties in order to better position us for long-term success. Our losses and expenses related to Fabricated Transactions in 2021 primarily consisted of (i) our legal and professional fees incurred to respond to a number of legal proceedings and U.S. securities litigations negotiations and claims of RMB98.6 million (US\$15.5 million); (ii) professional fees and expenses reimbursed for the JPLs of RMB84.2 million (US\$13.2 million); (iii) advisory service fees and other professional fees for the Restructuring of RMB69.1 million (US\$10.8 million); (iv) legal fees reimbursed for security holders, underwriters of the Company's initial public offering and follow-on offering, and directors and officers in a total amount of RMB52.4 million (US\$8.2 million); and (v) contingent loss of VAT correction of Fabricated Transactions of RMB27.7 million (US\$4.3 million). See "Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Internal Investigation, Restatement of Our Consolidated Financial Statements, Internal Control, Offshore Restructuring and Related Matters—The previously disclosed Fabricated Transactions have exposed us to a number of legal proceedings, investigations and inquiries, resulted in significant legal and other expenses, and required significant time and attention from our senior management, among other adverse impacts."

Operating loss

As a result of the foregoing, our operating loss was RMB539.1 million (US\$84.6 million) in 2021, compared to RMB2,587.3 million in 2020.

Interest income

Our interest income was RMB102.2 million (US\$16.0 million) in 2021, compared to RMB135.7 million in 2020. The decrease of interest income was mainly due to the decrease of trust interest in an amount of RMB44.3 million, partially offset by the increase of interest from banking wealth management products.

Interest and financing expenses

Our interest and financing expenses were RMB35.5 million (US\$5.6 million) in 2021 and RMB116.5 million in 2020. The interest and financing expenses in 2021 were primarily consisted of interest expenses for the Notes. The interest expenses in 2021 was relatively low compared to 2020 because we recorded an immediate one-time amortization of issuance cost of the Notes into interest expenses in July 2020 upon the appointment of JPLs, which was an event of default of the Notes.

Foreign exchange gain/(loss), net

We recorded net foreign exchange gain of RMB120.2 million (US\$18.9 million) in 2021, compared to net foreign exchange loss of RMB70.9 million in 2020. The change in net foreign exchange gain was primarily attributable to the capital reduction transactions settled by foreign currency, partially offset by the fluctuations in the exchange rates of our foreign currency deposits.

Other expenses, net

We recorded net other expenses of RMB16.5 million (US\$2.6 million) in 2021, compared to RMB58.6 million in 2020. The net other loss in 2021 was primarily attributable to compensation for default of purchase commitment to Schaefer, loss from assets disposal and donations, partially offset by government grants and gain from assets disposal.

Reversal(provision) for SEC settlement

We reversed the provision for SEC settlement of US\$180 million (RMB1,146.5 million) in 2021 which was recorded in 2020. Based on all available information as of December 31, 2021, it was very probable that the SEC staff would be satisfied that the cash payment to the bond holders to be made in January 2022, estimated at the time to exceed US\$180 million, would fully offset the SEC civil penalty pursuant to the terms of the SEC settlement. Accordingly, we reversed the provision for the SEC Settlement for the year ended December 31, 2021.

Provision for U.S. securities litigation

We recorded a provision for equity litigation of US\$24.4 million (approximately RMB155.3 million) in 2021, compared to US\$187.5 million (approximately RMB1,226.1 million) in 2020, which was the global settlement amount that formed the basis of the Federal Class Settlement.

We have been named as a defendant in various U.S. securities litigations. See “Item 8. Financial Information—8.A. Consolidated Statements and Other Financial Information—Legal Proceedings” and “Note 21 Commitments and Contingencies—Legal proceedings—U.S. Class Action” to the consolidated financial statements included in this annual report. Where possible, the Company contests liability and/or the amount of damages appropriate in each pending matter. Where available information indicates that it is probable that a liability had been incurred as of the date of the consolidated financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues a provision for that loss in accordance with relevant U.S. GAAP principles. The Company’s estimate of probable losses from these litigations is based on either the amount of a settlement (if a settlement has been reached), the Company’s most recent offer made to a claimant (if no settlement has been reached but settlement negotiations have begun) or the implied recovery represented by the Federal Class Action Settlement (where no settlement negotiations have begun). The actual loss could be greater or smaller than our current estimate.

Impairment of trust investments

We recorded full impairment of trust investments of RMB1,140.0 million in 2020. See “Note 4 Short-term Investments, Net” and “Note 11 Related Party Transactions” to the Company’s consolidated financial statements included in this annual report.

Income tax benefit

We recorded income tax benefit of RMB63.9 million (US\$10.0) in 2021, compared to RMB637.8 million in 2020, which resulted from a preferential tax policy in 2020 to mitigate the negative impact of the COVID-19 and a long-term profitable operating forecast.

Net (loss)/income

As a result of the foregoing, we recorded a net income of RMB686.4 million (US\$107.7 million) in 2021, compared to a net loss of RMB5,603.0 million in 2020.

Discussion of the Years Ended December 31, 2020 and 2019

See “Item 5. Operating and Financial Review and Prospects—5.A. Operating Results—Results of Operations—Discussion of the Years Ended December 31, 2020 and 2019” of our annual report on Form 20-F for the fiscal year ended December 31, 2020 filed with the SEC on September 21, 2021.

Non-GAAP Financial Measures

In evaluating the business, we consider and use adjusted operating loss and adjusted net loss, each a non-GAAP financial measure, in reviewing and assessing our operating performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. We present these non-GAAP financial measures because they are used by our management to evaluate operating performance and formulate business plans. We believe that the non-GAAP financial measures help identify underlying trends in our business, provide further information about our results of operations, and enhance the overall understanding of our past performance and future prospects.

The non-GAAP financial measures are not defined under U.S. GAAP and are not presented in accordance with U.S. GAAP. The non-GAAP financial measures have limitations as analytical tools. Our non-GAAP financial measures do not reflect all items of income and expense that affect our operations and do not represent the residual cash flow available for discretionary expenditures. Furthermore, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore their comparability may be limited. We compensate for these limitations by reconciling the non-GAAP financial measures to the nearest U.S. GAAP performance measure, all of which should be considered when evaluating performance. We encourage investors and others to review our financial information in its entirety and not rely on a single financial measure.

We define non-GAAP operating loss as operating loss excluding share-based compensation expenses and impairment loss of long-lived assets, non-GAAP net loss as net (loss)/income excluding share-based compensation expenses, change in fair value of warrant liability, impairment loss of long-lived assets, provision/(reversal) for SEC settlement, provision for equity litigants settlement and impairment of trust investments and non-GAAP net loss attributable to our company's ordinary shareholders as net (loss)/income attributable to our company's ordinary shareholders excluding accretion to redemption value of convertible redeemable preferred shares, share-based compensation expenses, change in fair value of warrant liability, impairment loss of long-lived assets, provision/(reversal) for SEC settlement, provision for equity litigants settlement and impairment of trust investments. The table below sets forth a reconciliation of our operating loss to non-GAAP operating loss, our net (loss)/income to non-GAAP net loss and our net (loss)/income attributable to our company's ordinary shareholders to non-GAAP net loss attributable to our company's ordinary shareholders for the years indicated below.

	For the year ended December 31,			
	2019	2020	2021	US\$
	RMB	RMB	RMB	
	(in thousands)			
Operating loss	(3,212,115)	(2,587,268)	(539,054)	(84,590)
Adjusted for: Share-based compensation expenses	152,285	22,029	302,734	47,505
Add: Impairment loss of long-lived assets	209,249	71,467	—	—
Non-GAAP operating loss	(2,850,581)	(2,493,772)	(236,320)	(37,085)
Net (loss)/income	(3,160,507)	(5,602,990)	686,378	107,708
Adjusted for: Share-based compensation expenses	152,285	22,029	302,734	47,505
Adjusted for: Change in the fair value of warrant liability	8,322	—	—	—
Add: Impairment loss of long-lived assets	209,249	71,467	—	—
Add: Provision/(reversal) for SEC settlement	—	1,177,074	(1,146,474)	(179,907)
Add: Provision for equity litigants settlement	—	1,226,119	155,314	24,372
Add: Impairment of trust investments	—	1,140,000	—	—
Non-GAAP net loss	(2,790,651)	(1,966,301)	(2,048)	(322)
Net (loss)/income attributable to our company's ordinary shareholders	(3,712,596)	(5,589,105)	686,270	107,691
Add: Accretion to redemption value of convertible redeemable preferred shares	552,036	—	—	—
Add: Share-based compensation expenses	152,285	22,029	302,734	47,505
Add: Change in the fair value of warrant liability	8,322	—	—	—
Add: Impairment loss of long-lived assets	209,249	71,467	—	—
Add: Provision/(reversal) for SEC settlement	—	1,177,074	(1,146,474)	(179,907)
Add: Provision for equity litigants settlement	—	1,226,119	155,314	24,372
Add: Impairment of trust investments	—	1,140,000	—	—
Non-GAAP net loss attributable to our company's ordinary shareholders	(2,790,704)	(1,952,416)	(2,156)	(339)

5.B. Liquidity and Capital Resources

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

	For the year ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
Summary Consolidated Cash Flow Data:				
Net cash (used in)/generated from operating activities	(2,166,970)	(2,376,832)	123,447	19,372
Net cash (used in)/generated from investing activities	(1,815,890)	(1,712,333)	337	52
Net cash generated from financing activities	7,240,746	4,029,070	1,514,660	237,683
Effect of foreign exchange rate changes on cash and cash equivalents	92,560	17,711	(22,215)	(3,486)
Net increase/(decrease) in cash and cash equivalents	3,350,446	(42,384)	1,616,229	253,621
Cash and cash equivalents and restricted cash at beginning of year	1,630,983	4,981,429	4,939,045	775,044
Cash and cash equivalents and restricted cash at end of year	4,981,429	4,939,045	6,555,274	1,028,665

Our principal source of liquidity has been cash generated from historical equity financing activities, including the proceeds from our IPO in May 2019, and our follow-on public offering and convertible note offering in January 2020, and the Investment Agreement with an affiliate of Centurium Capital and Joy Capital. See “Item 4. Information on the Company—4.A. History and Development of the Company.” As of December 31, 2019, 2020 and 2021, we had RMB4,981.4 million, RMB4,939.0 million and RMB6,555.3 million (US\$1,028.7 million) in cash and cash equivalents and restricted cash, respectively. Our cash and cash equivalents consist primarily of bank deposits and are primarily denominated in Renminbi and US dollar. Our operating expenses continued to increase historically and are expected to continue to increase in line with our business expansion. Meanwhile, leveraging our new retail model, we experienced robust growth in net revenues in 2019, 2020 and 2021. As a result of increased economies of scale and technology-driven operations, our operating expenses as a percentage of our net revenues decreased significantly from 254.7% in the first quarter of 2020 to 105.0% in the fourth quarter of 2021, and similarly, our operating loss as a percentage of our net revenues decreased rapidly from 154.7% in the first quarter of 2020 to 5.0% in the fourth quarter of 2021. Nevertheless, as we continue to focus on business growth and expansion, our operating expenses in absolute amounts are expected to continue to increase in the near future. Moreover, the competitive landscape and customer demand and preference may also affect our financial performance. As a result, there is substantial uncertainty with respect to our results of operations and we cannot assure you if and when we will achieve profitability. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business and Industry—We have incurred significant operating losses attributable to the Company since our inception and we may continue to experience significant operating losses in the future.” We believe that our current cash and cash equivalents, short-term investments and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for our current business plan, including our cash needs for working capital and capital expenditures, for at least the next 12 months.

In utilizing the proceeds we received from our IPO in May 2019, and our follow-on public offering and convertible note offering in January 2020, we have made and may make capital contributions to our PRC subsidiaries, acquire or establish new PRC subsidiaries or give loans to our PRC subsidiaries for further expansion of our store network. However, most of these uses are subject to PRC regulations. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies may delay us from using the proceeds of our offshore financing to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.” We used and intend to use the proceeds from the Transactions to facilitate the Restructuring and fulfill our obligations under the settlement with the SEC.

Substantially all of our future net revenues are likely to continue to be denominated in Renminbi. Under existing PRC foreign exchange regulations, Renminbi may be converted into foreign currencies for current account items, including profit distributions, interest payments and trade- and service-related foreign exchange transactions, without prior SAFE approval as long as certain routine procedural requirements are fulfilled.

Therefore, our PRC subsidiaries are allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, approval from or registration with competent government authorities is required where the Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future.

Operating Activities

Net cash generated from operating activities was RMB123.4 million (US\$19.4 million) in 2021, compared to Net cash used in operating activities RMB2,376.8 million in 2020. The difference between our net gain of RMB686.4 million (US\$107.7 million) and the net cash generated from operating activities in 2021 was primarily attributable to non-cash reconciliation items including (i) depreciation and amortization of RMB465.4 million, (ii) share-based compensation of RMB302.7 million, (iii) provision for equity litigants of RMB155.3 million and (iv) balance movement including an increase of accrued expenses and other liabilities of RMB254.1 million, partially offset by non-cash reconciliation items including (i) reversal of SEC provision of RMB1,146.5 million, (ii) net foreign exchange gain of RMB120.2 million and (iii) balance movement including an increase of inventories of RMB316.7 million and an increase in receivables from online payment platforms of RMB145.8 million.

Investing Activities

Net cash generated from investing activities was RMB0.3 million (US\$0.1 million) in 2021, compared to net cash used in investing activities of RMB1,712.3 million in 2020. The net cash generated from investing activities was primarily attributable to the proceeds from matured short-term investments of RMB250.0 million, partially offset by the purchase of property and equipment of RMB173.2 million and the payment to acquire noncontrolling interests in a subsidiary of RMB78.0 million.

Financing Activities

Net cash generated from financing activities was RMB1,514.7 million (US\$237.7 million) in 2021, compared to RMB4,029.1 million in 2020. The net cash generated from financing activities in 2021 was primarily attributable to the proceeds from issuance of Senior Preferred Shares of RMB1,514.7 million.

Material Cash Requirements

Our capital expenditures are incurred primarily in connection with the purchase of property and equipment. Our capital expenditures were RMB173.2 million (US\$27.2 million) in 2021, compared to RMB822.3 million in 2020. We have no commitment for capital expenditures as of December 31, 2021. We intend to fund our future capital expenditures with our existing cash balance and cash from operating activities.

We lease stores and offices for operation under operating lease. Payments under operating leases are expensed on a straight-line basis over the periods of their respective leases. As of December 31, 2021, our operating lease commitments were RMB1,258.6 million (US\$197.5 million), of which 47.5% were due by within one year.

As of December 31, 2021, our debt obligation primarily consists of the principal amount of the Notes issued in January 2020 due as of December 31, 2021. On July 15, 2020, the Notes became immediately due and payable following the appointment of JPLs, which constituted an event of default. On March 16, 2021, we announced that we entered into a restructuring support agreement (the "RSA") with holders of a majority of the Notes to restructure the debt under the Notes by way of a scheme of arrangement in the Cayman Islands. On December 14, 2021, we announced that the Cayman Court sanctioned the Scheme. The Scheme became fully effective in accordance with its terms on December 17, 2021. On January 28, 2022, the Restructuring of the Notes as contemplated by the Scheme became effective, and was substantially consummated. In aggregate, in exchange for the Notes, we have issued consideration to creditors under the Scheme totaling US\$245.5 million of cash, US\$109.9 million of 9.00% series B senior secured notes due 2027 (the "New Notes") and 9,527,601 ADSs representing 76,220,808 Class A ordinary shares, which includes 291,699 ADSs issued on April 4, 2022 pursuant to the top-up mechanism under the Scheme. For details about the Notes and the RSA, see "Note 13 Convertible Senior Notes" in the consolidated financial statements included in this annual report." As of December 31, 2021, our total outstanding debt obligation was US\$469.9 million, of which 100% was due by within one year.

Off-Balance Sheet Arrangements

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

Holding Company Structure

The Company, or Luckin Coffee Inc., is a holding company with no material operations of its own. We conduct our operations through our PRC subsidiaries. As a result, the Company's ability to pay dividends depends upon dividends paid by our subsidiaries. If our subsidiaries, our VIE or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to the Company.

In addition, our subsidiaries in China are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with the Accounting Standards for Business Enterprise as promulgated by the Ministry of Finance of the PRC, or PRC GAAP. Before January 1, 2020, pursuant to the law applicable to China's foreign investment enterprise, our subsidiaries that are foreign investment enterprises in the PRC have to make appropriation from their after-tax profit, as determined under PRC GAAP, to reserve funds including (i) the general reserve fund, (ii) the enterprise expansion fund and (iii) the staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the reserve fund has reached 50% of the registered capital of our subsidiary. Appropriations to the other two reserve funds are at our subsidiary's discretion. On January 1, 2020, the Foreign Investment Law and the Implementation Regulations came into effect, which repealed the *PRC Wholly Foreign-Owned Enterprise Law* and the *Implementation Regulations on the Wholly Foreign-Owned Enterprise Law* and became the legal foundation for foreign investment in the PRC. Pursuant to the Foreign Investment Law, the corporate governance matters, including the dividend distribution, shall be governed by the Company Law, the Partnership Law or other laws of the PRC. In accordance with the Company Law of the PRC, our subsidiaries and VIE in China must make appropriations from their after-tax profit to non-distributable reserve funds including (i) the statutory surplus fund and (ii) the discretionary surplus fund. The appropriation to the statutory surplus fund must be at least 10% of the after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the statutory surplus fund has reached 50% of the registered capital of our subsidiaries and VIE. Appropriation to the discretionary surplus fund is made at the discretion of our subsidiaries and VIE. However, according to the Foreign Investment Law and the Implementation Regulations, the foreign investment enterprises established before January 1, 2020 may elect to maintain their current corporate governance rules, including the dividend distribution policy, adopted under the *PRC Wholly Foreign-Owned Enterprise Law*, within five years after January 1, 2020.

As an offshore holding company, we are permitted under PRC laws and regulations to provide funding from the proceeds of our offshore fundraising activities to our PRC subsidiaries only through loans or capital contributions, and to our VIE only through loans, in each case subject to the satisfaction of the applicable government registration and approval requirements. See "Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies may delay us from using the proceeds of our offshore financing to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business." As a result, there is uncertainty with respect to our ability to provide prompt financial support to our PRC subsidiaries and our VIE when needed. Notwithstanding the foregoing, our PRC subsidiaries may use their own retained earnings (rather than Renminbi converted from foreign currency denominated capital) to provide financial support to our VIE either through entrustment loans from our PRC subsidiaries to our VIE or direct loans to such VIE's nominee shareholders, which would be contributed to the consolidated variable entity as capital injections. Such direct loans to the nominee shareholders would be eliminated in our consolidated financial statements against the VIE's share capital.

5.C. Research and Development

Technology is at the core of our business, and we will continue to invest in our technology, which covers every aspect of our business, from customer engagement and storefront operations to supply chain management. With our centralized technology system, we are able to simplify and standardize our operations, which allows us to improve operational efficiency and quickly expand and scale up our business. See “Item 4. Information on the Company—4.B. Business Overview—Technology.”

5.D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the fiscal year ended December 31, 2021 that are reasonably likely to have a material and adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future results of operations or financial condition.

5.E. Critical Accounting Estimates

We prepare our financial statements in accordance with U.S. GAAP, which requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet dates and revenues and expenses during the reporting periods. We continually evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and assumptions that we believe to be reasonable, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements. You should read the following description of critical accounting policies, judgments and estimates in conjunction with our consolidated financial statements and other disclosures included in this annual report.

Revenue recognition

We adopted ASC Topic 606, Revenue from Contracts with Customers (“ASC 606”), from January 1, 2019, using the modified retrospective transition approach. A description of our principal revenue generating activities is as follows:

Revenues from product sales

We offer freshly brewed drinks and other products (including pre-made food, beverage and merchandise items) mainly through our physical self-operated stores, Luckin Coffee EXPRESS and online e-commerce platforms. Customers place orders for products mainly through our self-developed Luckin mobile app, Weixin mini-program and other third-party platforms with different options to pay through third-party payment channels. We recognize revenues at point in time when we satisfy performance obligations upon customers’ in-store pickup or the delivery of promised products to customers. Delivery service is provided if it is a delivery order. Delivery service is determined as an activity to fulfill our promise to transfer the products, rather than another distinct performance obligation as it is performed before the customers obtain control of the products. Revenues represent the amount of consideration that we are entitled to, including products settlement price and delivery fees charged to customers, net of value-added tax (the “VAT”), surcharges, discounts and returns, if any. There is no significant financing component or variable consideration in the transaction price. We reasonably estimate the possibility of return based on the historical experience, and there were no material returns historically.

We evaluate whether it is appropriate to record the gross amount of product sales and related costs or the net amount. We are a principal for the substantial majority of product sales as we produce or obtain control of the specified goods before they are transferred to the customers, except for a portion of revenue from products sold on our own e-commerce platform, for which our obligation is to facilitate third-party merchants in fulfilling their performance obligation for the goods displayed on our own e-commerce platform acting as an agent. Revenue from product sales as a principal were RMB3,009.6 million, RMB3,716.8 million and RMB6,659.2 million (US\$1,045.0 million) for the years ended December 31, 2019, 2020 and 2021 respectively, including revenue from product sales as an agent were nil, RMB3.7 million and RMB2.0 million (US\$0.3 million) for the years ended December 31, 2019, 2020 and 2021, respectively.

Revenues from partnership stores

We cooperate with selective retail partners to operate the partnership stores. Under retail partnership model, we sell materials such as coffee beans, milk, food and related products to our retail partners and shares simplified and standardized operation experience and provides use right of brand name and sales and supply chain management in exchange for a profit-sharing on retail sales. Our retail partners are responsible for pre-opening capital investments and operating costs.

Revenues from partnership stores mainly consist of sales of materials and equipment to the partnership stores, profit-sharing revenue from the partnership stores for using the Luckin Coffee or Luckin Tea brand as well as integrated store operation solution, and other services including delivery services and pre-opening services.

For material sales, our performance obligation is to transfer required materials at fixed unit price to retail partners. We provide allowance for materials sales as consideration payable to retail partners when the products sold in partnership stores to customers at lower price than the cost of materials with certain markup to comply with our promotion strategy. Allowance for partnership stores is accounted for as a reduction of the transaction price, which is usually determined upon the completion of each order. Therefore, sales of materials are generally recognized on the partnership stores' acceptance of materials, the settlement price is then deducted by the allowance provided to partnership stores that is determined upon the products are sold in partnership stores, if any. Revenue from material sales to partnership stores were RMB12.6 million, RMB227.2 million and RMB834.7 million (US\$131.0 million) for the years ended December 31, 2019, 2020 and 2021, respectively.

For equipment sales, our performance obligation is to transfer equipment to retail partners at a fixed consideration with one-year warrant, which is not a distinct performance obligation as it is intended to provide an assurance that the equipment complies with agreed-upon functionality described in the contract. Revenue from sales of equipment is recognized at point in time when equipment is installed and tested to be ready to use. We accrue warrant as guarantee obligation according to ASC Topic 460, Guarantees. Revenue from equipment sales to partnership stores were nil, RMB43.3 million and RMB178.8 million (US\$28.1 million) for the years ended December 31, 2019, 2020 and 2021, respectively, and warrant liability was immaterial.

For profit-sharing, we provide the integrated store operation solution, which includes the right to use brand name of Luckin Coffee or Luckin Tea, products and brand name promotion activities, unified ordering and payment collections platform, and basic operation guidance on store management and sanitary conditions, etc., in exchange for the profit-sharing based on the gross profit of retail sales. We recognize the profit-sharing revenue from partnership stores at a variable consideration that is based upon partnership stores' monthly gross profits which are determined at the end of each month. We offer a price concession to the retail partners to free the new stores' profit-sharing for a period of time ranging from the first one month to three months, which is subject to our adjustment. Especially, between January to June 2020, during the outbreak of COVID-19, we waived substantially all the profit-sharing from partnership stores. Price concession for profit-sharing is accounted for as a reduction of the transaction price and deducts our revenue directly. Revenue from partnership stores' profit-sharing were RMB0.2 million, RMB12.8 million and RMB144.8 million (US\$22.7 million) for the years ended December 31, 2019, 2020 and 2021, respectively.

We also provide other services including pre-opening services such as design of store decoration and provision of decoration materials and delivery service, which have distinct value to partnership stores and are recognized upon completion of the related performance obligations. Other revenues from partnership stores were RMB2.5 million, RMB33.3 million and RMB147.8 million (US\$23.2 million) for the years ended December 31, 2019, 2020 and 2021, respectively.

Contract balance

When either party to a revenue contract has performed, we present the contract in the consolidated balance sheet as a contract asset or a contract liability, depending on the relationship between our performance and the customer's payment. We present any unconditional rights to consideration separately as a receivable. We do not have material contract asset. The balance of accounts receivable, net of nil and RMB0.8 million (US\$0.1 million) allowance for doubtful accounts, were RMB17.4 million and RMB38.6 million (US\$6.1 million) as of December 31, 2020 and 2021, respectively.

Customers that purchase prepaid coupons are issued additional coupons of the same par value for free at the time of purchase. All prepaid coupons are stored in the "Coffee Wallet" of the customers' registered accounts for future use. Cash received from the sales of prepaid coupons are recognized as deferred revenues which are contract liabilities under ASC 606 and recognized as revenue upon the expiry of prepaid coupons. Purchase consideration is allocated to each prepaid coupon, including the coupons issued for free. The allocated considerations are recognized as revenues when the customers consume the prepaid coupons for payments of their purchase. As of December 31, 2020 and 2021, the balance of deferred revenues was RMB88.2 million and RMB96.2 million (US\$15.1 million), respectively.

Income taxes

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

We accounted for uncertainties in income taxes in accordance with ASC 740. Interest and penalties related to unrecognized tax benefit recognized in accordance with ASC 740 are classified in the consolidated statements of comprehensive loss as income tax expenses. No interest and penalties related to unrecognized tax benefit were recorded for the years ended December 31, 2019, 2020 and 2021.

Leases

We enter into lease agreements to have leasing for self-operated stores, office spaces, and other corporate assets that we utilize. Before January 1, 2021, we adopted ASC Topic 840 ("ASC 840"), Leases, and each lease is classified at the inception date as either a capital lease or an operating lease. We did not enter into any leases whereby it is the lessor for any of the periods presented.

We adopted the new lease accounting standard, ASC Topic 842, Leases ("ASC 842"), from January 1, 2021 since we ceased to act as an emerging growth company ("EGC") as defined by the Jumpstart Our Business Startups Act ("JOBS Act") in 2021, using the modified retrospective transition approach through a cumulative-effect adjustment in the period of adoption rather than retrospectively adjusting prior periods and the package of practical expedients. We categorize leases with contractual terms longer than twelve months as either operating or finance lease. However, we did not enter into finance leases for any of the periods presented.

At inception of a contract, we assess whether a contract is, or contains, a lease. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange of a consideration. To assess whether a contract is or contains a lease, we assess whether the contract involves the use of an identified asset, whether we have the right to obtain substantially all the economic benefits from the use of the asset and whether we have the right to control the use of the asset.

Right-of-use ("ROU") assets represent our rights to use underlying assets for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at commencement date. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Operating lease ROU assets

The right-of-use assets are initially measured at cost, which comprise the initial amounts of the lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and less any lease incentive received.

Operating lease liabilities

Lease liabilities are initially measured at the present value of the outstanding lease payments at the commencement date, discounted using the discount rate for the leases. As most of our leases do not provide an implicit rate, we use its incremental borrowing rate based on the information available at lease commencement date in determining the present value of lease payments. Lease payments included in the measurement of the lease liabilities comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee and any exercise price under a purchase option that we are reasonably certain to exercise. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise that option.

Lease liabilities are measured at amortized cost using the effective interest rate method. They are re-measured when there is a change in future lease payments, if there is a change in the estimate of the amount expected to be payable under a residual value guarantee, or if there is any change in our assessment of option purchases, contract extensions or termination options.

Accounts receivable

Accounts receivable represents the amounts that we have an unconditional right to consideration. Since as of December 31, 2021 the Company no longer qualifies as an EGC, it adopted ASU No. 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, by using the modified retrospective method, effective as of January 1, 2021, and reflected the impact in its financial statements for the year ended December 31, 2021. We maintain an estimated allowance for credit losses to reduce its accounts receivable to the amount that it believes will be collected. We use industry trend, the age of the amounts, the payment history, creditworthiness and financial condition of the customers as credit quality indicators to monitor our receivables within the scope of expected credit losses model and use these as a basis to develop our expected loss estimates. We adjust the allowance percentage periodically when there are significant differences between estimated bad debts and actual bad debts. If there is strong evidence indicating that the accounts receivable is likely to be unrecoverable, we also make specific allowance in the period in which a loss is determined to be probable. Accounts receivable balances are written off after all collection efforts have been exhausted. Bad debt allowance was nil and RMB0.8 million (US\$0.1 million) as of December 31, 2020 and 2021, respectively.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of inventory is determined using the moving weighted average method. Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to obsolete and slow-moving inventories, which is dependent upon factors such as historical and forecasted consumer demand, and application of the specific identification method. For the years ended December 31, 2019, 2020 and 2021, we recognized inventory impairment of RMB2.2 million, RMB26.3 million and RMB5.6 million (US\$0.9 million), respectively. Write downs are recorded in cost of revenues in the Consolidated Statements of Operations and Comprehensive (Loss)/Income.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any recorded impairment. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

<u>Category</u>	<u>Estimated useful life</u>
Store operating equipment	5 years
Office equipment and others	3-5 years
Leasehold improvements	Over the shorter of lease term or the estimated useful lives of the assets
Mechanical equipment	10 years
Office buildings	40-50 years

Direct costs that are related to the construction of property and equipment and incurred in connection with bringing the assets to their intended use are capitalized as construction in progress. Construction in progress is transferred to specific property and equipment items and the depreciation of these assets commences when the assets are ready for their intended use.

Repair and maintenance costs are charged to expense as incurred, whereas the costs of betterments that extend the useful life of property and equipment are capitalized as additions to the related assets. Retirements, sale and disposals of assets are recorded by removing the cost and accumulated depreciation with any resulting gain or loss reflected in the consolidated statements of comprehensive loss.

Fair value of financial instruments

We apply ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 requires disclosures to be provided on fair value measurement.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2—Other inputs that are directly or indirectly observable in the marketplace.
- Level 3—Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach; and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Our financial instruments include cash and cash equivalents, short-term investments, accounts and notes payable, receivables from online payment platforms, accounts receivable, deposits, other receivables and payables, and convertible senior notes. The carrying values of these financial instruments approximate their fair values due to their short-term maturities. The carrying amount of the long-term borrowing approximates its fair values since it bears an interest rate which approximates market interest rate.

Share-based compensation

We apply ASC 718, *Compensation—Stock Compensation* (“ASC 718”), to account for our employee share-based payments. In accordance with ASC 718, we determine whether an award should be classified and accounted for as a liability award or equity award. All the share-based awards to employees were classified as equity awards and are recognized in the consolidated financial statements based on their grant date fair values. We recognize share-based compensation cost for equity awards to employees with a performance condition based on the probable outcome of that performance condition. Compensation cost is recognized using the accelerated method if it is probable that the performance condition will be achieved. We account for forfeitures as they occur.

Fair value of ordinary shares before IPO

Prior to our IPO, we were a private company with no quoted market prices for our ordinary shares. Therefore, we need to estimate the fair value of our ordinary share as at the grant dates of share-based compensation awards to our employees as one of the inputs into determining the grant date fair value of the award.

We considered the use of three generally accepted valuation approaches: market, cost and income approach, and applied the method that we believe as the most appropriate in accordance with the guidelines outlined in the American Institute of Certified Public Accountants' Practice Aid, Valuation of Privately-Held Company Equity Securities Issued as Compensation, with the assistance of an independent third-party appraiser. The assumptions we used in the valuation model are based on future expectations combined with management's judgment, with inputs of numerous objective and subjective factors, to determine the fair value of ordinary shares. The factors that we considered include the following:

- Our operating and financial performance;
- Current business conditions and projections;
- Our stage of development;
- The prices, rights, preferences and privileges of our preferred shares relative to those of our ordinary shares;
- The likelihood of achieving a liquidity event for our company's shares, such as an initial public offering;
- Any adjustment necessary to recognize a lack of marketability for our ordinary shares; and
- The market performance of industry peers.

In order to determine the fair value of our ordinary shares underlying the share option grant, we first determined our equity value and then allocated the equity value to different classes of shares under liquidation, the redemption and the IPO scenarios, using a combination of the probability-weighted expected return method and the option pricing method. Under the liquidation and the redemption scenarios, option pricing method was adopted to allocate the value between convertible preferred shares and ordinary shares, and under the IPO scenario, total equity value was allocated to preferred shares and ordinary shares on an as-if converted basis.

In determining our equity value, we used the discounted cash flow (DCF) method of the income approach as the primary valuation approach, and to cross-check the reasonableness of results derived under the income approach by the market approach.

The DCF analysis is performed using the projected cash flows developed by management based on management's best estimates as of the valuation date. The determination of fair value requires complex and subjective judgments to be made regarding projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of valuation. The major assumptions used in the DCF include:

- Weighted average cost of capital, or WACC: The discount rates applied in the DCF were based on the WACCs determined after considering factors including risk-free rate, comparative industry risk, equity risk premium, company size and non-systematic risk factors.
- Comparable companies: In deriving the WACCs, seven similar publicly traded companies were selected as our guideline companies.
- Discount for lack of marketability, or DLOM: DLOM was estimated based on the value of a put option determined by using the Finnerty model and the Black-Scholes option-pricing model. The value of a put option serves as a proxy for the premium a willing buyer would pay to guarantee the marketability and price of the underlying asset in the future. The farther the valuation date is from an expected liquidity event, the higher the put option value would be and thus the higher the implied DLOM. The lower DLOM is used for the valuation, the higher is the determined fair value of the ordinary shares.

The income approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts.

The growth rates of our revenues, as well as major milestones that we have achieved, contributed to the fair value of the shares. However, fair value determination is highly subjective. The assumptions used in deriving the fair value are consistent with our business plan. These assumptions include: no material changes in the existing political, legal and economic conditions in China; our ability to retain competent management, key personnel and staff to support our ongoing operations; and no material deviation in market conditions from economic forecasts. These assumptions are inherently uncertain. The risks associated with achieving forecasts were assessed in selecting the appropriate discount rates.

In accordance with the 2019 Share Option Plan, vested options became exercisable after the IPO. Given that the inability of the employees to exercise these options or receive any ordinary shares until the completion of the IPO constitutes a performance condition that was not considered probable until the IPO completion date, we did not recognize any compensation expense until an IPO occurs. As such, no share-based compensation expenses were recognized before our IPO in May 2019.

Upon the completion of the IPO, we immediately recognized expenses associated with options that were vested as of that date. In addition, we also recognized any remaining compensation expenses over the remaining service requisite period using the accelerated method.

Recently Issued Accounting Pronouncements

A list of recent relevant accounting pronouncements is included in Note 2 “Summary of Significant Accounting Policies” to our consolidated financial statements included in this annual report.

Item 6. Directors, Senior Management and Employees

6.A. Directors and Senior Management

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

Directors and Executive Officers	Age	Position/Title
Dr. Jinyi Guo	40	Chairman and Chief Executive Officer
Wenbao Cao	52	Director and Senior Vice President
Gang Wu	49	Director and Senior Vice President
Yang Cha	58	Independent Director
Wai Yuen Chong	58	Independent Director
Feng Liu	55	Independent Director
Sean Shao	65	Independent Director
Reinout Hendrik Schakel	40	Chief Financial Officer and Chief Strategy Officer
Fei Yang	44	Chief Growth Officer
Shan Jiang	46	Senior Vice President
Weiming Zhou	49	Senior Vice President

Dr. Jinyi Guo is one of the co-founders of the Company and has served as our director since June 2018 and our chairman of the Board and the chief executive officer since July 2020. Dr. Guo served at various positions at UCAR Inc. from 2016 to 2017. He worked at Ministry of Transport from 2011 to 2016, and worked at China Academy of Transportation Sciences as a research assistant from 2009 to 2011. Dr. Guo obtained his master’s degree in July 2005 and a Ph.D. in July 2009 from Beijing Jiaotong University, majoring in transportation planning and management. Dr. Guo was a visiting scholar at the University of Leeds in 2008.

Mr. Wenbao Cao has served as our director since May 2020 and Senior Vice President of the Company since June 2018. Mr. Cao is currently in charge of the Company’s operations, including store operations, construction and development and customer service. Before joining the Company, Mr. Cao had over 23 years of experience at McDonald’s China and served in various positions, including vice president and North regional manager at McDonald’s China.

Mr. Gang Wu has served as our director since May 2020 and Senior Vice President of the Company in charge of public affairs and strategic cooperation since February 2021. Before joining the Company, Mr. Wu had over 26 years of experience in the airline industry, including holding senior management positions at China United Airlines, China Eastern Airlines and Air China.

Mr. Yang Cha has more than 20 years of work experience in law, investment and management. From 2013 to 2019, Mr. Cha acted as the President of Tsinghua Education Foundation, North America, a non-profit organization registered in, and regulated by, authorities in the United States, in the meanwhile acting as a venture partner for several venture capital firms with a focus on early-stage technology start-ups. Prior to that, Mr. Cha worked at leading law firms in the United States and China with a focus in corporate finance and governance matters.

Mr. Wai Yuen Chong has more than 30 years' management experience in areas including retail operations, supply chain, logistics, IT and manufacturing. He served several roles in Charoen Pokphand Group, including the CEO of Bake House (Shanghai) Catering Management Co. Ltd. and COO of CP Supply Chain Investment Co. Ltd. Before joining Charoen Pokphand Group, Mr. Chong worked at Starbucks China/Asia Pacific and Yum! Brands China as a senior executive.

Mr. Feng Liu is a leading scholar with expertise in accounting studies. Mr. Liu is currently a professor and the director of Center for Accounting Studies at Xiamen University. Mr. Liu has also accumulated rich experience on practices in auditing, accounting, internal control and risk management, serving a long time as an independent director of different companies and consultant of various firms.

Mr. Sean Shao has served as an independent director and the chairman of the audit committee of 21Vianet Group, Inc. (NASDAQ: VENT) since 2015 and UTStarcom Holdings Corp. (NASDAQ: UTSI) since 2012. Mr. Shao served several board and senior executive roles in various companies. Mr. Shao also worked at Deloitte Touche Tohmatsu CPA Ltd. for approximately a decade. Mr. Shao obtained a bachelor's degree in art from East China Normal University in 1982 and a master's degree in healthcare administration from the University of California at Los Angeles in 1988. Mr. Shao is a member of the American Institute of Certified Public Accountants.

Mr. Reinout Hendrik Schakel has served as our chief financial officer and chief strategy officer since January 2019. Mr. Schakel worked at the corporate & institutional banking division of Standard Chartered Bank as an executive director from 2016 to 2018. From 2008 to 2016, Mr. Schakel served successively as an analyst, associate and vice president for the investment banking division of Credit Suisse. Mr. Schakel obtained a master of business administration degree from Erasmus University in December 2005.

Mr. Fei Yang has served as our chief growth officer in charge of sales growth, user operation and marketing since June 2020. He is one of the co-founders of the Company and has been responsible for Luckin's brand creation since the inception of our Company. Mr. Yang has more than 20 years' experience in the areas of branding and digital marketing. He is also the author of *The Flow-Pool Thinking*, a popular book on sales and marketing in China. Mr. Yang obtained his master's degree in journalism and communication from the Communication University of China.

Mr. Shan Jiang joined Luckin in September 2020 as special counsel and was named senior vice president in charge of legal and compliance matters in February 2021. Before joining the Company, Mr. Jiang served as Associate General Counsel of Airbnb, Inc. (NASDAQ: ABNB), where he was in charge of legal and compliance matters in China. Prior to joining Airbnb, Inc., Mr. Jiang has worked for Amazon.com, Inc. (NASDAQ: AMZN) and also for Davis Polk & Wardwell LLP, where he had experiences in major commercial transactions and capital markets. Mr. Jiang obtained a bachelor's degree from Peking University, a master's degree in computer science from Dartmouth College and a Juris Doctor degree from Columbia Law School.

Mr. Weiming Zhou has served as our senior vice president in charge of product since December 2019. Mr. Zhou has more than 20 years' work experience in the catering and food sectors. Before joining the Company, Mr. Zhou served as senior director of Meituan (3690.HK), where he was in charge of catering and proprietary products. Prior to joining Meituan, Mr. Zhou served as director of product development of Yum! Brands, where he was in charge of product development. Prior to that, Mr. Zhou served in various positions in Coca Cola and McCormick. Mr. Zhou obtained his bachelor's degree in grain and oilseeds engineering from Jiangnan University (formerly known as Wuxi Institute of Light Industry).

6.B. Compensation

Compensation

In 2021, we paid an aggregate of RMB31.74 million (US\$4.98 million) in cash to our executive officers, and paid an aggregate of RMB3.86 million (US\$0.6 million) in cash to our non-executive directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers, except that our PRC subsidiaries and our variable interest entity are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

For share incentive grants to our directors, executive officers and employees, see “—Share Incentive Plan.”

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers. We may terminate an executive officer's employment for cause at any time without advance notice in certain events, including acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment. We may terminate an executive officer's employment in circumstances prescribed under and in accordance with the applicable labor law by giving a prior written notice and paying certain compensation. An executive officer may terminate his or her employment at any time by giving a prior written notice. Some of our executive officers are entitled to certain compensation or benefits in the event of a change of control.

Each executive officer has agreed to hold, unless expressly consented to by us, at all times during and after the termination of his or her employment agreement, in strict confidence and not to use, any of our confidential information or the confidential information of our customers and suppliers.

We have also entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we agree to indemnify our directors and executive officers against all liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company to the fullest extent permitted by law with certain limited exceptions.

Share Incentive Plan

2019 Share Option Plan

We adopted the 2019 Share Option Plan, in January 2019. The purpose of the 2019 Share Option Plan is to enhance our ability to attract and retain exceptionally qualified individuals and to encourage them to acquire a proprietary interest in the growth and performance of us. The maximum aggregate number of Class A ordinary shares that can be issued under the 2019 Share Option Plan is 79,015,500. As of the date of this annual report, 66,938,589 options (excluding any granted options that were subsequently canceled) have been granted with 45,459,688 vested yet not exercised and 14,993,389 unvested options under the 2019 Share Option Plan.

The following is a summary of the principal terms of the 2019 Share Option Plan.

Eligible participants. Our employees, officers, directors, business associates or any other individual as determined by our Board, in its sole discretion, who has contributed or will contribute to our company, is eligible to participate in the 2019 Share Option Plan.

Exercise of options. Vested options have become exercisable after the IPO of our Ordinary Shares, subject to other terms and conditions provided in the relevant grant letter. Once all the preconditions are met, a participant may exercise options in whole or in part by giving written notice of exercise to us specifying information such as the number of shares to be purchased, as well as making full payment of the aggregate exercise price of the shares so purchased.

Exercise price. The exercise price in respect of options granted under the 2019 Share Option Plan is determined by our Board in its sole discretion and set forth in the grant letter subject to any adjustment as a result of any alteration in the capital structure of our company by way of capitalization of profits or reserves, rights issue, subdivision or consolidation of shares or reduction of share capital of our company from time to time, but excluding, for the avoidance of doubt, any alteration in the capital structure of our company as a result of an issue of shares or other securities as consideration in a transaction to which our company is a party.

Vesting schedule. Our Board has the sole discretion in determining the individual vesting schedules and other restrictions applicable to shares awarded and opinions granted under such plan.

Administration. The plan is administered by our Board.

Lapse of option. An option issued under the 2019 Share Option Plan shall lapse automatically under certain circumstances, including but not limited to the expiration of option period, termination of employment for cause and the tenth anniversary of the adoption date of such plan.

Amendment. Any change to the authority of our Board in relation to any alteration to the terms of the 2019 Share Option Plan must be approved by the shareholders in general meeting. Subject to the above, our Board may amend any of the provisions of such plan at any time provided that such amendment shall not affect adversely any rights that have accrued to any grantee at that date.

Termination. The 2019 Share Option Plan will terminate on the tenth anniversary of its date of adoption, unless terminated earlier. We may, by ordinary resolution in a general meeting, or our Board may, at any time, terminate the operation of such plan, and in such event no further options shall be granted. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the scheme.

Transfer restrictions. An option is personal to the grantee and shall not be assignable or transferable.

The shares reserved and to be issued under our 2019 Share Option Plan have been registered on the Form S-8 on June 13, 2019.

2021 Equity Incentive Plan

We adopted a share incentive plan in January 2021, which we refer to as the 2021 Equity Incentive Plan in this annual report, to retain, attract and motivate employees and directors by providing them with equity incentives. The maximum aggregate number of Ordinary Shares we are authorized to issue pursuant to all awards under the 2021 Equity Incentive Plan is 222,769,232 Ordinary Shares. As of the date of this annual report, restricted share units to receive ADSs representing 77,191,824 Class A Ordinary Shares (excluding any granted restricted share units that were subsequently canceled), have been granted with restricted share units to receive ADSs representing 32,581,592 Class A Ordinary Shares vested under the 2021 Equity Incentive Plan.

The following is a summary of the principal terms of the 2021 Equity Incentive Plan.

Types of awards. The 2021 Equity Incentive Plan permits the awards of options, restricted shares, restricted share unit awards or other types of awards approved by the compensation committee of our Board, or any other committee appointed by the Board to administer the 2021 Equity Incentive Plan (the "Committee") granted to a plan participant pursuant to the 2021 Equity Incentive Plan.

Award agreements. Awards under the 2021 Equity Incentive Plan shall be evidenced by award agreements that set forth the terms, conditions and limitations for each award, which may include the term of an award, the provisions applicable in the event the participant's employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an award.

Eligible participants. Our employees, consultants and directors as determined by the compensation committee of our Board, or any other committee appointed by the Board to administer the 2021 Equity Incentive Plan, by record in writing in its sole discretion, are eligible to participate in the 2021 Equity Incentive Plan.

Exercise of options. The Committee shall determine the time or times at which an option may be exercised in whole or in part, including exercise prior to vesting; provided that the term of any option granted under the 2021 Equity Incentive Plan shall not exceed ten years. The Committee shall also determine the conditions, if any, that must be satisfied before all or part of an option may be exercised.

Exercise price. The exercise price per share subject to an option shall be determined by the Committee and set forth in the award agreement which, unless otherwise determined by the Committee, may be a fixed or variable price related to the fair market value of the shares on the date of grant; provided, however, that no option may be granted to an individual subject to taxation in the United States with an exercise price per share at less than the fair market value on the date of grant.

Administration. The 2021 Equity Incentive Plan shall be administered by the Committee to whom the Board shall delegate the authority to grant or amend awards to participants.

Amendment and termination. The Board in its sole discretion may terminate the 2021 Equity Incentive Plan at any time. The Board may amend the 2021 Equity Incentive Plan at any time in such respects as the board may deem advisable; provided that to the extent necessary and desirable to comply with applicable laws, or stock exchange rules, the Company shall obtain shareholder approval of any amendment in such a manner and to such a degree as required.

Transfer restrictions. Except as provided in the 2021 Equity Incentive Plan, all awards are nontransferable and will not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge, and will be exercised only by the participant. Amounts payable or shares issuable pursuant to an award will be delivered only to (or for the account of), and, in the case of shares, registered in the name of, the participant.

The following table summarizes, as of the date of this annual report, the number of Class A ordinary shares under outstanding options and awards that we granted to our directors and executive officers.

Name	Class A Ordinary Shares Underlying Outstanding Share-Based Awards Granted ⁽¹⁾	Exercise Price (US\$ per Share) ⁽²⁾	Date of Grant	Date of Expiration ⁽³⁾
Dr. Jinyi Guo	28,066,160	0.0002	from January 18, 2019 to January 19, 2022	January 18, 2029
Wenbao Cao	*	0.0002	from January 18, 2019 to January 19, 2022	from January 18, 2029 to November 6, 2030
Gang Wu	*	0.0002	from November 6, 2020 to January 19, 2022	November 6, 2030
Feng Liu	*	N/A	from July 1, 2021 to January 19, 2022	N/A
Wai Yuen Chong	*	N/A	from July 1, 2021 to January 19, 2022	N/A
Yang Cha	*	N/A	from July 1, 2021 to January 19, 2022	N/A
Sean Shao	*	N/A	from July 1, 2021 to January 19, 2022	N/A
Reinout Hendrik Schakel	*	0.0002	from January 18, 2019 to January 19, 2022	January 18, 2029
Fei Yang	*	0.0002	from January 18, 2019 to January 19, 2022	from January 18, 2029 to November 6, 2030
Shan Jiang	*	N/A	from February 1, 2021 to January 19, 2022	N/A
Weiming Zhou	*	0.0002	from November 6, 2020 to January 19, 2022	November 6, 2030

* Less than 1% of our total outstanding ordinary shares on an as-converted basis.

- (1) Include shares underlying options and shares in the form of restricted share units. Restricted share units have no applicable exercise price or expiration date.
- (2) Not applicable to restricted share units.
- (3) Not applicable to restricted share units.

As of the date of this annual report, other grantees as a group were granted (i) options (excluding any granted options that were subsequently canceled) to purchase 4,376,097 Class A ordinary shares, and (ii) restricted share units representing 51,709,064 Class A ordinary shares (in the form of 6,463,633 ADSs).

6.C. Board Practices

Board of Directors

Our Board consists of seven directors, including four independent directors, namely Mr. Feng Liu, Mr. Wai Yuen Chong, Mr. Yang Cha and Mr. Sean Shao. A director is not required to hold any shares in our company to qualify to serve as a director.

A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with our company is required to declare the nature of his or her interest at a meeting of our directors. A general notice given to the directors by any director to the effect that he or she is a member, shareholder, director, partner, officer or employee of any specified company or firm and is to be regarded as interested in any contract or transaction with that company or firm shall be deemed a sufficient declaration of interest for the purposes of voting on a resolution in respect to a contract or transaction in which he/she has an interest, and after such general notice it shall not be necessary to give special notice relating to any particular transaction. A director may vote in respect of any contract or proposed contract or arrangement notwithstanding that he/she may be interested therein and if he/she does so, his/her vote shall be counted and he/she may be counted in the quorum at any meeting of the directors at which any such contract or proposed contract or arrangement is considered. Our Board may exercise all of the powers of our company to borrow money, to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue debentures, debenture stock or other securities whenever money is borrowed or as security for any debt, liability or obligation of our company or of any third party. None of our directors has a service contract with us that provides for benefits upon termination of service as a director.

Committees of the Board of Directors

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

Audit Committee. Our audit committee consists of Mr. Feng Liu, Mr. Wai Yuen Chong, Mr. Yang Cha and Mr. Sean Shao, and is chaired by Mr. Feng Liu. We have determined that each of Mr. Feng Liu, Mr. Wai Yuen Chong, Mr. Yang Cha and Mr. Sean Shao meets the independence standards under Rule 10A-3 under the Securities Exchange Act of 1934, as amended. We have determined that Mr. Feng Liu qualifies as an "audit committee financial expert" within the meaning of the SEC rules. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- reviewing and recommending to our Board for approval, the appointment, re-appointment or removal of the independent auditor, after considering its annual performance evaluation of the independent auditor;
- approving the remuneration and terms of engagement of the independent auditor and pre-approving all auditing and non-auditing services permitted to be performed by our independent auditor at least annually;
- reviewing with the independent registered public accounting firm any audit problems or difficulties and management's response;

- discussing with our independent auditor, among other things, the audits of the financial statements, including whether any material information should be disclosed and issues regarding accounting and auditing principles and practices;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and the independent registered public accounting firm;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any special steps taken to monitor and control major financial risk exposures;
- approving annual audit plans, and undertaking an annual performance evaluation of the internal audit function;
- establishing and overseeing procedures for the handling of complaints and whistleblowing; and
- meeting separately and periodically with management and the independent registered public accounting firm.

Compensation Committee. Our compensation committee consists of Mr. Yang Cha, Mr. Jinyi Guo, Mr. Feng Liu, Mr. Sean Shao and Mr. Gang Wu and is chaired by Mr. Sean Shao. The compensation committee assists the Board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. The compensation committee is responsible for, among other things:

- overseeing the development and implementation of compensation programs in consultation with our management;
- at least annually, reviewing and approving, or recommending to the Board for its approval, the compensation for our executive officers;
- at least annually, reviewing and recommending to the Board for determination with respect to the compensation of our non-executive directors;
- at least annually, reviewing periodically and approving any incentive compensation or equity plans, programs or other similar arrangements;
- reviewing executive officer and director indemnification and insurance matters; and
- overseeing our regulatory compliance with respect to compensation matters, including our policies on restrictions on compensation plans and loans to directors and executive officers.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of Mr. Yang Cha, Mr. Wai Yuen Chong and Mr. Jinyi Guo, and is chaired by Mr. Wai Yuen Chong. The nominating and corporate governance committee assists the Board in selecting individuals qualified to become our directors and in determining the composition of the Board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- recommending nominees to the Board for election or re-election to the Board, or for appointment to fill any vacancy on the Board;
- reviewing annually with the Board the current composition of the Board with regard to characteristics such as independence, knowledge, skills, experience, expertise, diversity and availability of service to us;
- developing and recommending to our Board such policies and procedures with respect to nomination or appointment of members of our Board and chairs and members of its committees or other corporate governance matters as may be required pursuant to any SEC rules, or otherwise considered desirable and appropriate;

- selecting and recommending to the Board the names of directors to serve as members of the audit committee and the compensation committee, as well as of the nominating and corporate governance committee itself; and
- evaluating the performance and effectiveness of the Board as a whole.

Duties and Functions of Directors

Under Cayman Islands law, our directors owe fiduciary duties to our company to act honestly and in good faith with a view to our best interests.

Our directors must also exercise their powers only for a proper purpose. Our directors also owe to our company a duty to exercise the skill they actually possess and such care and diligence that a reasonable prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. Our company has the right to seek damages if a duty owed by our directors is breached. The functions and powers of our Board include, among others, (i) convening shareholders' annual and extraordinary general meetings and reporting its work to shareholders at such meetings, (ii) declaring dividends, (iii) appointing officers and determining their terms of offices and responsibilities, and (iv) approving the transfer of shares of our company, including the registering of such shares in our share register.

Terms of Directors and Officers

Our officers are elected by and serve at the discretion of the Board. None of our executive directors is subject to any term of office by tenure and holds office as a director until such time as he resigns or is removed, replaced or otherwise disqualified in accordance with our sixth amended and restated articles of association. Each of our independent directors is subject to a term of three years starting from his appointment, subject to the terms and conditions of his contract with the Company, the sixth amended and restated articles of association and any applicable laws, regulations and rules. A director's office shall be vacated if, among other things, the director (i) resigns his office by notice in writing to the Company; (ii) dies, becomes bankrupt or makes any arrangement or composition with his creditors; (iii) is found to be or becomes of unsound mind; (iv) is prohibited by law from being a director; or (v) is removed from office pursuant to our sixth amended and restated articles of association.

6.D. Employees

We endeavor to cultivate employees with talent, passion, and strong learning abilities.

We had 12,007 full-time employees and 18,114 part-time employees as of December 31, 2019, 8,590 full-time employees and 12,718 part-time employees as of December 31, 2020 and 10,555 full-time employees and 16,411 part-time employees as of December 31, 2021, all of whom were based in China. As of December 31, 2021, our full-time employees consisted of 9,139 store operation employees, 342 store development employees, 436 technology development employees, 550 general and administration employees and 88 sales and marketing employees.

We formulate our recruitment plan considering our expansion plan and the human resources needs for existing self-operated stores and those in the pipeline. Our full-time employees go through a thorough recruitment and assessment process with HR and the operations manager while our part-time employees are usually interviewed by store managers of the respective stores. Our retail partners will be responsible for recruitment for the partnership stores.

We provide our employees, retail partners and employees at partnership stores with comprehensive training. We train them vigorously mainly through our internal training center, offering them both self-developed programs and external courses. We provide both online and offline training for our storefront staff to sharpen their skills.

We enter into standard employment contracts with our full-time employees. In addition to salaries and benefits, we provide performance-based bonuses for our full-time employees and commission-based compensation for our sales and marketing team. As required by PRC law, we participate in various employee social security plans that are organized by municipal and provincial governments for our PRC-based full-time employees, including pension, medical insurance, maternity insurance, work-related injury insurance, unemployment insurance and housing provident funds.

We pay salaries to our part-time employees based on the time they work. For risks in relation to our contribution for employee social security plans, see “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—We may be subject to additional contributions of social insurance and housing fund and late payments and fines imposed by relevant governmental authorities.”

We engage independent third-party service providers to recruit some outsourced staff. As of December 31, 2021, a majority of our part-time storefront staff were such outsourced staff.

We maintain a good working relationship with our employees, and as of the date of this annual report, we had not experienced any material labor disputes.

6.E. Share Ownership

The following table sets forth information concerning the beneficial ownership of our Shares as of April 10, 2022, assuming conversion of all of our outstanding Class B ordinary shares and Senior Preferred Shares into Class A ordinary shares on a one-to-one basis, by:

- each of our directors and executive officers; and
- each person known to us to beneficially own more than 5% of our Shares.

The calculations in the table below are based on 1,975,930,268 Class A ordinary shares (which is calculated by subtracting 89,815,024 Class A ordinary shares issued to the depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our 2019 Share Option Plan and 2021 Equity Incentive Plan from 2,026,678,188 total outstanding Class A ordinary shares, and adding 39,067,104 Class A ordinary shares underlying the exercised options and vested restricted share units pursuant to our 2019 Share Option Plan and 2021 Equity Incentive Plan), 144,778,552 outstanding Class B ordinary shares and 307,692,307 outstanding Senior Preferred Shares as of April 10, 2022.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant, or other right or the conversion of any other security.

These shares, however, are not included in the computation of the percentage ownership of any other person.

Shares Beneficially Owned as of April 10, 2022							
	Number	Class A Percentage of total Class A ordinary shares**	Number	Class B Percentage of total Class B ordinary shares**	Number	Percentage of total Senior Preferred Shares***	Percentage of aggregate voting power***
Directors and Executive Officers:							
Dr. Jinyi Guo	*	*	—	—	—	—	*
Wenbao Cao	*	*	—	—	—	—	*
Gang Wu	*	*	—	—	—	—	*
Feng Liu	—	—	—	—	—	—	—
Wai Yuen Chong	—	—	—	—	—	—	—
Yang Cha	—	—	—	—	—	—	—
Sean Shao	—	—	—	—	—	—	—
Reinout Hendrik Schakel	*	*	—	—	—	—	*
Fei Yang	*	*	—	—	—	—	*
Shan Jiang	—	—	—	—	—	—	—
Weiming Zhou	*	*	—	—	—	—	*
All directors and executive officers as a group	55,162,392	2.7 %	—	—	—	—	1.5 %
Principal Shareholders:							
Centurium Capital(1)	383,425,748	19.4 %	144,778,500	100.0 %	295,384,615	96.0 %	57.0 %

Notes:

* Less than 1% of each class of our shares.

** For each person and group included in this table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of (i) 1,975,930,268 Class A ordinary shares, or 144,778,552, being the number of Class B ordinary shares, or 307,692,307, being the number of Senior Preferred Shares, as appropriate, as of April 10, 2022 and (ii) the number of Ordinary Shares underlying share options and/or restricted share units held by such person or group that are exercisable or, for restricted share units, expected to vest within 60 days of April 10, 2022.

*** For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our ordinary shares and Senior Preferred Shares as a single class.

(1) Represents (i) 155,675,675 Class A ordinary shares held by Camel ZQ Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands (“Camel ZQ”); (ii) 125,405,404 Class A ordinary shares held by Cameleer L.P., an exempted limited partnership incorporated under the laws of the Cayman Islands (“Cameleer”); (iii) 102,344,669 Class A ordinary shares held by Cameleer II L.P., an exempted limited partnership incorporated under the laws of the Cayman Islands (“Cameleer II”); (iv) 136,172,000 Class B ordinary shares held by Lucky Cup Holdings Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands and its principal business in investment holding (“Lucky Cup”); (v) 8,606,500 Class B ordinary shares held by Fortunate Cup Holdings Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands and its principal business in investment holding (“Fortunate Cup”); and (vi) 295,384,615 Senior Preferred Share held by Cannonball Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands and its principal business in investment holding (“Cannonball”). As reported in the Schedule 13D

(Amendment No.2) filed by Lucky Cup and other filers on March 11, 2022, Centurium Holdings Ltd. is an exempted company incorporated with limited liability under the laws of the Cayman Islands, which holds interests in the general partners of certain private equity funds that hold interests in Lucky Cup, Fortunate Cup and Cannonball; Hui Li is the sole shareholder and director of Centurium Holdings (BVI) Ltd., an exempted company incorporated under the laws of the British Virgin Islands and the sole shareholder of Centurium Holdings Ltd. Pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder, each of Centurium Holdings Ltd., Centurium Holdings (BVI) Ltd. and Hui Li may be deemed to indirectly beneficially own the shares of the Issuer held by Camel ZQ, Cameleer, Cameleer II, Lucky Cup, Fortunate Cup and Cannonball. The address of the principal business and principal office of each of Camel ZQ, Cameleer, Cameleer II, Lucky Cup, Fortunate Cup and Cannonball is PO Box 309, Uglad House, Grand Cayman, KY1-1104, Cayman Islands.

On December 1, 2021, we announced that we have closed the Investment Agreement with an affiliate of Centurium Capital, pursuant to which we issued and sold a total of 295,384,615 Senior Preferred Shares to an affiliate of Centurium Capital, with aggregate gross proceeds of US\$240 million.

On January 21, 2022, we received a request from a Centurium Capital-led buyer consortium that also includes IDG Capital and Ares SSG Capital Management (the “Buyer Consortium”) to consent to close Centurium Capital’s previously announced transaction to purchase an aggregate of 383,425,748 Class A ordinary shares (the “Sale Shares”) from certain sellers (the “Secondary Sale”). The sellers are Primus Investment Fund, L.P. (in official liquidation) (“Primus”), Haode Investment Inc. (in liquidation) (“Haode”) and Summer Fame Limited (in liquidation) (“Summer Fame,” and collectively with Primus and Haode, the “Sellers”). The Sellers are affiliates of and were formerly controlled by Mr. Charles Zhengyao Lu and Ms. Jenny Zhiya Qian, former management members of the Company, and their families (the “Former Management Members”). The Sellers were ordered to be wound up and are currently in liquidation pursuant to an order of the Cayman Court in respect of Primus, and pursuant to orders of the Eastern Caribbean Supreme Court in the High Court of Justice of the British Virgin Islands (the “BVI Court”) in respect of Haode and Summer Fame. The joint liquidators appointed in respect of the Sellers have exercised their statutory powers to enter into definitive documents to give effect to the Secondary Sale. Proceeds of the Secondary Sale are to be distributed by the joint liquidators to the creditors and stakeholders of each of the Sellers in accordance with the joint liquidators’ statutory duties. Accordingly, we did not receive any of the proceeds from the Secondary Sale. By judgement dated January 17, 2022, the BVI Court sanctioned transactions that form part of the Secondary Sale, as required by the securities purchase agreement that gave effect to the Secondary Sale. After careful consideration, our Board and JPLs of the Company determined the Secondary Sale to be in the long-term best interest of the Company, and accordingly approved the transaction. On January 25, 2022, after receiving consent from the Company, the Buyer Consortium closed the Secondary Sale. Upon the closing of the Secondary Sale, the Former Management Members ceased to have any interest in the Sale Shares and Centurium Capital became our controlling shareholder, holding more than 50% of the voting interest of the Company.

Item 7. Major Shareholders and Related Party Transactions

7.A. Major Shareholders

See “Item 6. Directors, Senior Management and Employees—6.E. Share Ownership.”

7.B. Related Party Transactions

Contractual Arrangements

See “Item 4. Information on the Company—4.C. Organizational Structure—Contractual Arrangements with the VIE and Its Nominee Shareholders.”

Employment Agreements and Indemnification Agreements

See “Item 6. Directors, Senior Management and Employees—6.B. Compensation—Employment Agreements and Indemnification Agreements.”

Share Incentives

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

Certain Trust Investments

In March 2020, two trust investments, namely investments into Xiamen Trust-Huijin No. 2007 Trust Project (“Xiamen Trust”) and Yunnan Trust-You Xiang No. 1 Trust Project (“Yunnan Trust”), in the amount of RMB590.0 million and RMB550.0 million, respectively, were made by Luckin China under the direction of former management. The two trust investments were identified after changes to our management team and reporting lines following the suspension of Ms. Jenny Zhiya Qian, who was our CEO at the time of the creation of the trusts.

The trust instruments for Xiamen Trust provide that all of the trust fund shall be used to purchase receivables from Xiamen Yishi Finance Lease Co., Ltd. (“Yishi”) relating to property (auto assembly line and facilities) leased to Borgward Automobile (China) Co., Ltd (“Borgward”). Borgward is controlled by UCAR Inc., an entity controlled by Mr. Charles Zhengyao Lu, who was our Chairman at the time of the creation of the trusts, and persons acting in concert with him. In accordance with the receivables purchase agreement between the trustee of the Xiamen Trust (on behalf of Xiamen Trust) and Yishi, Borgward is obligated to pay Xiamen Trust lease interest on a monthly basis. The annual rate of return for the Xiamen Trust was 6.1% (with trust management fee and other expenses deducted from the contractual annual rate of return of 7.2%).

The trust instruments for Yunnan Trust provide that all of the trust fund shall be used to purchase an equity interest in Yousheng Chengyi (Tianjin) Information Technology Co., Ltd. (“Yousheng Information”). Under the equity investment and buyback agreement between Yunnan Trustee (on behalf of the Yunnan Trust) and Yousheng (Tianjin) Technology Development Co., Ltd. (“Yousheng Development”), Yunnan Trust acquired 46.15% equity interest in Yousheng Information. Additionally, Yousheng Development is required to buy back the equity interest of Yousheng Information held by Yunnan Trust at the end of the trust term of 24 months. Yousheng Information has also pledged to Yunnan Trustee 40.36 million shares of UCAR Inc. as guarantee. The equity investment and buyback agreement provide that Yousheng Development is obligated to pay Yunnan Trust the premium of the principal on a quarterly basis. The annual rate of return for Yunnan Trust was 6.5% (with trust management fee and other expenses deducted from the contractual annual rate of return of 7.1%).

The trust instruments show that the funds of Xiamen Trust and Yunnan Trust were designated to be used to purchase receivables relating to property leased to Borgward and to invest in equity interests of Yousheng Information, respectively. At the time of the creation of Xiamen Trust, Borgward was an affiliate of Mr. Charles Zhengyao Lu. Additionally, based on public records, the supervisor of Yousheng Information and the legal representative of Yousheng Development is same person and was an employee of UCAR Inc., an affiliate of Mr. Charles Zhengyao Lu at the time of the creation of Yunnan Trust. Even without a direct contractual relationship between Xiamen Trust and Borgward and between Yunnan Trust and UCAR Inc. such that the transactions would be considered related party transactions under Item 7.B of Form 20-F, management considers the two trust investments made by former management as related party transactions in substance. Full impairment of RMB1,140.0 million was provided for the two trusts in 2020 after considering all available information and having used best efforts to take legal actions. For more details about the trust investments, see “Note 4 Short-term Investment, Net” and “Note 11 Related Party Transactions” to our consolidated financial statements included in this annual report.

7.C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

8.A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

From time to time, we are subject to legal and administrative proceedings and claims arising in the ordinary course of our business relating to, among other things, lease and other commercial disputes, contract disputes, trademark and other intellectual property infringement claims, personal injury claims and employment-related claims, such as wage and hour and wrongful termination. Unless otherwise indicated, we cannot reasonably predict the outcome of these legal proceedings, nor can we estimate the amount of loss, or range of loss, if any, that may result from these proceedings. An adverse outcome in certain of these proceedings

could have a material adverse effect on our business, financial condition and results of operations, and could cause the market value of our ADSs and/or other securities to decline.

Governmental and Regulatory Inquiries

SEC Investigation and Settlement

We self-disclosed to the SEC the Fabricated Transactions referenced in our press release on April 2, 2020. Following our disclosure, the SEC initiated an investigation into the Fabricated Transactions. We cooperated with the SEC's investigation.

On December 16, 2020, the SEC announced its settlement with us regarding the Fabricated Transactions. Under the terms of the settlement, we, without admitting or denying the allegations of the SEC, consented to the entry of an order (i) requiring us to pay a civil money penalty in the amount of US\$180 million to the SEC, which shall be offset by any cash payments made by us to our security holders within 18 months subject to extensions granted by the SEC up to 24 additional months (for a total of 42 months) pursuant to any schemes of arrangement approved by the Cayman Court in the provisional liquidation proceedings and restructuring, provided the final distribution plan is not reasonably objectionable to the SEC staff, and (ii) permanently enjoining us from violations of certain federal securities laws, including Section 10(b) of the Securities Exchange Act of 1934.

In settling this matter, the SEC acknowledged that we self-reported the Fabricated Transactions to the SEC staff, cooperated with the SEC throughout the SEC's investigation and promptly undertook significant remedial efforts. These efforts included initiating an internal investigation, terminating certain personnel, terminating relationships with third parties involved in the fraudulent conduct, reorganizing our finance department and adding internal accounting controls.

On February 4, 2021, the settlement received the necessary approval from the SDNY Court. On February 3, 2022, the SEC filed with the SDNY Court a notice acknowledging that Luckin Coffee's obligation to pay the civil money penalty had been satisfied through the offset of cash payments made to its holders of its debt securities, through a scheme of arrangement implemented in the Cayman Islands.

U.S. DOJ Investigation

We were contacted by the U.S. Attorney's Office for the Southern District of New York (the "SDNY") following our press release on April 2, 2020 relating to the Fabricated Transactions. The SDNY indicated that it had commenced an investigation into the Fabricated Transactions. We have been in regular contact with the SDNY regarding its investigation, including apprising the SDNY of the relevant Chinese laws that restrict us from providing evidence and information without prior approval from the Chinese Ministry of Justice. We are committed to cooperating with the DOJ to the extent permissible under the applicable laws of the PRC. We cannot predict the outcome or the duration of this investigation or any other legal proceedings or any enforcement actions or other remedies that may be imposed on us arising out of this investigation.

SAMR Penalties

On September 23, 2020, we received the penalty decisions from the SAMR. The penalty decisions found that our conduct related to the Fabricated Transactions violated the PRC Anti-Unfair Competition Laws. The SAMR imposed an aggregate fine of RMB61.0 million on two entities of our group and certain implicated third-party companies as a result of their involvement in the Fabricated Transactions.

Ministry of Finance Investigation

On May 6, 2020, the Ministry of Finance of the PRC initiated its investigation into the accounting information of two entities of our group since their incorporation. On July 31, 2020, the Ministry of Finance of the PRC announced its investigation has been substantially completed. The Ministry of Finance of the PRC further announced that it would impose and publish its relevant penalty decision to the Company in due course. As of the date of this annual report, the Ministry of Finance of the PRC has not imposed any penalty on the Company. The Company cannot predict the outcome or the duration of this investigation or any other legal proceedings or any enforcement actions or other remedies that may be imposed on the Company arising out of this investigation.

Legal Actions

U.S. Class Action

On February 13, 2020, April 2, 2020, April 8, 2020, and April 10, 2020, putative securities class action complaints were filed in the United States District Court for the Eastern and Southern Districts of New York against the Company, certain of its current and former directors and executives, and the underwriters of the Company's initial public offering and follow-on offering. These lawsuits have been consolidated in the Southern District of New York, under the caption *In re Luckin Coffee Inc. Securities Litigation*, 1:20-cv-01293 (S.D.N.Y.). On June 12, 2020, the court appointed co-lead plaintiffs pursuant to the Private Securities Litigation Reform Act of 1995 and ordered the lawsuits consolidated. A consolidated class action complaint was filed on September 24, 2020 that alleges, among other things, that the Company made false and misleading statements and material omissions in its prior registration statements and other public statements by failing to disclose the Fabricated Transactions disclosed in the Company's April 2, 2020 announcement, and the impact of those Fabricated Transactions on the Company's financial statements. The consolidated class action complaint variously alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, Rule 10b-5 promulgated thereunder, and Sections 11 and 15 of the Securities Act for a putative class of ADS holders in the period between May 17, 2019 and April 1, 2020. The Company filed a motion to dismiss a portion of the claims on November 24, 2020. On March 5, 2021, the court entered an Order provisionally certifying the class for settlement purposes. On March 30, 2021, the U.S. Bankruptcy Court issued an order in the Chapter 15 Case recognizing the proceeding in the Cayman Court with proceeding number FSD 157 of 2020 (the "Cayman Proceeding") as a foreign main proceeding. This order also imposed an automatic stay of litigation in the territorial jurisdiction of the U.S. against Luckin and its assets in the territorial jurisdiction of the U.S., to the extent provided in the U.S. Bankruptcy Code and for the duration of the Chapter 15 Case. The Chapter 15 Case was closed – at the request of the JPLs, in coordination with the Company – on April 8, 2022. On July 6, 2021, the court entered an order regarding dissemination of class notice. Notice was disseminated to the class and the deadline to opt out of the class action was September 17, 2021.

On September 20, 2021, we entered into a binding term sheet with the lead plaintiffs in the provisionally certified class action *In re Luckin Coffee Inc. Securities Litigation*, Case No. 1:20-cv-01293-JPC-JLC (SDNY) to fully resolve all claims that have been or could be filed on behalf of the provisionally certified class of purchasers Company's ADS between May 17, 2019 through July 15, 2020, inclusive, and on October 20, 2021, we entered into a Stipulation and Agreement of Settlement reflecting the terms of the settlement. The amount of the Federal Class Settlement is US\$175 million. The Federal Class Settlement was sanctioned by the Cayman Court overseeing the Company's "light touch" provisional liquidation on October 21, 2021, and received preliminary approval from the U.S. Court overseeing the class action on October 26, 2021. The Federal Class Settlement remains contingent on our ability to fund the settlement amount and final approval of the settlement from the U.S. Court. A hearing for final approval of the Federal Class Settlement has been scheduled by the U.S. Court for July 22, 2022.

On May 26, 2020, June 18, 2020, and June 23, 2020, putative securities class actions complaints were filed in the Supreme Court of the State of New York, County of New York, against the Company, certain of its current and former directors and executives, and the underwriters of the Company's initial public offering and follow-on offering. The lawsuits variously alleged that the Company made false and misleading statements and material omissions in its prior registration statements and other public statements by failing to disclose the Fabricated Transactions disclosed in the Company's April 2, 2020 announcement, and the impact of those Fabricated Transactions on the Company's financial statements, in violation of Sections 11, 12 and 15 of the Securities Act. On October 16, 2020, the court appointed co-lead plaintiffs and consolidated the lawsuits under the caption *In re Luckin Coffee Inc. Securities Litigation*, 651939/2020 (N.Y. Sup. Ct.). A consolidated amended complaint was filed on December 23, 2020, adding claims against investment vehicles owned by former officers and directors of the Company and the Company's agent for service of process, Cogency Global Inc. The amended complaint also asserted claims under the Securities Act on behalf of a class of purchasers of convertible senior notes issued by Luckin in January 2020. On March 30, 2021, the U.S. Bankruptcy Court issued an order in the Chapter 15 Case recognizing the Company's Cayman Proceeding as a foreign main proceeding. This order also imposed an automatic stay of litigation in the territorial jurisdiction of the U.S. against Luckin and its assets in the territorial jurisdiction of the U.S., to the extent provided in the U.S. Bankruptcy Code and for the duration of the Chapter 15 Case. The Chapter 15 Case was closed – at the request of the JPLs, in coordination with the Company – on April 8, 2022. On January 9, 2022, the Company reached an agreement in principle with the lead plaintiffs in the State Class Action to resolve claims that have been or could be filed on behalf of a class of purchasers of the Notes who did not release their claims in connection with the Scheme. The settlement remains subject to negotiation and execution of a stipulation of settlement, as well as approval from the State Court.

U.S. “Opt Out” Claims

The Company has also been named as a defendant in the following opt-out lawsuits alleging violations of U.S. securities laws: *Kingstown Capital Management. v. Luckin Coffee*, 1:20-cv-07029 (S.D.N.Y.), which seeks to recover over \$22 million in alleged losses; *Lai Ye v. Luckin Coffee et al.*, 1:21-cv-2020 (S.D.N.Y.), who seeks to recover \$4 million in alleged losses; *Nuveen Winslow Large-Cap Growth ESG Fund et al. v. Luckin Coffee et al.*, 655177/2020 (N.Y. Sup. Ct.), which seeks to recover over \$100 million in alleged losses; and *Bequai v. Luckin Coffee*, GV20019430-00 (Va. D. Ct., Fairfax Cty.), which seeks to recover \$25,000 in losses. On March 30, 2021, the U.S. Bankruptcy Court issued an order in the Chapter 15 Case recognizing the Company’s Cayman Proceeding as a foreign main proceeding. This order also imposed an automatic stay of litigation in the territorial jurisdiction of the U.S. against Luckin and its assets in the territorial jurisdiction of the U.S., to the extent provided in the U.S. Bankruptcy Code and for the duration of the Chapter 15 Case. The Chapter 15 Case was closed – at the request of the JPLs, in coordination with the Company – on April 8, 2022.

Certain individuals and institutions claiming to have made investments related to the Company’s ADS have made informal demands for the Company to pay alleged losses resulting from the Fabricated Transactions disclosed on April 2, 2020, but have not commenced legal proceedings. In the aggregate, the investors that have made informal demands have asserted losses in excess of \$325 million.

U.S. Derivative Action

The Company is a nominal defendant in a consolidated putative derivative action filed in the Supreme Court of the State of New York captioned *In re Luckin Coffee Inc. Derivative Litigation*, 652800/2020 (N.Y. Sup. Ct.). This action is stayed pending the Court’s order resolving defendants’ motion to dismiss the complaint in the federal securities class action. On March 30, 2021, the U.S. Bankruptcy Court issued an order in the Chapter 15 Case recognizing the Company’s Cayman Proceeding as a foreign main proceeding. The order also imposed an automatic stay of litigation in the territorial jurisdiction of the U.S. against Luckin and its assets in the territorial jurisdiction of the U.S., to the extent provided in the U.S. Bankruptcy Code and for the duration of the Chapter 15 Case. The Chapter 15 Case was closed – at the request of the JPLs, in coordination with the Company – on April 8, 2022.

Canadian Class Action

On or about April 14, 2020, an Application for Authorization to Bring a Class Action was filed against Luckin Coffee Inc. by Martin Banoon (the “Applicant”) in the Superior Court of Quebec, file no. 500-06-001058-201. The Applicant seeks authorization to institute a class action on behalf of the proposed class members comprised of holders of the Company’s ADS, as a result of Fabricated Transactions. At the request of the Applicant, the Superior Court of Quebec issued an order staying proceedings pending the Quebec Court of Appeal’s decision in an unrelated class action that is expected to address jurisdictional defenses similar to those that Luckin Coffee Inc. may raise in the Banoon class action.

Cayman Bondholder Action

In May 2020, a group of holders of the Notes commenced proceedings in the Cayman Court seeking to recover approximately US\$155 million of losses from the Company. By summons dated May 1, 2020, the bondholders applied *ex parte* for a worldwide freezing order (the “WFO”) against the Company. On May 8, 2020, the Cayman Court granted the order sought. On July 1, 2020 to July 3, 2020 the Cayman Court heard the Company’s application to set aside the WFO. By order dated July 22, 2020, the Cayman Court discharged the WFO. The substantive proceedings were automatically stayed on the appointment of the JPLs on July 15, 2020. On August 12, 2020, the Cayman Court ordered that the noteholders could appeal the discharge order until 14 days following the date of discharge of the JPLs. However, there can be no further action in these proceedings as the indebtedness under the Notes has been effectively compromised due to the successful Restructuring as of January 28, 2022.

Appointment of “Light-Touch” JPLs in the Cayman Islands

On July 10, 2020, a creditor of the Company filed a winding up petition against the Company in the Cayman Court (FSD 157 of 2020) (the “Cayman Proceeding”). On July 10, 2020, the Company made an *ex parte* application pursuant to section 104(3) of the Companies Act for the appointment of joint provisional liquidators (the “JPLs”). On July 15, 2020, the Cayman Court appointed Alexander Lawson of Alvarez & Marsal Cayman Islands Limited and Wing Sze Tiffany Wong of Alvarez & Marsal Asia Limited to act as “light-touch” JPLs to develop and propose a restructuring of the Company’s indebtedness in a manner designed to allow the Company to continue as a going concern, with a view to making an arrangement with its creditors including (without limitation) a compromise or arrangement by way of a scheme of arrangement under section 86 of the Companies Act (the “Scheme”). In accordance with the appointment order, the Board’s powers to conduct the ordinary, day-to-day business of the Company were preserved, subject to the supervision and oversight of the JPLs. On October 12, 2020, pursuant to a letter of request issued by the Cayman Court dated September 7, 2020, the High Court of Hong Kong made an order recognizing the appointment of the JPLs in Hong Kong. On February 5, 2021, the JPLs, in their capacity as “foreign representatives” of the Company under the U.S. Bankruptcy Code, filed a petition seeking, among other things, recognition of the provisional liquidation in the United States. On March 30, 2021, the U.S. Bankruptcy Court entered the *Order Recognizing Cayman Proceeding as a Foreign Main Proceeding and Granting Relief in Aid Thereof* [Dkt. No. 48] in *In re Luckin Coffee Inc. (in Provisional Liquidation)*, No. 21-10228 (MG) (Bankr. S.D.N.Y. Feb. 5, 2021), recognizing the provisional liquidation as a “foreign main proceeding.” The U.S. Bankruptcy Court imposed an automatic stay of all actions against the Company and its assets in the U.S., to the extent provided in the U.S. Bankruptcy Code and for the duration of the Chapter 15 Case, subject to certain carve outs and reserving judgment in respect of a requested stay of proceedings against non-debtor parties.

On September 20, 2021, with the support of the JPLs, we filed a summons and petition in the Cayman Court (FSD 276 of 2021 (ASCJ)) seeking sanction of a Scheme for the purposes of the Restructuring, and seeking directions to convene a meeting of creditors affected by the Scheme. On November 30, 2021, the Scheme was unanimously approved by all creditors who attended the Scheme meeting (in person or by proxy), representing approximately 97.7% of the aggregate outstanding principal amount of the Notes. On December 13, 2021 the Cayman Court sanctioned the Scheme, which became fully effective in accordance with its terms on December 17, 2021, following the entry of a final order of the U.S. Bankruptcy Court recognizing and enforcing the Scheme in the territorial jurisdiction of the United States.

On January 28, 2022, the Restructuring of the Notes contemplated by the Scheme became effective and was substantially consummated. In aggregate, we issued consideration for the Scheme totaling US\$245.5 million of cash, US\$109.9 million of New Notes and 9,527, 601 ADSs representing 76,220,808 Class A ordinary shares, which included 291,699 ADSs issued on April 4, 2022 pursuant to the top-up mechanism under the Scheme. The parties to the amended winding up petition (filed in substitution on January 7, 2021), applied consensually to the Cayman Court for leave to withdraw or have the petition dismissed. By an order of the Cayman Court dated February 25, 2022, the petition was dismissed and the JPLs were formally discharged with effect from March 4, 2022, bringing the provisional liquidation to a close. Shortly thereafter, the U.S. Bankruptcy Court entered an order closing the Chapter 15 Case on April 8, 2022.

UCAR Inc. Proceedings

We entered into an agreement with UCAR Inc. on July 1, 2020 to pay RMB36.6 million to UCAR Inc. for the costs UCAR Inc. incurred as a result of the leasehold improvements of certain office space that we occupied. We have not yet made the payment. In September 2021, UCAR Inc. initiated an arbitration proceeding against Luckin China in China International Economic and Trade Arbitration Commission, seeking to recover its costs and other relevant expenses allegedly incurred of approximately RMB38.4 million. In January 2022, Luckin China filed a claim in the Primary People’s Court of Haidian District of Beijing Municipality against UCAR Inc. seeking recovery for costs and expenses that it incurred of approximately RMB36.9 million in connection with UCAR Inc.’s occupation and utilization of certain of our property. No hearing had been held for these proceedings as of the date of this annual report.

Dividend Policy

We have not previously declared or paid cash dividends and we have no plan to declare or pay any dividends in the near future on our shares or the ADSs representing our Class A ordinary shares. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We rely principally on dividends from our PRC subsidiaries for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See “Item 4. Information on the Company—4.B. Business Overview—Regulation—Regulations Relating to Dividend Distributions.”

Our Board has discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or credit standing in the share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our Board decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the Board may deem relevant. If we pay any dividends on our Ordinary Shares, we will pay those dividends which are payable in respect of the Class A ordinary shares underlying the ADSs to the depository, as the registered holder of such Class A ordinary shares, and the depository then will pay such amounts to the ADS holders in proportion to the Class A ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder.

8.B. Significant Changes

Except as otherwise disclosed in this annual report, we have not experienced any significant changes since the date of the annual financial statements included herein.

Item 9. The Offer and Listing

9.A. Offering and Listing Details

Our ADSs had been listed on the NASDAQ Global Select Market since May 17, 2019 under the symbol “LK.” Each ADS represents eight Class A ordinary shares, par value US\$0.000002 per share. We received delisting notice from Nasdaq on May 15, 2020 and requested a hearing on May 22, 2020. We received another delisting notice from Nasdaq for failure to file our annual report on June 17, 2020. We notified Nasdaq of the Company’s decision to withdraw its request for the hearing on June 24, 2020. On July 1, 2020, we were delisted from Nasdaq when the staff of the Nasdaq Stock Market LLC filed a Form 25 Notification of Delisting. Our ADSs have been quoted on the OTC Pink Limited Information initially under the symbol “LKNCY” since the Nasdaq suspended the trading of our ADSs on June 29, 2020.

9.B. Plan of Distribution

Not applicable.

9.C. Markets

The ADSs representing our Class A ordinary shares had been listed on the NASDAQ Global Select Market since May 17, 2019 under the symbol “LK.” Our ADSs have been quoted on the OTC Pink Limited Information initially under the symbol “LKNCY” since the Nasdaq suspended the trading of our ADSs on June 29, 2020.

9.D. Selling Shareholders

Not applicable.

9.E. Dilution

Not applicable.

9.F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

10.A. Share Capital

Not applicable.

10.B. Memorandum and Articles of Association

We are a Cayman Islands company and our affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and the Companies Act and the common law of the Cayman Islands.

Our fifth amended and restated memorandum and articles of association was adopted by a special resolution of our shareholders on April 16, 2019, which became effective immediately prior to completion of our IPO of ADSs representing our Class A ordinary shares. Our sixth amended and restated memorandum and articles of association, which is filed as Exhibit 1.1 to this annual report, was adopted by a special resolution of our shareholders on December 11, 2021, in substitution for and to the exclusion of our fifth amended and restated memorandum and articles of association.

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

Registered Office and Objects

Our registered office in the Cayman Islands is at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

According to Clause 3 of our sixth amended and restated memorandum and articles of association, the objects for which we are established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Act or as the same may be revised from time to time, or any other law of the Cayman Islands.

Board of Directors

See “Item 6. Directors, Senior Management and Employees.”

Shares

General. Our authorized share capital is US\$50,000 divided into 25,000,000,000 Ordinary Shares, with a par value of US\$0.000002 each, comprising (i) 20,000,000,000 Class A ordinary shares with a par value of US\$0.000002 each, and (ii) 5,000,000,000 Class B ordinary shares with a par value of US\$0.000002 each. Further to a Certificate of Designation dated November 30, 2021, 307,692,307 authorised but unissued Class A ordinary shares with a par value of US\$0.000002 each in the capital of the Company have been re-designated as 307,692,307 Senior Preferred Shares with a par value of US\$0.000002 each. Holders of Ordinary Shares have the same rights except for voting and conversion rights. Holders of Senior Preferred Shares have the rights described below under “Certificate of Designation”. All of our issued and outstanding Ordinary Shares and Senior Preferred Shares are fully paid and nonassessable. Certificates representing the Ordinary Shares and Senior Preferred Shares are issued in registered form. We may not issue shares to bearer. Our shareholders who are non-residents of the Cayman Islands may freely hold and transfer their Ordinary Shares and Senior Preferred Shares subject to certain restriction described below under “Transfer of Shares.”

Subject to the Companies Act (2022 Revision) of the Cayman Islands, as amended, and the articles of association, the Company shall have power to redeem or purchase any of its Shares and to increase or reduce its authorized share capital and to subdivide or consolidate the said shares or any of them and to issue all or any part of its capital whether original, redeemed, increased or reduced with or without any preference, priority, special privilege or other rights or subject to any postponement of rights or to any conditions or restrictions whatsoever and so that unless the conditions of issue shall otherwise expressly provide every issue of Shares, whether stated to be ordinary, preference or otherwise, shall be subject to the powers on the part of the Company hereinbefore provided.

Dividends. The holders of our Ordinary Shares are entitled to such dividends as may be declared by our Board subject to our sixth amended and restated memorandum and articles of association and the Companies Act. Our sixth amended and restated articles of association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our Board determine is no longer needed. Dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Act.

Voting Rights. Holders of Class A ordinary shares and Class B ordinary shares shall, at all times, vote together as one class on all matters submitted to a vote by the members. Each Class A ordinary share shall be entitled to one vote on all matters subject to vote at general and special meetings of our company, and each Class B ordinary share shall be entitled to ten votes on all matters subject to vote at general and special meetings of our company.

A quorum required for a meeting of shareholders consists of a majority of the votes attaching to the issued and outstanding shares entitled to vote at general meetings present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. As a Cayman Islands exempted company, we are not obliged by the Companies Act to call shareholders' annual general meetings. Our sixth memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting in which case we will specify the meeting as such in the notices calling it, and the annual general meeting will be held at such time and place as may be determined by our Board. Each general meeting, other than an annual general meeting, shall be an extraordinary general meeting. Shareholders' annual general meetings and any other general meetings of our shareholders may be called by a majority of our Board or our chairman or upon a requisition of shareholders holding at the date of deposit of the requisition not less than ten percent (10%) of the votes attaching to the issued and outstanding shares entitled to vote at general meetings, in which case the directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our sixth amended and restated memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders. Advance notice of at least fifteen (15) days is required for the convening of our annual general meeting and other general meetings unless such notice is waived in accordance with our articles of association.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the Ordinary Shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting, while a special resolution also requires the affirmative vote of no less than two-thirds of the votes attaching to the Ordinary Shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. A special resolution will be required for important matters such as a change of name or making changes to our sixth amended and restated memorandum and articles of association.

Transfer of Shares. Subject to the restrictions in our sixth amended and restated memorandum and articles of association, any of our shareholders may transfer all or any of his or her Ordinary Shares by an instrument of transfer in the usual or common form or any other form approved by our Board.

Our Board may, in its absolute discretion, and without giving any reason therefore, refuse to register a transfer of any Share(s), including where a purported transfer has been attempted in breach of the articles of association.

Our Board may, in its absolute discretion, decline to register any transfer of any share that is not fully paid up or on which we have a lien. Our Board may also decline to register any purported transfer of any share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the shares to which it relates and such other evidence as our Board may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required; and
- in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

The registration of transfers may be suspended and the register closed at such times and for such periods as our Board may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than thirty (30) days in any year.

If the Board refuses to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

Notwithstanding any other provision of the sixth amended and restated memorandum and articles of association, no shareholder may, without the Company's prior written consent, transfer, or agree to transfer, any of such shareholder's share(s) to a "Restricted Person," which means (i) any former director, officer or member of management of the Company or any of its subsidiaries with respect to whom the Special Committee recommended resignation or removal from the Board in connection with such person's conduct during the time when such person served on the Board or termination of employment, or whose employment was terminated by the Board, or any of their respective affiliates or associates or any legal person controlled by such person, and (ii) any other person (or any affiliate or associate thereof) with whom any person under the foregoing clause (i) (or any affiliate or associate thereof) has any agreement, arrangement or understanding, whether or not in writing, with respect to, or with whom such person is otherwise cooperating or collaborating with, for the purpose of (a) acquiring, holding, sharing, voting or disposing of securities of the Company or any financial interest in or deriving from the value of the securities of the Company, or (b) changing or influencing the control of the Company or in connection with or as a participant in any transaction having that purpose or effect, and no Restricted Person may, without the Company's prior written consent, transfer, or agree to transfer, any share(s).

If a shareholder of the Company purports to transfer or agrees to transfer any share(s) directly or indirectly to a Restricted Person without the prior written consent of the Company, or if a Restricted Person becomes the legal or beneficial owner of any share(s) after the date on which the sixth amended and restated memorandum and articles of association was adopted including pursuant to a direct or indirect transfer (any such share(s), "Restricted Shares"), then our directors may serve a notice on such shareholder in whose name the Restricted Shares are registered stating that such shareholder shall not, in relation to the Restricted Shares, be entitled to vote.

Liquidation. On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of Ordinary Shares), if the assets available for distribution amongst our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders in proportion to nominal amount of the shares held by them respectively. Any distribution of assets or capital to a holder of Ordinary Shares will be the same in any liquidation event.

Redemption, Repurchase and Surrender of Ordinary Shares. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our Board. Our company may also repurchase any of our shares provided that the manner and terms of such purchase have been approved by our Board, or are otherwise authorized by our sixth memorandum and articles of association. Under the Companies Act, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account) if the Company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act, no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the Company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Variations of Rights of Shares. If at any time our share capital is divided into different classes or series of shares, the rights attached to any class or series of shares (unless otherwise provided by the terms of issue of the shares of that class or series) may be varied with the sanction of a special resolution at a separate meeting of the holders of the shares of the class or series. The rights conferred upon the holders of the shares of any class issued shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

Inspection of Books and Records. Holders of our Ordinary Shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements.

Issuance of Additional Shares. Our sixth amended and restated memorandum of association authorizes our Board to issue additional Ordinary Shares from time to time as our Board shall determine, to the extent of available authorized but unissued shares in the authorized share capital of our company.

Our sixth amended and restated memorandum of association also authorizes our Board to establish from time to time one or more series of preferred shares and to determine, with respect to any series of preferred shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our Board may issue preferred shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of Ordinary Shares.

Anti-Takeover Provisions. Some provisions of our sixth amended and restated memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that authorize our Board to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

Exempted Company. We are an exempted company with limited liability under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on that shareholder’s shares of the Company.

Certificate of Designation

General. Our Senior Preferred Shares have the rights, preferences, privileges and restrictions set out in the Certificate of Designation dated November 30, 2021 and approved by a resolution of our board of directors (the “Certificate of Designation”).

The following summarizes the key terms of our Senior Preferred Shares:

Voting Rights. Holders of Senior Preferred Shares shall, at all times, be entitled to vote with holders of Ordinary Shares as one class on all matters submitted to vote by the members. Each holder of Senior Preferred Shares shall be entitled a number of votes equal to the number of Class A ordinary shares into which such holder’s Senior Preferred Shares are convertible.

Reserved Matters. The prior written consent of the holders of a majority of the outstanding Senior Preferred Shares shall be required for certain actions of the Company set forth in the Certificate of Designation.

Liquidation. In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of Senior Preferred Shares, in preference to the holders of other Shares, shall be entitled to receive an amount equal to the greater of (i) 100% of the original aggregate subscription price paid by such holders plus declared but unpaid dividend on such Senior Preferred Shares and (ii) the aggregate value such holders would have received if all such outstanding Senior Preferred Shares had been converted into Class A ordinary shares immediately prior to such distribution.

Conversion. Each Senior Preferred Share shall be convertible, at any time at the option of its holder and at such holder’s sole discretion, into that number of Class A ordinary shares (or an equivalent number of ADSs) determined by dividing (i) the sum of the original issue price plus any declared but unpaid dividends on such Senior Preferred Share, by (ii) the conversion price in effect at time of the conversion, which shall initially be the original issue price and is subject to adjustment from time to time.

Downside Protection for Regulatory Events. With respect to each Senior Preferred Share, during the period from April 15, 2021 to the third anniversary of its original issuance, if upon an announcement or reporting by any person of any U.S. governmental authority (other than the SEC) entering into an agreement with us, imposing penalty or restriction in connection with the previously disclosed Fabricated Transactions, the trading prices of our ADSs are negatively affected, as determined in accordance with the mechanisms set forth in the Certificate of Designation, the then applicable conversion price of such Senior Preferred Share shall be adjusted downward to reflect the impact of such event.

10.C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in this annual report.

10.D. Exchange Controls

The Cayman Islands currently has no exchange control regulations or currency restrictions.

10.E. Taxation

The following discussion of Cayman Islands, PRC and United States federal income tax consequences of an investment in the ADSs or Ordinary Shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This discussion does not deal with all possible tax consequences relating to an investment in the ADSs or Ordinary Shares, such as the tax consequences under state, local and other tax laws. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Harney Westwood & Riegels, our Cayman Islands counsel. To the extent that the discussion relates to matters of PRC tax law, it represents the opinion of King & Wood Mallesons, our PRC legal counsel.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation, and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us or holders of the ADSs or Ordinary Shares levied by the government of the Cayman Islands, except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is a party to a double tax treaty entered into with the United Kingdom in 2010, but it is otherwise not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to the Tax Concessions Act of the Cayman Islands, the Company has obtained an undertaking: (i) that no law that is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and (ii) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of 20 years from March 21, 2019.

People's Republic of China Taxation

Under the PRC EIT Law, which became effective on January 1, 2008 and mostly amended on December 29, 2018, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. Under the implementation rules to the PRC EIT Law, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise.

In addition, the SAT Circular 82 issued by the SAT in April 2009 specifies that certain offshore incorporated enterprises controlled by PRC enterprises or PRC enterprise groups will be classified as PRC resident enterprises if the following are located or resident in the PRC: (a) senior management personnel and departments that are responsible for daily production, operation and management; (b) financial and personnel decision-making bodies; (c) key properties, accounting books, company seal, minutes of board meetings and shareholders’ meetings; and (d) half or more of the senior management or directors having voting rights. Further to SAT Circular 82, the SAT issued the SAT Bulletin 45, which took effect in September 2011, to provide more guidance on the implementation of SAT Circular 82. SAT Bulletin 45 provides for procedures and administration details of determination on resident status and administration on post-determination matters. Our company is incorporated outside the PRC. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. As such, we do not believe that the Company meets all of the conditions above or is a PRC resident enterprise for PRC tax purposes. For the same reasons, we believe our other offshore companies are not PRC resident enterprises either. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” There can be no assurance that the PRC government will ultimately take a view that is consistent with our position. If the PRC tax authorities determine that our Cayman Islands holding company is a PRC resident enterprise for PRC enterprise income tax purposes, a 10% withholding tax would be imposed on dividends it pays to its non-PRC enterprise shareholders (including the ADS holders) if such dividends are deemed to be sourced within the PRC. In addition, non-PRC resident enterprise shareholders (including the ADS holders) may be subject to PRC tax on gains realized on the sale or other disposition of ADSs or Ordinary Shares at a rate of 10%, if such income is treated as sourced from within the PRC. Furthermore, if the Company is deemed a PRC resident enterprise, dividends paid to its non-PRC individual shareholders (including the ADS holders) and any gain realized on the transfer of ADSs or Ordinary Shares by such shareholders may be subject to PRC tax at a rate of 20% (which, in the case of dividends, may be withheld at source by us) if such dividends or gains are deemed to be sourced within the PRC. These rates may be reduced by an applicable tax treaty, but it is unclear whether non-PRC shareholders of the Company would be able to obtain the benefits of any tax treaties between their country of tax residence and the PRC in the event that the Company is treated as a PRC resident enterprise. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—If our offshore companies are classified as a PRC resident enterprise for PRC enterprise income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders and ADS holders.”

U.S. Federal Income Tax Considerations

The following are material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of our ADSs or Class A ordinary shares, but this discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to own our ADSs or Class A ordinary shares.

This discussion applies only to a U.S. Holder that holds the ADSs or underlying ordinary shares as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances, including any alternative minimum or Medicare contribution tax consequences and any tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities that use a mark-to-market method of tax accounting;
- persons holding ADSs or Class A ordinary shares as part of a straddle, conversion transaction, integrated transaction or similar transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities or arrangements classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, "individual retirement accounts" or "Roth IRAs";
- persons that received their ADSs or Class A ordinary shares in consideration for services or otherwise as compensation;
- persons that own or are deemed to own 10% or more of our stock by vote or value; or
- persons holding ADSs or Class A ordinary shares in connection with a trade or business outside the United States.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes owns ADSs or Class A ordinary shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning ADSs or ordinary shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of ADSs or Class A ordinary shares.

This discussion is based on the Internal Revenue Code of 1986, as amended, or the Code, administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the income tax treaty between the United States and the PRC (the "Treaty"), all as of the date hereof, any of which is subject to change, possibly with retroactive effect. This discussion is also based, in part, on representations by the depository and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms.

As used herein, a "U.S. Holder" is a person eligible for Treaty benefits that is, for U.S. federal income tax purposes, a beneficial owner of ADSs or Class A ordinary shares and:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Treasury regulations that apply to taxable years beginning on or after December 28, 2021 (the “Foreign Tax Credit Regulations”) may in some circumstances prohibit a U.S. person from claiming a foreign tax credit with respect to certain non-U.S. taxes that are not creditable under applicable income tax treaties. Accordingly, U.S. investors that are not eligible for Treaty benefits should consult their tax advisers regarding the creditability or deductibility of any PRC taxes imposed on dividends on, or dispositions of, the ADSs or Class A ordinary shares. This discussion does not apply to investors in this special situation.

In general, a U.S. Holder that owns ADSs will be treated as the owner of the underlying Class A ordinary shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying Class A ordinary shares represented by those ADSs.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of ADSs or Class A ordinary shares in their particular circumstances.

Passive Foreign Investment Company Rules

In general, a non-U.S. corporation is a passive foreign investment company (a “PFIC”) for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the average value of its assets (generally determined on a quarterly basis) consists of assets that produce, or are held for the production of, passive income. For purposes of the above calculations, a non-U.S. corporation that owns at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. Passive income generally includes dividends, interest, rents, royalties and investment gains. Cash is generally a passive asset for these purposes. Goodwill is an active asset under the PFIC rules to the extent attributable to activities that produce active income.

The determination of our PFIC status is subject to certain uncertainties and is made by applying principles and methodologies that are in some circumstances unclear. Because we hold a substantial amount of cash, our PFIC status for any taxable year will likely depend on the value of our goodwill. The value of our goodwill may be determined by averaging (on a quarterly basis) the excess of the sum of our market capitalization and liabilities over the value of our other assets. If the value of our goodwill for 2019 and 2020 is determined in such manner, based on the actual trading prices of our ADSs we will not have been a PFIC for our taxable years of 2019 and 2020. However, because our market capitalization declined significantly since the second quarter of 2020 and throughout 2020, there can be no assurance that the Internal Revenue Service (the “IRS”) will not assert that the true value of our goodwill for 2019 and the first quarter of 2020 is in fact lower. If the assertion of that position is successful, we would likely be treated as a PFIC for our taxable years of 2019 and 2020, but our PFIC status will depend on the value of our goodwill for those years. Based on the composition of our income and assets and the value of our assets (including goodwill), we believe that we were not a PFIC for our 2021 taxable year. However, because we continue to hold substantial amounts of cash and financial investments, we may be a PFIC for 2022 or future taxable years, particularly if our market capitalization declines. Our PFIC status for our 2022 taxable year can be determined only after the end of the year as it will depend on the composition of our income and assets and the value of our assets (including the value of our goodwill, which as described above may be determined, in large part, by reference to our market capitalization, which may be volatile). Moreover, it is not entirely clear how the contractual arrangements between us and our VIE will be treated for purposes of the PFIC rules, and we may be or become a PFIC if our VIE is not treated as owned by us. For these reasons, our PFIC status for any taxable year is uncertain.

If we are a PFIC for any taxable year during which a U.S. Holder owns ADSs or Class A ordinary shares, we will generally continue to be treated as a PFIC with respect to the U.S. Holder for all succeeding years during which the U.S. Holder owns ADSs or Class A ordinary shares, even if we cease to meet the threshold requirements for PFIC status, unless a “deemed sale” election is filed and the U.S. Holder pays any applicable tax under the PFIC rules described below. U.S. Holders should consult their tax advisers regarding the advisability of making this election in their particular circumstances in the case that we are or were, but cease to be, a PFIC for any taxable year.

If we are a PFIC for any taxable year and any of our subsidiaries, VIEs or other companies in which we own or are treated as owning equity interests is also a PFIC (any such entity, a “Lower-tier PFIC”), U.S. Holders will be deemed to own a proportionate amount (by value) of the shares of each Lower-tier PFIC and will be subject to U.S. federal income tax according to the rules described in the subsequent paragraph on (i) certain distributions by a Lower-tier PFIC and (ii) dispositions of shares of Lower-tier PFICs, in each case as if the U.S. Holders held such shares directly, even though the U.S. Holders will not receive the proceeds of those distributions or dispositions.

In general, if we are a PFIC for any taxable year during which a U.S. Holder owns ADSs or Class A ordinary shares, gain recognized by the U.S. Holder on a sale or other disposition (including certain pledges) of its ADSs or Class A ordinary shares will be allocated ratably over that U.S. Holder’s holding period. The amounts allocated to the taxable year of the sale or disposition and to any year before we became a PFIC will be taxed as ordinary income. The amount allocated to each other taxable year will be subject to tax at the highest rate in effect for our ADSs individuals or corporations, as appropriate, for that taxable year, and an interest charge will be imposed on the resulting tax liability for each such year. Furthermore, to the extent that distributions received by a U.S. Holder in any taxable year on its ADSs or Class A ordinary shares exceed 125% of the average of the annual distributions on the ADSs or Class A ordinary shares received during the preceding three taxable years or the U.S. Holder’s holding period, whichever is shorter, such distributions will be subject to taxation in the same manner.

Alternatively, if we were a PFIC and if the ADSs were “regularly traded” while they were listed on the Nasdaq, a U.S. Holder could make a mark-to-market election that would result in tax treatment different from the general tax treatment for PFICs described in the preceding paragraph with respect to its taxable year that ended before the taxable year in which our ADSs were delisted from the Nasdaq. U.S. Holders should note that the OTC Pink Limited Information system, on which the prices of our ADSs are currently quoted, is not a “qualified exchange” for purposes of the mark-to-market rules. Therefore, a mark-to-market treatment of the ADSs is not available for as long as the ADSs continue to be delisted from, or not regularly traded on, the Nasdaq or any other qualified stock exchange. U.S. Holders that made (or wish to make) a mark-to-market election with respect to a prior taxable year for which the election may have been available should consult their tax advisers regarding the availability and advisability of making the election in their particular circumstances and the effect the election would have on their income inclusion with respect to, and the tax basis in, their ADSs. U.S. Holders should note that a mark-to-market election cannot be made with respect to Lower-tier PFICs, if any, or with respect to our Class A ordinary shares.

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

If we are a PFIC for any taxable year during which a U.S. Holder owns any ADSs or Class A ordinary shares, the U.S. Holder will generally be required to file annual reports with the IRS.

U.S. Holders should consult their tax advisers regarding the determination of whether we are a PFIC for any taxable year and the application of the PFIC rules to their ownership of ADSs or Class A ordinary shares.

Taxation of Distributions

The following is subject to the discussion under “—*Passive Foreign Investment Company Rules*” above.

Distributions paid on ADSs or Class A ordinary shares, other than certain pro rata distributions of ADSs or Class A ordinary shares, will be treated as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. Dividends will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code.

In general, dividends paid by certain “qualified foreign corporations” to non-corporate persons may be taxed at a preferential rate, subject to applicable limitations. However, if a non-U.S. corporation is not entitled to the benefits of a comprehensive income tax treaty with the United States, dividends paid by such corporation will qualify for the preferential rate only with respect to stock that is “readily tradable on an established securities market in the United States.” The IRS issued a notice in 2003, according to which common stock or American depository shares in respect of such stock are considered readily tradable on a U.S. established securities market if they are listed on certain national U.S. securities exchanges specified in the notice, such as the Nasdaq. The IRS notice indicates that the IRS continues to consider whether, and under what conditions, the preferential rate may apply also to securities readily tradable on other securities trading platforms, such as trading over the counter. However, as of the date of this annual report no additional trading markets have been identified by the Treasury or the IRS as qualifying markets for these purposes. Therefore, because our ADSs were delisted from the Nasdaq, non-corporate U.S. Holders of our ADSs should expect that while the ADSs continue to be delisted from the Nasdaq or any other qualified national U.S. exchange, dividends will likely be reported to them by withholding agents as not qualifying for the preferential rates.

Dividends will be included in a U.S. Holder’s income on the date of the U.S. Holder’s, or in the case of ADSs, the depository’s, receipt. The amount of any dividend income paid in foreign currency will be the U.S. dollar amount calculated by reference to the spot rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars on such date. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the amount received. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt.

Dividends will be treated as foreign-source income for foreign tax credit purposes. As described in “Taxation—People’s Republic of China Taxation,” dividends paid by us may be subject to PRC withholding tax. For U.S. federal income tax purposes, the amount of the dividend income will include any amounts withheld in respect of PRC withholding tax. Subject to applicable limitations, which vary depending upon the U.S. Holder’s circumstances, PRC taxes withheld from dividend payments (at a rate not exceeding the applicable Treaty rate) generally will be creditable against a U.S. Holder’s U.S. federal income tax liability. The rules governing foreign tax credits are complex and U.S. Holders should consult their tax advisers regarding the creditability of foreign tax credits in their particular circumstances. In lieu of claiming a credit, a U.S. Holder may elect to deduct creditable the PRC taxes in computing its taxable income, subject to applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all such creditable foreign taxes paid or accrued in the taxable year.

Sale or Other Taxable Disposition of ADSs or Class A Ordinary Shares

The following is subject to the discussion under “—*Passive Foreign Investment Company Rules*” above.

A U.S. Holder will generally recognize gain or loss on a sale or other taxable disposition of ADSs or Class A ordinary shares in an amount equal to the difference between the amount realized on the sale or other taxable disposition and the U.S. Holder’s tax basis in such ADSs or Class A ordinary shares disposed of, in each case as determined in U.S. dollars. The gain or loss will be long-term capital gain or loss if, at the time of the sale or disposition, the U.S. Holder has owned the ADSs or Class A ordinary shares for more than one year. Long-term capital gains recognized by non-corporate U.S. Holders may be subject to a tax rate that is lower than the rate applicable to ordinary income. The deductibility of capital losses is subject to limitations.

As described in “Taxation—People’s Republic of China Taxation,” gains on the sale of ADSs or Class A ordinary shares may be subject to PRC taxes. Under the Code, capital gains of U.S. persons are generally treated as U.S.-source income. However, a U.S. Holder may be able to elect to treat the gain as foreign-source income under the Treaty and claim foreign tax credit in respect of any PRC tax on dispositions. The Foreign Tax Credit Regulations generally preclude a U.S. Holder from claiming a foreign tax credit with respect to PRC income taxes on gains from dispositions of ADSs or Class A ordinary shares if the U.S. Holder does not elect to apply the benefits of the Treaty. However, in that case it is possible that any PRC taxes on disposition gains may either be deductible or reduce the amount realized on the disposition. The rules governing foreign tax credits and deductibility of foreign taxes are complex. U.S. Holders should consult their tax advisers regarding the consequences of the imposition of any PRC tax on disposition gains, including the Treaty’s sourcing rule, any reporting requirements with respect to a Treaty-based return position and the creditability or deductibility of the PRC tax on disposition gains in their particular circumstances (including any applicable limitations).

Information Reporting and Backup Withholding

In general, payments of dividends and proceeds from the sale or other disposition of ADSs or Class A ordinary shares that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding, unless (i) the U.S. Holder is a corporation or other “exempt recipient” and (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder’s U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders who are individuals (or certain specified entities) may be required to report information relating to their ownership of Class A ordinary shares or non-U.S. accounts through which ADSs or Class A ordinary shares are held. U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to ADSs and Class A ordinary shares.

10.F. Dividends and Paying Agents

Not applicable.

10.G. Statement by Experts

Not applicable.

10.H. Documents on Display

We previously filed with the SEC a registration statement on Form F-1 (File Number 333-230977), as amended, to register our Class A ordinary shares in relation to our IPO, and a registration statement on Form F-1 (File Number 333-235836), as amended, to register our Class A ordinary shares in relation to our follow-on public offering. We also filed with the SEC a related registration statement on Form F-6 (File Number 333-230989) to register the ADSs representing our Class A ordinary shares.

We are subject to the periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year. Copies of reports and other information, when so filed with the SEC, can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

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

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Foreign currency exchange rate risk

Renminbi is not a freely convertible currency. SAFE, under the authority of the People's Bank of China, controls the conversion of Renminbi into other currencies. The value of Renminbi is subject to changes in central government policies, international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. Our cash and cash equivalents denominated in Renminbi amounted to RMB3,334.0 million, RMB3,883.9 million and RMB3,358.4 million as of December 31, 2019, 2020 and 2021, respectively.

To the extent that we need to convert U.S. Dollars into Renminbi for our operations, appreciation of Renminbi against the U.S. dollar would reduce the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our Ordinary Shares, Senior Preferred Shares, or ADSs, servicing our outstanding debt, or for other business purposes, appreciation of the U.S. dollar against the Renminbi would reduce the U.S. dollar amounts available to us.

Currency convertibility risk

We transact all of our business in Renminbi, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People's Bank of China (the "PBOC"). However, the unification of the exchange rates does not imply that the Renminbi may be readily convertible into U.S. dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Interest rate risk

We are exposed to interest rate risk on our interest-bearing assets and liabilities. As part of our asset and liability risk management, we review and take appropriate steps to manage our interest rate exposures on our interest-bearing assets and liabilities. We have not been exposed to material risks due to changes in market interest rates and have not used any derivative financial instruments to manage the interest risk exposure in 2019, 2020 and 2021.

Item 12. Description of Securities Other than Equity Securities

12.A. Debt Securities

Not applicable.

12.B. Warrants and Rights

Not applicable.

12.C. Other Securities

Not applicable.

12.D. American Depositary Shares

Persons depositing or withdrawing shares or ADS holders must pay:

	For:
<ul style="list-style-type: none"> • US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) 	<ul style="list-style-type: none"> • Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property • Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
<ul style="list-style-type: none"> • US\$.05 (or less) per ADS 	<ul style="list-style-type: none"> • Any cash distribution to ADS holders
<ul style="list-style-type: none"> • A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs 	<ul style="list-style-type: none"> • Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the depositary to ADS holders
<ul style="list-style-type: none"> • US\$.05 (or less) per ADS per calendar year 	<ul style="list-style-type: none"> • Depositary services
<ul style="list-style-type: none"> • Registration or transfer fees 	<ul style="list-style-type: none"> • Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
<ul style="list-style-type: none"> • Expenses of the depositary 	<ul style="list-style-type: none"> • Cable (including SWIFT) and facsimile transmissions (when expressly provided in the deposit agreement) • Converting foreign currency to U.S. dollars
<ul style="list-style-type: none"> • Taxes and other governmental charges the depositary or the custodian has to pay on any ADSs or shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes 	<ul style="list-style-type: none"> • As necessary
<ul style="list-style-type: none"> • Any charges incurred by the depositary or its agents for servicing the deposited securities 	<ul style="list-style-type: none"> • As necessary

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may collect any of its fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the depositary may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depositary or share revenue from the fees collected from ADS holders. In performing its duties under the deposit agreement, the depositary may use brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the depositary and that may earn or share fees, spreads or commissions.

The depositary may convert currency itself or through any of its affiliates and, in those cases, acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the deposit agreement and the rate that the depositary or its affiliate receives when buying or selling foreign currency for its own account. The depositary makes no representation that the exchange rate used or obtained in any currency conversion under the deposit agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to ADS holders, subject to the depositary's obligations under the deposit agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

PART II

Item 13. Item Defaults, Dividend Arrearages and Delinquencies

In January 2020, we issued US\$460 million of Notes. On July 15, 2020, on the application of the Company in response to the presentation of a winding-up petition by a creditor in the Cayman Islands, the Cayman Court appointed Alexander Lawson of Alvarez & Marsal Cayman Islands Limited and Wing Sze Tiffany Wong of Alvarez & Marsal Asia Limited to act as "light-touch" JPLs. Following this appointment, which constituted an event of default under the indenture with respect to the Notes, 100% of the principal of, and accrued and unpaid interest on, the Notes automatically became immediately due and payable.

During the provisional liquidation, we negotiated the Restructuring under the supervision of the JPLs. On March 16, 2021, we announced that we had entered into the RSA with holders of a majority of the Notes. On September 21, 2021, we announced that we had filed a summons and petition in the Cayman Court seeking sanction of a scheme of arrangement (the "Scheme") for the purposes of the Restructuring. On December 13, 2021, the Cayman Court sanctioned the Scheme which became fully effective in accordance with its terms on December 17, 2021, following the entry of a final order of the U.S. Bankruptcy Court recognizing and enforcing the Scheme in the territorial jurisdiction of the United States. On January 28, 2022, the Restructuring of the Notes as contemplated by the Scheme became effective and was substantially consummated.

Subsequently, the parties to the amended winding up petition (filed in substitution on January 7, 2021), applied consensually to the Cayman Court for leave to withdraw or have the petition dismissed. By order of the Cayman Court dated February 25, 2022, the petition was dismissed and the JPLs were formally discharged with effect from March 4, 2022, bringing the provisional liquidation to a close. In addition, with the Company's support and coordination, the JPLs filed a final report with the U.S. Bankruptcy Court on March 4, 2022. The final report confirmed that the purpose of the JPLs' appearance in the U.S. Bankruptcy Court was complete, and requested entry of an order closing the Chapter 15 Case. The U.S. Bankruptcy Court granted this relief and entered an order closing the Chapter 15 Case on April 8, 2022.

In aggregate, in exchange for the Notes, we have issued consideration under the Scheme totaling approximately US\$245.5 million of cash, US\$109.9 million of 9.00% series B senior secured notes due 2027 (the "New Notes") and 9,527,601 ADSs representing 76,220,808 Class A ordinary shares, which includes 291,699 ADSs issued on April 4, 2022 pursuant to the top-up mechanism under the Scheme. See "Note 13 Convertible Senior Notes" and "Note 22 Subsequent Events—Effectiveness of the Restructuring" to the Company's consolidated financial statements included in this annual report.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

14.A. — 14.D. Material Modifications to the Rights of Security Holders

See "Item 10. Additional Information" for a description of the rights of shareholders, which remain unchanged.

14.E. Use of Proceeds

None.

Item 15. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon this evaluation, our management has concluded that, as of December 31, 2021, our existing disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. GAAP and includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Our management, with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of our company's internal control over financial reporting as of December 31, 2021 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). Based on this evaluation, our management has concluded that the internal control over financial reporting as of December 31, 2021 was effective.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. See "Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Internal Investigation, Restatement of Our Consolidated Financial Statements, Internal Controls, Offshore Restructuring and Related Matters—If we fail to implement and maintain an effective system of internal controls, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud, and investor confidence and the trading price of the ADSs may be materially and adversely affected."

Attestation Report of the Registered Public Accounting Firm

Our independent registered public accounting firm, Centurion ZD CPA & Co. ("CZD"), has audited the effectiveness of our company's internal control over financial reporting as of December 31, 2021, as stated in its report, which appears on page F-6 of this annual report on Form 20-F.

Changes in Internal Control over Financial Reporting

Changes in our internal control over financial reporting during 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting are set forth below. These changes were made to remedy our previously identified material weaknesses in 2020 and to improve the overall effectiveness of our internal control system.

- We recruited a director of financial reporting who is familiar with U.S. GAAP, and we have set up a separate Accounting Information System team within our finance department to improve the effectiveness of internal control over the operating data for the financial reporting.
- We continued to engage a third-party consulting firm with strong U.S. GAAP experience to assist us in reviewing and analyzing certain complex contract terms for the financial reporting.
- We have strengthened controls over investment activities by (i) establishing more stringent policies and procedures that require all the significant non-routine transactions to be appropriately approved after comprehensive risk assessment in order to mitigate the risk of losses and comply with the company policies; and (ii) strengthening the controls over the contract review, payment and chop management process. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—The custodians or authorized users of our controlling non-tangible assets, including chops and seals, may fail to fulfill their responsibilities, or misappropriate or misuse these assets.”
- We have established a more comprehensive budgeting process and a stand-alone financial performance and analysis (the “FP&A”) function that monitors selected KPI/KRIs. The FP&A provides reporting on weekly basis, tracks the detailed bottom-up business plan drawing on input from all departments, and analyzes the actual performance versus the business plan.
- We have strengthened our IT-related controls by (i) replacing the old network defense and security auditing system and migrating to an upgraded and completely independent network environment; (ii) tightening control over IT system access to prevent hacks and protect privacy; (iii) requiring independent IT review by the internal audit team of the application and database controls over the Company’s financial reporting; and (iv) completed an independent cybersecurity testing in 2021 by China Software Test Center and has obtained Level 3 certification of our mobile app.
- We have formed an internal control team that consists of experienced professionals. Additionally, we have engaged a professional adviser to assist management to review, test and optimize our internal control.

Item 16.A. Audit Committee Financial Expert

Our Board has determined that Mr. Feng Liu, an independent director and the chairman of our audit committee, qualifies as an “audit committee financial expert” within the meaning of the SEC rules. Mr. Feng Liu satisfies the “independence” requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended.

Item 16.B. Code of Ethics

Our Board has adopted a code of business conduct and ethics, as amended in April 2022, that applies to all of our directors, officers, employees, including certain provisions that specifically apply to our chief executive officer, chief financial officer, principal accounting officer or controller and any other persons who perform similar functions for us. We have filed our amended code of business conduct and ethics as Exhibit 11.1 of this annual report and posted a copy of our amended code of business conduct and ethics on our website at <http://investor.lkcoffee.com/>. We hereby undertake to provide to any person without charge a copy of our latest code of business conduct and ethics within ten working days after we receive such person’s written request.

Item 16.C. Principal Accountant Fees and Services Auditor Fees

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by our independent registered public accounting firms, namely Centurion ZD CPA & Co., for the periods indicated below and Ernst & Young Hua Ming LLP, Marcum Bernstein & Pinchuk LLP for the year ended December 31, 2019.

	Year Ended December 31,		
	2019 RMB	2020 RMB	2021 RMB
Services:		(in thousands)	
Audit Fees(1)	45,012	15,790	18,344
Audit-Related Fees(2)	—	—	—
Tax Fees(3)	—	—	—
Other Fees(4)	494	—	—
Total fees	45,506	15,790	18,344

Notes:

- (1) *Audit Fees.* Audit fees mean the aggregate fees billed for each of the fiscal periods listed for professional services rendered by our independent registered public accounting firm for the audit of our annual consolidated financial statements and assistance with and review of documents filed with the SEC.
- (2) *Audit-Related Fees.* Audit-related fees mean the aggregate fees billed in each of the fiscal periods listed for professional services rendered by our principal auditors for the assurance and related services, which were not included under Audit Fees above.
- (3) *Tax Fees.* Tax fees mean the aggregate fees billed in each of the fiscal periods listed for professional services related to tax compliance, tax advice, and tax planning.
- (4) *Other Fees.* Other fees mean the aggregate fees billed in each of the fiscal periods listed for services other than services reported in Notes (1) through (3), primarily including professional services related to training, advisory and assurance for corporate and social responsibility reporting.

The policy of our audit committee is to preapprove all audit and non-audit services provided by auditors including Centurion ZD CPA & Co., our independent registered public accounting firm, including audit services and audit-related services as described above, other than those for de minimus services which are approved by the audit committee prior to the completion of the audit.

Item 16.D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Neither we nor any "affiliated purchaser," as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

Item 16.F. Change in Registrant's Certifying Accountant

The disclosure called for by paragraph (a) of this Item 16F was previously reported, as that term is defined in Rule 12b-2 under the Exchange Act, in "Item 16.F. Change in Registrant's Certifying Accountant" of our annual report on Form 20-F for the fiscal year ended December 31, 2019 filed with the SEC on June 30, 2021.

Item 16.G. Corporate Governance

As a Cayman Islands exempted company previously listed on the NASDAQ Global Select Market, we were subject to Nasdaq corporate governance listing standards. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards. We intended to follow Cayman Islands corporate governance practices in lieu of the Nasdaq corporate governance requirements that listed companies must have a majority of independent directors and that the audit committee must consist of at least three members. To the extent that we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would enjoy under the Nasdaq corporate governance listing standards applicable to U.S. domestic issuers. On July 1, 2020, we were delisted from Nasdaq when the staff of the Nasdaq Stock Market LLC filed a Form 25 Notification of Delisting. Our ADSs have been quoted on the OTC Pink Limited Information initially under the symbol "LKNCY" since the Nasdaq suspended the trading of our ADSs on June 29, 2020.

Item 16.H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

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

Item 18. Financial Statements

The consolidated financial statements of Luckin Coffee Inc. are included at the end of this annual report.

Item 19. Exhibits

Exhibit Number	Description of Document
1.1*	Sixth Amended and Restated Memorandum and Articles of Association of the Registrant
2.1	Specimen American Depositary Receipt (included in Exhibit 2.3)
2.2	Registrant's Specimen Certificate for Class A Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
2.3	Deposit Agreement, dated May 16, 2019, among the Registrant, the depository and holders of the American Depositary Shares (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
2.4	Description of Securities registered under Section 12 of the Exchange Act, (incorporated herein by reference to Exhibit 2.4 to the annual report for the fiscal year ended December 31, 2019 filed with the Securities and Exchange Commission on June 30, 2021)
4.1	2019 Share Option Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.2	2021 Equity Incentive Plan (incorporated herein by reference to Exhibit 99.1 to the Form 6-K (File No. 001-38896) filed with the Securities and Exchange Commission on January 25, 2021)
4.3	Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.4	Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.5	Series A Preferred Share Purchase Agreement by and among the Registrant, Zhiya Qian, Summer Fame Limited, Min Chen, May Bliss Limited, Haode Investment Inc., Primus Investments Fund, L.P., Mayer Investments Fund, L.P., STAR GROVE GLOBAL LIMITED, Lucky Cup Holdings Limited, Joy Capital II, L.P., Joy Luck Management Limited, Galaxy Shine Limited, Carob Investment Pte Ltd and other parties named therein dated June 22, 2018 (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.6	Series B Preferred Share Purchase Agreement by and among the Registrant, Zhiya Qian, Summer Fame Limited, Min Chen, May Bliss Limited, Haode Investment Inc., Joy Capital II, L.P., Honour Ample Limited, Joy Luck Management Limited, Fortunate Cup Holdings Limited, China International Capital Corporation (Hong Kong) Limited, Carob Investment Pte Ltd and other parties named therein dated November 2, 2018 (incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.7	Additional Series B Preferred Share Purchase Agreement by and among the Registrant, Zhiya Qian, Summer Fame Limited, Min Chen, May Bliss Limited, Haode Investment Inc., Galaxy Shine Limited and other parties named therein dated January 9, 2019 (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)

Exhibit Number	Description of Document
4.8	Series B-1 Preferred Share Purchase Agreement by and among the Registrant, Zhiya Qian, Summer Fame Limited, Min Chen, May Bliss Limited, Haode Investment Inc., Darsana Master Fund LP, Bel45 Private Opportunities Fund, L.P., Tango Capital Opportunities Fund, L.P., TSCL Private Markets Fund, L.P., NDSIB Private Opportunities Fund, L.P., BlackRock Private Opportunities Fund IV, L.P., BR POF IV Cayman Master Fund, L.P., High Rock Direct Fund, L.P., BlackRock MD Private Opportunities Fund, L.P., 1885 Private Opportunities Fund, L.P., NHRS Private Opportunities Fund, L.P., Sullivan Way Private Opportunities Fund, L.P., Coin Private Opportunities, L.P., POF III Scottish Master, L.P., BlackRock Inverwood Private Opportunities Fund, L.P., OV Private Opportunities, L.P., Red River Direct Investment Fund III, L.P., BR/ERB Co-Investment Fund II, L.P., BlackRock MSV Private Opportunities Fund, L.P., Private Equity Partners VII Master, L.P., Private Equity Partners VII US, L.P., BlackRock Private Opportunities Fund IV Master SCSp, Total Alternatives Fund—Private Equity LP, Total Alternatives Fund—Private Equity (B) LP and other parties named therein dated April 12, 2019 (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.9	Third Amended and Restated Investors' Rights Agreement by and among the Registrant, Zhiya Qian, Summer Fame Limited, Min Chen, May Bliss Limited, Haode Investment Inc., Primus Investments Fund, L.P., Mayer Investments Fund, L.P., Star Grove Global Limited, Lucky Cup Holdings Limited, Joy Capital II, L.P., Joy Luck Management Limited, Galaxy Shine Limited, Carob Investment Pte Ltd, Honour Ample Limited, Fortunate Cup Holdings Limited, Blue Fortune Limited, Darsana Master Fund LP, Bel45 Private Opportunities Fund, L.P., Tango Capital Opportunities Fund, L.P., TSCL Private Markets Fund, L.P., NDSIB Private Opportunities Fund, L.P., BlackRock Private Opportunities Fund IV, L.P., BR POF IV Cayman Master Fund, L.P., High Rock Direct Fund, L.P., BlackRock MD Private Opportunities Fund, L.P., 1885 Private Opportunities Fund, L.P., NHRS Private Opportunities Fund, L.P., Sullivan Way Private Opportunities Fund, L.P., Coin Private Opportunities, L.P., POF III Scottish Master, L.P., BlackRock Inverwood Private Opportunities Fund, L.P., OV Private Opportunities, L.P., Red River Direct Investment Fund III, L.P., BR/ERB Co-Investment Fund II, L.P., BlackRock MSV Private Opportunities Fund, L.P., Private Equity Partners VII Master, L.P., Private Equity Partners VII US, L.P., BlackRock Private Opportunities Fund IV Master SCSp, Total Alternatives Fund—Private Equity LP, Total Alternatives Fund—Private Equity (B) LP, Taide Investment Management Ltd and other parties named therein dated April 17, 2019 (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.10	Subscription Agreement by and between the Registrant and Louis Dreyfus Company B.V. dated April 19, 2019 (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.11	Master Exclusive Service Agreement between Beijing WFOE and Beijing Luckin Coffee Technology Ltd. dated July 20, 2018 (incorporated herein by reference to Exhibit 10.10 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.12	Business Cooperation Agreement among Beijing WFOE, Beijing Luckin Coffee Technology Ltd. and the shareholders of Beijing Luckin Coffee Technology Ltd. dated July 20, 2018 (incorporated herein by reference to Exhibit 10.11 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.13	Proxy Agreement and Power of Attorney among Beijing WFOE, Beijing Luckin Coffee Technology Ltd. and the shareholders of Beijing Luckin Coffee Technology Ltd. dated July 20, 2018 (incorporated herein by reference to Exhibit 10.12 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.14	Exclusive Option Agreement among Beijing WFOE, Beijing Luckin Coffee Technology Ltd. and the shareholders of Beijing Luckin Coffee Technology Ltd. dated July 20, 2018 (incorporated herein by reference to Exhibit 10.13 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)

Exhibit Number	Description of Document
4.15	Share Pledge Agreement between Beijing WFOE and the shareholders of Beijing Luckin Coffee Technology Ltd. dated September 20, 2018 (incorporated herein by reference to Exhibit 10.14 to the registration statement on Form F-1 (File No. 333230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.16	Confirmation and Guarantee Letter granted by Ms. Jenny Zhiya Qian dated September 20, 2018 (incorporated herein by reference to Exhibit 10.15 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.17	Confirmation and Guarantee Letter granted by Mr. Min Chen dated September 20, 2018 (incorporated herein by reference to Exhibit 10.16 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.18	Spousal Consent granted by the spouse of Mr. Min Chen dated September 20, 2018 (incorporated herein by reference to Exhibit 10.17 to the registration statement on Form F-1 (File No. 333-230977), as amended, initially filed with the Securities and Exchange Commission on April 22, 2019)
4.19	Restructuring Support Agreement by and among the Registrant, the joint provisional liquidators appointed to the Company by the order of the Grand Court of the Cayman Islands dated July 15, 2020 in the provisional liquidation proceedings relating to the Registrant (Cause No. FSD 157 of 2020 (ASCJ)) and certain holders of the Registrant's convertible senior notes due 2025, dated March 16, 2021 (incorporated herein by reference to Exhibit 99.2 to the Form 6-K (File No. 001-38896) filed with the Securities and Exchange Commission on March 16, 2021)
4.20*	Amendment No.1 dated September 1, 2021 to the Restructuring Support Agreement dated March 16, 2021, by and among the Registrant, the joint provisional liquidators appointed to the Company by the order of the Grand Court of the Cayman Islands dated July 15, 2020 in the provisional liquidation proceedings relating to the Registrant (Cause No. FSD 157 of 2020 (ASCJ)) and certain holders of the Registrant's convertible senior notes due 2025
4.21	Investment Agreement by and among the Registrant, Cannonball Limited and Joy Capital II, L.P. dated April 15, 2021 (incorporated herein by reference to Exhibit 4.20 to the annual report for the fiscal year ended December 31, 2019 filed with the Securities and Exchange Commission on June 30, 2021)
4.22	Rights Agreement, dated as of October 14, 2021, between Luckin Coffee Inc. and American Stock Transfer & Trust Company, LLC, as Rights Agent, including as Exhibit A the forms of Rights Certificate and of Election to Exercise (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 6-K, furnished on October 14, 2021)
8.1*	List of Significant Subsidiaries and VIE of the Registrant
11.1**	Amended Code of Business Conduct and Ethics of the Registrant
12.1*	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of King & Wood Mallesons
15.2*	Consent of Harney Westwood & Riegels
15.3*	Consent of Centurion ZD CPA & Co., Independent Registered Public Accounting Firm
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith

** Furnished herewith

SIGNATURES

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

Luckin Coffee Inc.

By: /s/ Reinout Hendrik Schakel

Name: Reinout Hendrik Schakel

Title: Chief Financial Officer and Chief Strategy Officer

Date: April 14, 2022

LUCKIN COFFEE INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page(s)</u>
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (PCAOB ID 2769)	F-2–F-5
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2020 AND 2021	F-8–F-9
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021	F-10
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICITS)/EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021	F-11–F-12
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021	F-13
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021	F-14–F-58



中正達會計師事務所
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To: The Board of Directors and Shareholders of Luckin Coffee Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Luckin Coffee Inc. and subsidiaries (the “Company”) as of December 31, 2020 and 2021, and the related consolidated statements of comprehensive (loss) / income, consolidated statements of shareholders’ equity, and consolidated statements of cash flows for the years ended December 31, 2019, 2020 and 2021, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2021, and the results of its operations and its cash flows for the years ended December 31, 2019, 2020 and 2021, in conformity with accounting principles generally accepted in the United States of America (“US GAAP”).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 14, 2022 expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

(i) **Revenue and Deferred revenue**

Critical Audit Matter Description

The Company had revenue and deferred revenue of RMB7,965.3 million and RMB96.2 million respectively for the year ended December 31, 2021 and as of December 31, 2021. A description of the Company's principal revenue generating activities is as follows:

Revenues from product sales were recognized at point in time when it satisfies performance obligations upon customers' in-store pickup or the delivery of promised products to customers. There is no significant financing component or variable consideration in the transaction price. The Company reasonably estimates the possibility of return based on the historical experience, and there were no material returns historically.

Revenues from partnership stores mainly consist of sales of materials and equipment to the partnership stores, profit-sharing revenue from the partnership stores for using the Luckin Coffee or Luckin Tea brand as well as integrated store operation solution, and other services including pre-opening services.

For material sales, the performance obligation is to transfer required materials at fixed unit price to retail partners. The Company provides allowance for materials sales as consideration payable to retail partners when the products sold in partnership stores to customers at lower price than the cost of materials with certain markup to comply with its promotion strategy. Allowance for partnership stores is accounted for as a reduction of the transaction price, which is usually determined upon the completion of each order. Therefore, sales of materials are generally recognized on the partnership stores' acceptance of materials, the settlement price is then deducted by the allowance provided to partnership stores that is determined upon the products are sold in partnership stores, if any.

Deferred revenues are associated with customer prepaid coupons. As discussed in Note 2 to the consolidated financial statements, Prepaid coupons are stored in the "Coffee Wallet" of the customers' registered accounts for future use. Cash from the sales of prepaid coupons are recognized as deferred revenues which are contract liabilities under Accounting Standard Codification ("ASC") 606. Purchase consideration is allocated to each prepaid coupon, including the coupons issued for free. The allocated considerations are recognized as revenues when customers consume the prepaid coupons for payments of their purchase.

Significant estimation and judgement are exercised by the Company as determining revenue recognition for this prepaid coupon arrangement, and include the following:

- Determination of the effectiveness of the internal controls including the information technology general control ("ITGC") and the information technology activity control ("ITAC") on the accuracy and completeness of the movement of coupon data to ensure input and output information were properly recorded.
- Establishment of the business operation database to record the coupon transaction including allocation of consideration on issuance of coupon and the exercise of coupon on each point of transaction.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the revenue and deferred revenue included the following:

- We have utilized our IT specialists to assist us in assessing the calculation logic of deferred revenue for prepaid coupon.
- We have performed ITGC audit procedures on the Company's business operation and financial reporting database ("BOD")
- We performed audit procedures that included, among others, testing the clerical accuracy and consistency with US GAAP of the accounting model developed by the Company to recognize revenue including forfeiture of prepaid coupon and deferred revenue associated with the prepaid coupon.
- We have performed data mapping test in sampling basis between the raw data from the system in which the Company used to capture the sales transactions for big data and marketing purpose with BOD and confirmed that the BOD is reliable.
- We have performed reconciliation between BOD, the system in which the Company used to capture the sales transactions for data analytics and third-party payment platforms to confirm the transactions related to payment like purchase of coffee directly or purchase of prepaid coupons are truly and fairly reflected in BOD.
- We have tested the payment receipts against third-party payments platforms and instruments such as WeChat and Alipay.
- We have also performed certain substantive analytical procedures.

(ii) **Impairment assessment on long-lived assets**

Critical Audit Matter Description

As of December 31, 2021, the Company's record an aggregated impairment of long-lived assets of RMB80.56 million, include RMB 21.37 million was recorded in current year. As disclosed in Note 2 to the consolidated financial statements, it consists of the impairment loss in connection with Luckin Coffee EXPRESS and Luckin Pop Mini, self-operating stores and idle equipment.

The Company evaluates its long-lived assets, including property and equipment with finite lives, for impairment whenever events or changes in circumstances, such as a significant adverse change to market conditions that indicate that the carrying amount of an asset or asset group may not be fully recoverable. When these events occur, the Company evaluates the recoverability of long-lived assets by comparing the carrying amount of the assets to the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition.

If the sum of the expected undiscounted cash flows of the asset or asset group is less than the carrying amount of the assets or the asset groups, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets or the asset groups over their fair value. Fair value is generally determined by discounting the cash flows expected to be generated by the assets or asset groups based on forecasted future sales and operating costs, using internal projections, when the market prices are not readily available. The adjusted carrying amount of the assets become new cost basis and are depreciated over the assets' remaining useful lives.

Long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

The Company estimates of future cash flows requires management to make assumptions and to apply judgment, including forecasting future sales and gross profits and estimating useful lives of the assets or asset groups. These estimates can be affected by factors such as future sales results, store closure plans, economic conditions, business interruptions, interest rates and government regulations that can be difficult to predict. If actual results and conditions are not consistent with the estimates and assumptions used in its calculations, the Company may be exposed to additional impairments of long-lived assets.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the impairment assessment on long-lived assets included the following:

- We have evaluated the assumptions made by management in the determination of residual values and useful lives to ensure that these are consistent with the guidance in ASC 360;
- We have assessed whether indicators of impairment existed as of December 31, 2021 based on our knowledge of the business and the industry;
- We have engaged independent valuation experts to assess the appropriateness of management's impairment model with satisfactory result.
- We have evaluated whether the significant inputs and assumptions used in the model were reasonable.

(iii) **Adoption of new lease accounting standard, ASC Topic 842, Leases**

Critical Audit Matter Description

As discussed in Note 19 to the consolidated financial statements, the Company adopted the new lease accounting standard, ASC Topic 842, Leases, from January 1, 2021 since the Company ceased to act as an emerging growth company ("EGC"), using the modified retrospective transition approach through a cumulative-effect adjustment in the period of adoption rather than retrospectively adjusting prior periods and the package of practical expedients.

The impact of adoption of ASC 842 is a change in accounting policies of operating leases. This changes in accounting policies result in a right-of-use assets RMB1,237.7 million and lease liability RMB1,173.1 million (both current and non-current) being recognized in the consolidated balance sheet.

Because of the judgements which have been applied and the estimates made in determining the impact of ASC 842, this area is considered as a key audit matter.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the Adoption of new lease accounting standard, ASC 842, Leases included the following:

- We have assessed the discounting rate applied in determining the lease liabilities
- We have considered the completeness of the lease data by testing the reconciliation of calculations of lease liabilities with other source data, such as list of coffee stores.
- We have verified the accuracy of calculations by agreeing sample of leases data with original agreements.
- We have considered if the disclosure in Form-20F regarding adoption of new lease accounting standard were in compliance with relevant standard.

Centurion ZD CPA & Co.

/s/ Centurion ZD CPA & Co.

We have served as the Company's auditor since April 15, 2021.

Hong Kong, China

April 14, 2022



中正達會計師事務所
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Certified Public Accountants (Practising)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To: The Board of Directors and Shareholders of Luckin Coffee Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Luckin Coffee Inc. and its subsidiaries (the “Company”) as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets and the related consolidated statements of comprehensive (loss)/income, consolidated statements of shareholders’ (deficits) / equity, and consolidated statement of cash flows and our report dated April 14, 2022, expressed an unqualified opinion.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Centurion ZD CPA & Co.

/s/ Centurion ZD CPA & Co.

We have served as the Company's auditor since April 15, 2021.

Hong Kong, China

April 14, 2022

LUCKIN COFFEE INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”), except for number of shares)

	Note	As of December 31,		
		2020 RMB	2021 RMB	US\$
ASSETS				
Current assets:				
Cash and cash equivalents		4,806,023	6,477,636	1,016,482
Restricted cash		110,000	58,200	9,133
Short-term investments, net	4	250,000	—	—
Accounts receivable, net	5	17,381	38,605	6,058
Receivables from online payment platforms		25,728	171,562	26,922
Inventories	6	275,568	593,340	93,108
Prepaid expenses and other current assets, net	7	935,497	1,044,007	163,828
Total current assets		6,420,197	8,383,350	1,315,531
Non-current assets:				
Property and equipment, net	8	2,070,458	1,805,101	283,260
Restricted cash		23,022	19,438	3,050
Other non-current assets, net	9	170,002	163,926	25,724
Deferred tax assets, net	17	638,720	702,941	110,307
Operating lease right-of-use assets	19	—	1,237,734	194,227
Total non-current assets		2,902,202	3,929,140	616,568
Total assets		9,322,399	12,312,490	1,932,099
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable		209,695	293,700	46,088
Accrued expenses and other current liabilities	10	703,117	1,322,006	207,452
Deferred revenues		88,174	96,212	15,098
Convertible senior notes	13	—	2,931,396	460,000
Payable for equity litigants settlement		—	1,350,257	211,885
Operating lease liabilities	19	—	598,062	93,850
Total current liabilities		1,000,986	6,591,633	1,034,373
Non-current liabilities:				
Other non-current liabilities		197,091	—	—
Convertible senior notes	13	3,001,500	—	—
Payable for SEC settlement	20	1,174,500	—	—
Payable for equity litigants settlement	21	1,223,438	—	—
Operating lease liabilities	19	—	575,060	90,239
Total non-current liabilities		5,596,529	575,060	90,239
Total liabilities		6,597,515	7,166,693	1,124,612
Commitments and contingencies	21			

LUCKIN COFFEE INC.
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares)

	Notes	As of December 31,		
		2020 RMB	2021 RMB	2021 US\$
Mezzanine equity:				
Convertible senior preferred shares (US\$0.000002 par value; nil and 307,692,307 shares authorized as of December 31, 2020 and 2021, respectively; nil and 295,384,615 issued and outstanding as of December 31, 2020 and 2021, respectively)	15	—	1,514,660	237,683
Total Mezzanine equity		—	1,514,660	237,683
Shareholders' equity:				
Class A ordinary shares (US\$0.000002 par value; 20,000,000,000 and 19,692,307,693 shares authorized as of December 31, 2020 and 2021, respectively, 1,880,396,244 and 1,950,457,380 issued and outstanding as of December 31, 2020 and 2021, respectively)	14	20	21	3
Class B ordinary shares (US\$0.000002 par value; 5,000,000,000 and 5,000,000,000 shares authorized as of December 31, 2020 and 2021, respectively; 144,778,552 and 144,778,552 issued and outstanding as of December 31, 2020 and 2021, respectively)	14	2	2	—
Additional paid-in capital		14,744,569	15,037,992	2,359,789
Statutory reserves		603	2,617	411
Accumulated deficits		(12,452,882)	(11,768,626)	(1,846,754)
Accumulated other comprehensive income		364,054	359,131	56,355
Total Company's ordinary shareholders' equity		2,656,366	3,631,137	569,804
Non-controlling interests		68,518	—	—
Total shareholders' equity		2,724,884	3,631,137	569,804
Total liabilities, mezzanine equity and shareholders' equity		9,322,399	12,312,490	1,932,099

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

LUCKIN COFFEE INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

	Notes	For the year ended December 31,			
		2019 RMB	2020 RMB	2021 RMB	2021 US\$
Net revenues:					
Revenues from product sales		3,009,590	3,716,791	6,659,218	1,044,977
Revenues from partnership stores		15,344	316,627	1,306,105	204,956
Total net revenues		3,024,934	4,033,418	7,965,323	1,249,933
Cost of materials		(1,623,324)	(1,995,380)	(3,198,552)	(501,923)
Store rental and other operating costs		(1,597,125)	(1,726,619)	(2,036,772)	(319,614)
Depreciation and amortization expenses	8, 9	(411,883)	(483,421)	(465,384)	(73,029)
Delivery expenses		(438,914)	(414,808)	(819,549)	(128,605)
Sales and marketing expenses		(812,592)	(462,112)	(336,855)	(52,860)
General and administrative expenses		(1,072,339)	(981,645)	(1,269,988)	(199,289)
Store preopening and other expenses		(71,623)	(9,982)	(16,352)	(2,566)
Impairment loss of long-lived assets	8, 9	(209,249)	(71,467)	(21,368)	(3,353)
Losses and expenses related to Fabricated Transactions and Restructuring		—	(475,252)	(339,557)	(53,284)
Total operating expenses		(6,237,049)	(6,620,686)	(8,504,377)	(1,334,523)
Operating loss		(3,212,115)	(2,587,268)	(539,054)	(84,590)
Interest income		79,407	135,713	102,248	16,045
Interest and financing expenses		(31,629)	(116,471)	(35,490)	(5,569)
Foreign exchange gain/(loss), net		19,842	(70,937)	120,166	18,857
Other expenses, net		(6,303)	(58,635)	(16,513)	(2,591)
Change in the fair value of warrant liability		(8,322)	—	—	—
(Provision)/reversal for SEC settlement	20	—	(1,177,074)	1,146,474	179,907
Provision for equity litigants settlement	21	—	(1,226,119)	(155,314)	(24,372)
Impairment of trust investments		—	(1,140,000)	—	—
(Loss)/income before income taxes		(3,159,120)	(6,240,791)	622,517	97,687
Income tax (expense)/benefits	17	(1,387)	637,801	63,861	10,021
Net (loss)/income		(3,160,507)	(5,602,990)	686,378	107,708
Add: Accretion to redemption value of convertible redeemable preferred shares		(552,036)	—	—	—
Add: Deemed distribution to a certain holder of Series B convertible redeemable preferred shares		(2,127)	—	—	—
Less: Net (loss)/income attributable to non-controlling interests		(2,074)	(13,885)	108	17
Net (loss)/income attributable to the Company's ordinary shareholders		(3,712,596)	(5,589,105)	686,270	107,691
Net (loss)/income per share*:	18				
Basic		(2.31)	(2.76)	0.34	0.05
Diluted		(2.31)	(2.76)	0.32	0.05
Weighted average shares outstanding used in calculating basic and diluted (loss)/income per share*:	18				
Basic		1,609,200,055	2,021,919,061	2,025,366,744	2,025,366,744
Diluted		1,609,200,055	2,021,919,061	2,135,844,257	2,135,844,257
Net (loss)/income		(3,160,507)	(5,602,990)	686,378	107,708
Other comprehensive (loss)/income, net of tax of nil:					
Foreign currency translation difference, net of tax of nil		79,433	286,697	(4,923)	(773)
Total comprehensive (loss)/income		(3,081,074)	(5,316,293)	681,455	106,935
Add: Accretion to redemption value of convertible redeemable preferred shares		(552,036)	—	—	—
Add: Deemed distribution to a certain holder of Series B convertible redeemable preferred shares		(2,127)	—	—	—
Less: total comprehensive (loss)/income attributable to non-controlling interests		(2,074)	(13,885)	108	17
Total comprehensive (loss)/income attributable to the Company's ordinary shareholders		(3,633,163)	(5,302,408)	681,347	106,918

* 1-to-500 share split concurrent with the completion of IPO in May 2019 was accounted for on a retrospective basis for the calculation of basic and diluted loss per share as it was completed at the inception of the Company.

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

LUCKIN COFFEE INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICITS)/ EQUITY
(Amounts in thousands of RMB and US\$, except for number of shares)

	Notes	Ordinary Shares		Class A ordinary shares		Class B ordinary shares		Angel Shares		Additional paid-in capital	Accumulated other comprehensive (loss)/income	Statutory reserves	Accumulated deficits	Total Company's ordinary shareholders' (deficits)/ equity	Non-controlling interests	Total shareholders' (deficits)/equity
		Share	Amount	Share	Amount	Share	Amount	Shares	Amount							
Balance as of December 31, 2018		750,000	—	—	—	—	—	1,428,750	1,256,188	65,000	(2,076)	—	(3,246,705)	(1,927,593)	—	(1,927,593)
Net loss		—	—	—	—	—	—	—	—	—	—	—	(3,158,433)	(3,158,433)	(2,074)	(3,160,507)
Foreign currency translation difference		—	—	—	—	—	—	—	—	—	79,433	—	79,433	79,433	—	79,433
Accretion to redemption value of convertible redeemable preferred shares		—	—	—	—	—	—	—	—	(94,000)	—	—	(458,036)	(552,036)	—	(552,036)
Deemed distribution to a certain holder of Series B convertible redeemable preferred shares		—	—	—	—	—	—	—	—	(2,127)	—	—	—	(2,127)	—	(2,127)
Conversion from Angel Shares to Class B ordinary shares	14	—	—	—	—	1,428,750	9	(1,428,750)	(1,256,188)	1,256,179	—	—	—	—	—	—
Conversion from Ordinary Shares and Preferred Shares to Class A and Class B ordinary shares	14	(750,000)	—	15,211	—	1,747,022	7	—	—	5,960,080	—	—	—	5,960,087	—	5,960,087
1-to-500 share split	14	—	—	7,590,289	—	1,584,710,228	—	—	—	—	—	—	—	—	—	—
Conversion from Class B ordinary shares to Class A ordinary shares	14	—	—	310,198,928	3	(310,198,928)	(3)	—	—	—	—	—	—	—	—	—
Issuance of Class A ordinary shares for 2019 share option plan	14	—	—	327,129,412	5	—	—	—	—	4,508,503	—	—	—	4,508,508	—	4,508,508
Share based compensation	16	—	—	19,753,888	—	—	—	—	—	—	—	—	—	—	—	—
Appropriation to statutory reserves	16	—	—	—	—	—	—	—	—	152,285	—	421	(421)	152,285	—	152,285
Contribution from non-controlling shareholder in a subsidiary		—	—	—	—	—	—	—	—	—	—	—	—	—	84,477	84,477
Balance as of December 31, 2019		—	—	664,687,728	8	1,277,687,072	13	—	—	11,845,920	77,357	421	(6,863,595)	5,060,124	82,403	5,142,527

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

LUCKIN COFFEE INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICITS)/EQUITY
(Amounts in thousands of RMB and US\$, except for number of shares)

	Notes	Ordinary Shares		Class A ordinary shares		Class B ordinary shares		Angel Shares		Additional paid-in capital	Accumulated other comprehensive (loss)/income	Statutory reserves	Accumulated deficits	Total Company's ordinary shareholders' (deficits)/equity	Non-controlling interests	Total shareholder (deficits)/equity
		Share	Amount	Share	Amount	Share	Amount	Shares	Amount							
Net loss																
Foreign currency translation difference										(190)	286,697		(5,589,105)	(5,589,105)	(13,885)	(5,602,928)
Conversion from Class B ordinary shares to Class A ordinary shares	14			1,132,908,520	11	(1,132,908,520)	(11)									
Surrender of Class A ordinary shares				(4)												
Issuance of Class A ordinary shares	14			82,800,000	1					2,876,810				2,876,811		2,876,811
Appropriation to statutory reserves												182	(182)			
Share based compensation	16									22,029				22,029		22,029
Balance as of December 31, 2020				1,880,396,244	20	144,778,552	2			14,744,569	364,054	603	(12,452,882)	2,656,366	68,518	2,724,813
Net income													686,270	686,270	108	686,378
Foreign currency translation difference											(4,923)			(4,923)		(4,923)
Issuance of Class A ordinary shares	14			70,061,136	1					(1)						
Appropriation to statutory reserves												2,014	(2,014)			
Share based compensation	16									302,734				302,734		302,734
Purchase of non-controlling interest in a subsidiary										(9,310)				(9,310)	(68,626)	(77,936)
Balance as of December 31, 2021				1,950,457,380	21	144,778,552	2			15,037,992	359,131	2,617	(11,768,626)	3,631,137		3,631,137
Balance as of December 31, 2021(US\$)					3					2,359,789	56,355	411	(1,846,754)	569,804		569,804

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

LUCKIN COFFEE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands of RMB and US\$, except for number of shares)

	For the year ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	US\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net (loss) income	(3,160,507)	(5,602,990)	686,378	107,708
Adjustments to reconcile net loss to net cash provided by operating activities:				
Foreign exchange loss/ (gain), net	(19,953)	70,937	(120,166)	(18,857)
Loss on disposal of property and equipment	5	5,648	4,834	759
Depreciation and amortization	411,883	483,421	465,384	73,029
Amortization of operating lease right-of-use assets	8,322	—	672,910	105,594
Change in the fair value of warrant liability	209,249	71,467	21,368	3,353
Impairment of long-lived assets	49,829	83,230	4,467	701
Allowance for unrecoverable payments in relation to Fabricated Transactions	8,585	34,709	—	—
Allowance for prepayments and accounts receivable	—	—	—	—
Loss on disposal of other non-current assets	—	(638,720)	(64,221)	(10,078)
Deferred income tax	—	1,140,000	—	—
Impairment of trust investments	—	107,014	35,490	5,569
Interest expenses of convertible senior notes	152,285	22,029	302,734	47,505
Share-based compensation expenses	3,854	—	—	—
Amortized income for the refund from shares depository bank	—	1,177,074	(1,146,474)	(179,907)
Provision (reversal) for SEC settlement	—	1,226,119	155,314	24,372
Provision for equity litigants settlement	—	—	3,889	610
Donation of inventory	—	—	—	—
Changes in operating assets and liabilities:				
Accounts receivable	(22,801)	5,420	(22,431)	(3,520)
Inventories	(235,529)	109,976	(316,673)	(49,693)
Receivables from online payment platforms	(11,581)	(9,538)	(145,834)	(22,885)
Prepaid expenses and other current assets	(382,762)	(263,242)	(101,868)	(15,983)
Other non-current assets	(35,080)	20,710	(20,548)	(3,224)
Amount due from a related party	(90)	90	—	—
Accounts payable and notes payable	367,376	(331,848)	84,005	13,182
Accrued expenses and other liabilities	476,513	(12,414)	254,094	39,873
Amounts due to related parties	(5,023)	(19,174)	—	—
Deferred revenues	18,455	(56,750)	8,038	1,261
Operating lease liabilities	—	—	(637,243)	(99,997)
Net cash (used in)/provided by operating activities	(2,166,970)	(2,376,832)	123,447	19,372
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property and equipment	(1,570,989)	(822,333)	(173,217)	(27,182)
Prepayment for land use right	(43,250)	—	—	—
Cash received from disposal of property and equipment	20,790	—	1,490	234
Purchase of two trust investments	—	(1,140,000)	—	—
Purchases of short-term investments	(1,030,000)	(455,404)	—	—
Proceeds received from maturity of short-term investments	660,000	705,404	250,000	39,230
Repayment from a related party	147,559	—	—	—
Cash paid to a related party and an individual on behalf of the related party	(306,319)	—	—	—
Cash repaid from a related party	306,319	—	—	—
Repayment of contribution from noncontrolling interest in a subsidiary	—	—	(77,936)	(12,230)
Net cash (used in)/provided by investing activities	(1,815,890)	(1,712,333)	337	52
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of Series B convertible redeemable preferred shares, net of issuance costs	33,861	—	—	—
Proceeds from issuance of Series B-1 preferred shares, net of issuance cost	1,065,882	—	—	—
Proceeds from issuance of Class A ordinary shares, net of issuance cost	4,508,507	2,876,811	—	—
Proceeds from short-term borrowings	59,582	—	—	—
Proceeds from capital lease	44,434	—	—	—
Repayments for short-term borrowings	(67,582)	—	—	—
Capital lease payments	(143,060)	(7,656)	—	—
Return of deposit for capital lease	13,050	642	—	—
Proceeds from long-term borrowing	349,650	69,900	—	—
Proceeds from the issuance of convertible senior notes	—	3,098,069	—	—
Repayments for long-term borrowing	(77,117)	(642,433)	—	—
Contribution from non-controlling shareholder in a subsidiary	84,477	—	—	—
Refund from shares depository bank	52,628	—	—	—
Cash received in relation to Fabricated Transaction	2,309,107	942,844	—	—
Cash paid in relation to Fabricated Transaction	(992,673)	(2,309,107)	—	—
Proceeds from issuance of convertible senior preferred shares	—	—	1,514,660	237,683
Net cash provided by financing activities	7,240,746	4,029,070	1,514,660	237,683
Effect of foreign exchange rate changes on cash and cash equivalents and restricted cash	92,560	17,711	(22,215)	(3,486)
Net increase/(decrease) in cash and cash equivalents and restricted cash	3,350,446	(42,384)	1,616,229	253,621
Cash and cash equivalents and restricted cash at beginning of years	1,630,983	4,981,429	4,939,045	775,044
Cash and cash equivalents and restricted cash at end of years	4,981,429	4,939,045	6,555,274	1,028,665
Supplemental disclosures of cash flow information:				
Interests received	77,045	132,439	103,863	16,298
Interests paid, net of capitalization	(33,040)	(15,171)	—	—
Supplemental disclosures of non-cash activities:				
Purchase of property and equipment included in accrued expenses and other liabilities	5,131	—	46,659	7,322
Obtaining right-of-use assets in exchange for lease liabilities	—	—	947,853	148,739

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

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

1. ORGANIZATION

Luckin Coffee Inc. (the “Company”) was incorporated in the Cayman Islands on June 16, 2017 under the Cayman Islands Companies Act (2021 Revision) (the “Companies Act”) as an exempted company with limited liability. The Company through its consolidated subsidiaries and variable interest entity (the “VIE”) (collectively, the “Group”) are principally engaged in the provision of retail services for high-quality and affordable freshly brewed drinks and pre-made food and beverage items in the People’s Republic of China (the “PRC” or “China”).

(a) As of the issuance of this financial statements, the details of the Company’s principal subsidiaries and VIE are as follows:

Entity	Date of incorporation	Place of incorporation	Percentage of direct or indirect ownership	Principal activities
Subsidiaries:				
Luckin Coffee Investment Inc. (“Luckin BVI”)	June 16, 2017	British Virgin Islands	100	% Investment holding
Luckin Coffee (Hong Kong) Limited (“Luckin HK”)	June 19, 2017	Hong Kong	100	% Investment holding
Luckin Coffee Roasting (Hong Kong) Limited (“Luckin Roasting”)	April 12, 2019	Hong Kong	100	% Investment holding
Luckin Coffee Roastery (Hong Kong) Limited (“Luckin Roastery”)	April 30, 2019	Hong Kong	100	% Investment holding
Beijing Luckin Coffee Co., Ltd. (“Beijing WFOE”) (1) / (2)	October 31, 2017	PRC	100	% Provision of retail services for freshly brewed drinks and pre-made food and beverage items and technical and consultation services
Luckin Investment (Tianjin) Co., Ltd. (“Luckin TJ”) (1) / (5)	December 7, 2017	PRC	100	% Investment holding
Luckin Coffee (China) Co., Ltd. (“Luckin China”) (1) / (2) / (4)	March 28, 2018	PRC	100	% Headquarter
Luckin Coffee Roasting (Xiamen) Co., Ltd. (1)	January 22, 2019	PRC	100	% Investment holding
Luckin Coffee Roasting (Pingnan) Co., Ltd. (1)	April 28, 2019	PRC	100	% Manufacture of materials for products
Variable Interest Entity:				
Beijing Luckin Coffee Technology Ltd. (“VIE”) (3)	June 14, 2017	PRC	100	% License holder

- (1) Including their subsidiaries, collectively as the “PRC subsidiaries”.
- (2) On July 27, 2018, Beijing WFOE transferred all its 100% equity interest in its subsidiaries to Luckin China.
- (3) Ms. Jenny Zhiya Qian and Mr. Min Chen are nominal shareholders of the VIE, holding 83.33% and 16.67% of the equity interest, respectively. Ms. Qian and Mr. Chen were both terminated from the Group as a result of the internal investigation and have since ceased to be involved in the management of the Group. The Group is in the process of replacing the nominal shareholders and otherwise optimizing its VIE structure.
- (4) As of the issuance of this financial statements, Luckin China had 87 direct and indirect wholly-owned subsidiaries.
- (5) As of the issuance of this financial statements, Luckin TJ had one direct wholly-owned subsidiary.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

1. ORGANIZATION (CONTINUED)

(b) PRC laws and regulations prohibit foreign ownership in certain telecommunication related businesses. To comply with these foreign ownership restrictions, we rely on contractual arrangements with our VIE rather than equity ownership in it to use, or otherwise benefit from, certain foreign restricted licenses and permits that we may need in the future, such as the internet content provider license, or the ICP license held by our VIE. Despite the lack of technical majority ownership, the Company has effective control of the VIE through a series of contractual agreements (the “VIE Agreements”). The equity interest of the VIE is legally held by PRC individuals (the “Nominee Shareholders”). Through the VIE Agreements, the Nominee Shareholders of the VIE effectively assign all their voting rights underlying their equity interests in the VIE to the Company, and therefore, the Company has the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance. The Company also has the right to receive economic benefits and obligations to absorb losses from the VIE that potentially could be significant to the VIE. Based on the above, the Company consolidates the VIE in accordance with SEC Regulation S-X Rule 3A-02 and Accounting Standards Codification (“ASC”) 810-10 (“ASC 810-10”), *Consolidation: Overall*.

For the years ended December 31, 2019, 2020 and 2021, the VIE did not generate any revenue and the Group did not provide any loan to VIE. As of December 31, 2020 and 2021, total assets of the VIE excluding amounts due from other intra-group entities were RMB59,486 and RMB6,293 (US\$988), respectively.

The following is a summary of the key VIE Agreements:

Exclusive Option Agreement

Pursuant to the Exclusive Option Agreement entered into amongst the VIE, the Nominee Shareholders and Beijing WFOE, the Nominee Shareholders granted Beijing WFOE or its designated party, an irrevocable and exclusive right to purchase all or part of the equity interests held by the Nominee Shareholders in the VIE at its sole discretion, to the extent permitted under the PRC laws, at an amount equal to the minimum consideration permitted under the applicable PRC law and administrative regulations. Any proceeds received by the Nominee Shareholders from the exercise of the options shall be remitted to Beijing WFOE or its designated party, to the extent permitted under PRC laws. In addition, the VIE and the Nominee Shareholders have agreed that without prior written consent of the Beijing WFOE, they will not create any pledge or encumbrance on their equity interests in the VIE, except for the pledge placed pursuant to the Share Pledge Agreement, or transfer or otherwise dispose of their equity interests in the VIE. The term of the agreement remains effective as long as each Nominee Shareholder remains as a shareholder of the VIE. Beijing WFOE may terminate the agreement at its sole discretion, whereas under no circumstances may the VIE or the Nominee Shareholders terminate the agreement.

Share Pledge Agreement

Pursuant to the Share Pledge Agreement entered into amongst Beijing WFOE, the VIE, and the Nominee Shareholders, the Nominee Shareholders pledged all of their equity interests in the VIE to Beijing WFOE as collateral to secure their obligations. Beijing WFOE shall have the right to collect dividends generated by the pledged shares during the term of the pledge. If the VIE or the Nominee Shareholders breach their respective contractual obligations under the share pledge agreement, Beijing WFOE, as pledgee, will be entitled to rights, including the right to dispose the pledged equity interests entirely or partially. The Nominee Shareholders agreed not to transfer or otherwise create any encumbrance on their equity interests in the VIE without prior consent of Beijing WFOE. The Equity Pledge Agreement will remain effective until all the obligations have been satisfied in full and the pledged equity interests have been transferred to Beijing WFOE and/or its designee. The Company completed the registration of the pledge of equity interests in the VIE with the relevant office of Administration for the Industry and Commerce in accordance with the PRC Property Rights Law.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

1. ORGANIZATION (CONTINUED)

Proxy Agreement and Power of Attorney

Pursuant to the Proxy Agreement and Power of Attorney entered into amongst Beijing WFOE, the VIE, and the Nominee Shareholders, each Nominee Shareholder appointed Beijing WFOE to act on behalf of the Nominee Shareholders as exclusive agent and attorney with all respect to all matters concerning the shareholding including but not limited to (1) call and attend shareholders' meetings of the VIE; (2) exercise all the shareholders' rights, including voting rights; and (3) appoint at its sole discretion, a substitute or substitutes to perform any or all of its right of the VIE. The power of attorney remains irrevocable and continuously valid from the date of execution so long as each Nominee Shareholder remains as a shareholder of the VIE unless Beijing WFOE issues adverse instructions in writing. The Proxy Agreement and Power of Attorney was subsequently reassigned to the Company.

Master Exclusive Service Agreement

Pursuant to the Master Exclusive Service Agreement entered into between Beijing WFOE and the VIE, Beijing WFOE or its designated entities affiliated has the exclusive right to provide the VIE with technical support and business support services in return for fees equal to 100% of the consolidated net profits of the VIE. Beijing WFOE has sole discretion in determining the service fee charged to the VIE under this agreement. Without Beijing WFOE's prior written consent, the VIE shall not, directly and indirectly, obtain the same or similar services as provided under this agreement from any third party, or enter into any similar agreement with any third party. Beijing WFOE will have the exclusive ownership of all intellectual property rights developed by performance of this agreement. This agreement will remain effective until it is terminated at the discretion of Beijing WFOE or upon the transfer of all the shares of the VIE to Beijing WFOE and/or a third party designated by Beijing WFOE.

The Company is obligated and hereby undertakes to provide unlimited financial support to the VIE, to the extent permissible under the applicable PRC law and regulations, whether or not any such operational loss is actually incurred. The Company will forego the right to seek repayment in the event the VIE are unable to repay such funding.

Business Cooperation Agreement

Pursuant to the Business Cooperation Agreement entered into amongst Beijing WFOE, the VIE and the Nominee Shareholders, the VIE and the Nominee Shareholders agreed and covenanted that, without obtaining Beijing WFOE's written consent, the VIE shall not, and the Nominee Shareholders shall cause the VIE not to, engage in any transaction which may materially affect the VIE's assets, obligations, rights or operation. The VIE shall accept, and the Nominee Shareholders shall cause the VIE to accept, suggestions raised by Beijing WFOE over the employee engagement and replacement, daily operation, dividend distribution and financial management systems of the VIE. The Business Cooperation Agreement will remain effective until it is terminated at the discretion of Beijing WFOE or upon the transfer of all the shares of the VIE to Beijing WFOE and/or its designated party.

In the opinion of the Group's management and PRC counsel, (i) the ownership structure of the VIE is not in violation with any existing PRC laws and regulations in any material respect; and (ii) each of the VIE Agreements is valid, legally binding and enforceable to each party of such agreements and will not result in any violation of PRC laws or regulations currently in effect.

However, the Group's PRC legal counsel has also advised that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of the Group's PRC legal counsel.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

1. ORGANIZATION (CONTINUED)

Business Cooperation Agreement (continued)

Uncertainties in the PRC legal system could cause the relevant regulatory authorities to find the current VIE Agreements and businesses to be in violation of any existing or future PRC laws or regulations. If the Company, Beijing WFOE or any of its current or future VIE are found in violation of any existing or future laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, which may include but not limited to, confiscating the income of the primary beneficiary, and the VIE, revoking the business licenses or operating licenses of the primary beneficiary, and VIE, shutting down the Group's servers, discontinuing or placing restrictions or onerous conditions on the Group's operations, requiring the Group to undergo a costly and disruptive restructuring or enforcing actions that could be harmful to the Group's business. Any of these actions could affect the legality and enforceability of the contractual arrangements with the VIE and, consequently, cause the primary beneficiary to lose the rights to direct the activities of the VIE or the right to receive their economic benefits and the ability to consolidate the financial results of the VIE. VIE was established to hold certain foreign restricted licenses and permits which we might need in the future, such as the ICP license, the financial results of the VIE have not been material to the Group and are not expected to be material in the future.

There are no assets that are pledged or collateralized for the VIE's obligations and which can only be used to settle the VIE's obligations, except for registered capital. Relevant PRC laws and regulations restrict the VIE from transferring a portion of their net assets, equivalent to the balance of its share capital and statutory reserve, to the Company in the form of loans and advances or cash dividends. Please refer to Note 13 for disclosure of restricted net assets. As the VIE is incorporated as limited liability company under the PRC Company Law, creditors of the VIE do not have recourse to the general credit of the Company for any of the liabilities of the VIE. There were no other pledges or collateralization of the VIE's assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP").

(b) Principles of consolidation

The consolidated financial statements of the Group include the financial statements of the Company, its subsidiaries and the VIE for which the Company is the primary beneficiary. All significant inter-company transactions and balances between the Company, its subsidiaries and the VIE have been eliminated upon consolidation.

(c) Non-controlling interests

For the Group's non-wholly owned subsidiaries, a non-controlling interest is recognized to reflect the portion of equity that is not attributable, directly or indirectly, to the Group. Non-controlling interests are classified as a separate line item in the equity section of the Group's consolidated balance sheets and have been separately disclosed in the Group's consolidated statements of comprehensive (loss)/income to distinguish the interests from that of the Group. Cash flows related to transactions with non-controlling interests are presented under financing activities in the consolidated statements of cash flows.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and revenues and expenses during the reporting periods. Significant accounting estimates reflected in the Group's consolidated financial statements include, but not limited to, estimates for provision of accounts receivable and other current assets, inventories and short-term investments, useful lives and impairment of long-lived assets, accounting for deferred income taxes and uncertain tax benefits, fair value of share-based payments, valuation allowance for deferred tax assets, provision of contingent liabilities, and valuations for the warrant liability, convertible senior preferred shares and convertible senior notes. Changes in facts and circumstances may result in revised estimates. Actual results could differ from those estimates, and as such, differences may be material to the consolidated financial statements.

(e) Foreign currency

The functional currency of the Company, Luckin BVI, Luckin HK, Luckin Roasting and Luckin Roastery is the United States dollar ("US\$") and its reporting currency is the Renminbi (the "RMB"). The functional currency of the Company's PRC subsidiaries and the VIE is the RMB as determined based on the criteria of ASC 830, *Foreign Currency Matters*.

The financial statements of the Company, Luckin BVI, Luckin HK, Luckin Roasting and Luckin Roastery are translated from the functional currency to the reporting currency, the RMB. Transactions denominated in foreign currencies are re-measured into the functional currency at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are re-measured at the exchange rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical costs in foreign currency are re-measured using the exchange rates at the dates of the initial transactions. Exchange gains and losses are included in the consolidated statements of comprehensive (loss)/income.

The Group uses the average exchange rate for the year and the exchange rate at the balance sheet date to translate the operating results and financial position, respectively. Equity accounts other than earnings generated in current year are translated into RMB at the appropriate historical rates. Translation differences are recorded in accumulated other comprehensive income, a component of shareholders' equity.

(f) Convenience translation

Amounts in US\$ are presented for the convenience of the reader and are translated at the noon buying rate of US\$1.00 to RMB6.3726 on December 31, 2021, the last business day in fiscal year 2021, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be converted, realized or settled into US\$ at such rate or at any other rate.

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and demand deposits placed with banks which are unrestricted as to withdrawal or use, and have original maturities less than three months. All highly liquid investments with a stated maturity of 90 days or less from the date of purchase are classified as cash equivalents.

(h) Restricted cash

Restricted cash is reported separately on the face of the Consolidated Balance Sheets. The Group adopted Accounting Standard Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* from the fiscal year of 2019. As a result, restricted cash is included in the total cash and cash equivalents, and restricted cash in the Consolidated Statements of Cash Flows. The Group's restricted cash mainly represents security deposits held in bank accounts for bank guarantee letters. Restricted cash is classified as current and non-current based on the duration of the restriction.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Short-term investments

All highly liquid investments with original maturities of greater than three months but less than twelve months are classified as short-term investments. Investments that are expected to be realized in cash during the next twelve months are also included in short-term investments. The Group accounts for short-term investments in accordance with ASC 320, *Investments — Debt and Equity Securities*. Interest income is included in earnings. Any realized gains or losses on the sale of the short-term investments are determined on a specific identification method, and such gains and losses are reflected in earnings during the period in which gains or losses are realized. The Group does not intend to sell the investments and it is not more likely than not that the Group will be required to sell the investments before maturity.

(j) Accounts receivable

Accounts receivable represents the amounts that the Group has an unconditional right to consideration.

Since as of December 31, 2021 the Company no longer qualifies as an EGC, it adopted ASU No. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, by using the modified retrospective method, effective as of January 1, 2021, and reflected the impact in its financial statements for the year ended December 31, 2021. The Group maintains an estimated allowance for credit losses to reduce its accounts receivable to the amount that it believes will be collected. The Group uses industry trend, the age of the amounts, the payment history, creditworthiness and financial conditions of the customers as credit quality indicators to monitor the Group's receivables within the scope of expected credit losses model and use these as a basis to develop the Group's expected loss estimates. The Group adjusts the allowance percentage periodically when there are significant differences between estimated bad debts and actual bad debts. If there is strong evidence indicating that the accounts receivable is likely to be unrecoverable, the Group also makes specific allowance in the period in which a loss is determined to be probable. Accounts receivable balances are written off after all collection efforts have been exhausted. Please refer to Note 2(dd) for adoption of expected credit losses model. Bad debt allowance was nil and RMB765 (US\$120) as of December 31, 2020 and 2021, respectively.

(k) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of inventory are determined using the moving weighted average method. Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to obsolete and slow-moving inventories, which is dependent upon factors such as historical and forecasted consumer demand, and application of the specific identification method. For the years ended December 31, 2019, 2020 and 2021, the Group wrote off inventory of RMB2,158, RMB26,277 and RMB5,573 (US\$876) respectively. Write downs are recorded in cost of revenues in the Consolidated Statements of Operations and Comprehensive (Loss)/Income.

(l) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any recorded impairment. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Category	Estimated useful life
Store operating equipment	5 years
Office equipment and others	3-5 years
Leasehold improvements	Over the shorter of lease term or the estimated useful lives of the assets
Mechanical equipment	10 years
Office buildings	40-50 years

Direct costs that are related to the construction of property and equipment and incurred in connection with bringing the assets to their intended use are capitalized as construction in progress. Construction in progress is transferred to specific property and equipment items and the depreciation of these assets commences when the assets are ready for their intended use.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Property and equipment (continued)

Repair and maintenance costs are charged to expense as incurred, whereas the costs of betterments that extend the useful life of property and equipment are capitalized as additions to the related assets. Retirements, sale and disposals of assets are recorded by removing the cost and accumulated depreciation with any resulting gain or loss reflected in the consolidated statements of comprehensive (loss)/income.

(m) Impairment of long-lived assets other than goodwill

The Group evaluates its long-lived assets, including property and equipment with finite lives, for impairment whenever events or changes in circumstances, such as a significant adverse change to market conditions that indicate that the carrying amount of an asset or asset group may not be fully recoverable. When these events occur, the Group evaluates the recoverability of long-lived assets by comparing the carrying amount of the assets to the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows of the asset or asset group is less than the carrying amount of the assets or the asset groups, the Group recognizes an impairment loss based on the excess of the carrying amount of the assets or the asset groups over their fair value. Fair value is generally determined by discounting the cash flows expected to be generated by the assets or asset groups based on forecasted future sales and operating costs, using internal projections, when the market prices are not readily available. The adjusted carrying amount of the assets become new cost basis and are depreciated over the assets' remaining useful lives. Long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

The Group estimates of future cash flows requires management to make assumptions and to apply judgment, including forecasting future sales and gross profits and estimating useful lives of the assets or asset groups. These estimates can be affected by factors such as future sales results, store closure plans, economic conditions, business interruptions, interest rates and government regulations that can be difficult to predict. If actual results and conditions are not consistent with the estimates and assumptions used in its calculations, the Group may be exposed to additional impairments of long-lived assets.

For the years ended December 31, 2019, 2020 and 2021, the Group recognized impairment of long-lived assets other than goodwill of RMB209,249, RMB71,467 and RMB21,368 (US\$3,353) respectively, which consisted of:

- 1) RMB151,916, nil and nil for the asset group related to underperforming or planned closed self-operating stores for the years ended December 31, 2019, 2020 and 2021, respectively;
- 2) RMB52,058, RMB2,120 and nil for the asset group related to Luckin Coffee EXPRESS, which is an unmanned machine that prepares a selection of freshly brewed drinks for the years ended December 31, 2019, 2020 and 2021, respectively;
- 3) nil, RMB46,696 and nil for the asset group related to Luckin Pop Mini for the years ended December 31, 2019, 2020 and 2021, respectively;
- 4) nil, RMB12,817 and nil for the Linefriends food licensing for the years ended December 31, 2019, 2020 and 2021, respectively;
- 5) RMB5,275, nil and nil related to the cancellation of the constructing coffee bean roasting factories and return of the land use right to local government in Tongan city, Fujian province and Tianjin for the years ended December 31, 2019, 2020 and 2021, respectively; and
- 6) nil, RMB9,834 and RMB21,368 (US\$3,353) for the asset group related to store operating equipment and others for the years ended December 31, 2019, 2020 and 2021, respectively.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Fair value of financial instruments

The Group applies ASC 820, *Fair Value Measurements and Disclosures*, (“ASC 820”). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 requires disclosures to be provided on fair value measurement.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Other inputs that are directly or indirectly observable in the marketplace.

Level 3 — Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach; and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

The Group’s financial instruments include cash and cash equivalents, short-term investments, accounts payable, receivables from online payment platforms, accounts receivable, deposits, other receivables and payables, convertible senior notes. The carrying values of these financial instruments approximate their fair values due to their short-term maturities. The carrying amount of the long-term borrowing approximates its fair values since it bears an interest rate which approximates market interest rate.

(o) Revenue recognition

The Group adopted ASC Topic 606, Revenue from Contracts with Customers (“ASC 606”), from January 1, 2019, using the modified retrospective transition approach.

A description of the principal revenue generating activities of Group is as follows:

Revenues from product sales

The Group offers freshly brewed drinks and other products (including pre-made food, beverage and merchandise items) mainly through its physical self-operated stores, Luckin EXPRESS and online e-commerce platforms. Customers place orders for products mainly through the Group’s self-developed APP, Weixin mini-program and other third-party platforms with different options to pay through third-party payment channels. The Group recognizes revenues at point in time when the Group satisfies its performance obligation upon customers’ in-store pickup or the delivery of promised products to customers. Delivery service is provided if it is a delivery order. Delivery service is determined as an activity to fulfill the Group’s promise to transfer the products, rather than another distinct performance obligation as it is performed before the customers obtain control of the products. Revenues represent the amount of consideration that the Group is entitled to, including products settlement price and delivery fees charged to customers, net of value-added tax (“VAT”), surcharges, discounts and returns, if any. There is no significant financing component or variable consideration in the transaction price. The Group reasonably estimates the possibility of return based on the historical experience, and there were no material returns historically.

The Group evaluates whether it is appropriate to record the gross amount of product sales and related costs or the net amount. The Group is a principal for the substantial majority of product sales as the Group produces or obtains control of the specified goods before they are transferred to the customers, except for a portion of revenue from products sold on the Group’s own e-commerce platform, for which the Group’s obligation is to facilitate third-party merchants in fulfilling their performance obligation for the goods displayed on the Group’s own e-commerce platform acting as an agent. Total revenue from product sales as a principal were RMB3,009,590, RMB3,716,791 and RMB6,659,218 (US\$1,044,977) for the years ended December 31, 2019, 2020 and 2021, respectively, including revenue from product sales as an agent of nil, RMB3,671 and RMB2,009 (US\$315) for the years ended December 31, 2019, 2020 and 2021, respectively.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Revenue recognition (continued)

Revenues from partnership stores

The Group cooperates with selective retail partners to operate the partnership stores. Under retail partnership model, the Group sells materials such as coffee beans, milk, food and related products to retail partners and shares simplified and standardized operation experience and provides use right of brand name and sales and supply chain management in exchange for a profit-sharing on retail sales. Retail partners are responsible for pre-opening capital investments and operating costs.

Revenues from partnership stores mainly consist of sales of materials and equipment to the partnership stores, profit-sharing revenue from the partnership stores for using the Luckin Coffee or Luckin Tea brand as well as integrated store operation solution, and other services including delivery services and pre-opening services.

For material sales, the Group's performance obligation is to transfer required materials at fixed unit price to retail partners. The Group provides allowance for materials sales as consideration payable to retail partners when the products sold in partnership stores to customers at lower price than the cost of materials with certain markup to comply with the Group's promotion strategy. Allowance for partnership stores is accounted for as a reduction of the transaction price, which is usually determined upon the completion of each order. Therefore, sales of materials are generally recognized on the partnership stores' acceptance of materials, the settlement price is then deducted by the allowance provided to partnership stores that is determined upon the products are sold in partnership stores, if any. Revenue from material sales to partnership stores were RMB12,586, RMB227,183 and RMB834,677 (US\$130,979) for the years ended December 31, 2019, 2020 and 2021, respectively.

For equipment sales, the Group's performance obligation is to transfer equipment to retail partners at a fixed consideration with one-year warrant, which is not a distinct performance obligation as it is intended to provide an assurance that the equipment complies with agreed-upon functionality described in the contract. Revenue from sales of equipment is recognized at point in time when equipment is installed and tested to be ready to use. The Group accrues warrant as guarantee obligation according to ASC Topic 460, Guarantees. Revenue from equipment sales to partnership stores were nil, RMB43,325 and RMB178,847 (US\$28,065) for the years ended December 31, 2019, 2020 and 2021, respectively, and warrant liability was immaterial.

For profit-sharing, the Group provides the integrated store operation solution, which includes the right to use brand name of Luckin Coffee or Luckin Tea, products and brand name promotion activities, unified ordering and payment collections platform, and basic operation guidance on store management and sanitary conditions, etc., in exchange for the profit-sharing based on the gross profit of retail sales. The Group recognizes the profit-sharing revenue from partnership stores at a variable consideration that is based upon partnership stores' monthly gross profits which are determined at the end of each month. The Group offers a price concession to its retail partners to free the new stores' profit-sharing for a period of time ranging from the first one month to three months, which is subject to the Group's adjustment. Especially, between January to June 2020, during the outbreak of COVID-19, the Group waived substantially all the profit-sharing from partnership stores. Price concession for profit-sharing is accounted for as a reduction of the transaction price and deducts our revenue directly. Revenue from partnership stores' profit-sharing were RMB216, RMB12,796 and RMB144,831 (US\$22,727) for the years ended December 31, 2019, 2020 and 2021, respectively.

The Group also provides other services including pre-opening services such as design of store decoration and provision of decoration materials and delivery service, which have distinct value to partnership stores and are recognized upon completion of the related performance obligations. Other revenues from partnership stores were RMB2,542, RMB33,323 and RMB147,750 (US\$23,185) for the years ended December 31, 2019, 2020 and 2021, respectively.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Revenue recognition (continued)

Contract balance

When either party to a revenue contract has performed, the Group presents the contract in the consolidated balance sheet as a contract asset or a contract liability, depending on the relationship between the Group's performance and the customer's payment. The Group presents any unconditional rights to consideration separately as a receivable. The Group does not have material contract asset. The balance of accounts receivable, net of nil and RMB765 (US\$120) allowance for doubtful accounts, were RMB17,381 and RMB38,605 (US\$6,058) as of December 31, 2020 and 2021, respectively.

Customers that purchase prepaid coupons are issued additional coupons of the same par value for free at the time of purchase. All prepaid coupons are stored in the "Coffee Wallet" of the customers' registered accounts for future use with a three-year validity period. Cash received from the sales of prepaid coupons are recognized as deferred revenues which are contract liabilities under ASC 606 and recognized as revenue upon the expiry of prepaid coupons. Purchase consideration is allocated to each prepaid coupon, including the coupons issued for free. The allocated considerations are recognized as revenues when the customers consume the prepaid coupons for payments of their purchase. As of December 31, 2020 and 2021, the balance of deferred revenues was RMB88,174 and RMB96,212 (US\$15,098), respectively.

(p) Costs of materials, store rental and other operating costs

Costs of materials consisted primarily of cost for coffee beans and coffee condiments, pre-made food and beverage items, packaging, supplies and warehouse. Store rental and other operating costs consisted primarily of rental expense of stores, staff costs, and utilities, etc.

(q) Delivery expenses

Delivery expenses are the delivery service fee for delivery orders. The Group incurred delivery expenses of RMB438,914, RMB414,808 and RMB819,549 (US\$128,605) for the years ended December 31, 2019, 2020 and 2021, respectively. Delivery expenses are separated out of sales and marketing expenses from the fiscal year 2021 to optimize the disclosure and better reflect the nature of expenses. This reclassification is retrospectively applied.

(r) Sales and marketing expenses

Sales and marketing expenses consisted primarily of advertising expenditure, costs of free vouchers promotion activity, and commission fees for third-party delivery platforms.

Advertising expenditures are expensed when incurred and are included in sales and marketing expenses, which amounted to RMB586,774, RMB354,469 and RMB243,671 (US\$38,237) for the years ended December 31, 2019, 2020 and 2021, respectively.

For promotion, the Group issued free vouchers for complimentary freshly brewed drinks or pre-made food and beverage items for first time user registrations and referrals, without any future purchase requirements. This promotion activity ceased in May 2020. The Group recognizes the related costs in sales and marketing expenses of RMB206,723, RMB64,956 for the years ended December 31, 2019 and 2020, respectively, and reversed accrued related costs for expired free vouchers of RMB18,498 (US\$2,903) for the year ended December 31, 2021.

Commission fees for third-party delivery platforms are expensed when incurred, which amounted to RMB4,613, RMB9,719 and RMB60,017 (US\$9,418) for the years ended December 31, 2019, 2020 and 2021, respectively.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) General and administrative expenses

General and administrative expenses consist primarily of payroll and related expenses for employees involved in general corporate functions, research and development expenses, share-based compensation, professional fees and daily office expenses and rental fees for general corporate functions.

Research and development expenses are included in general and administrative expenses, which are mainly payroll expenses, employee benefits, and other headcount-related expenses associated with platform development and data analysis to support the Group's business operations. The Group charged RMB219,048, RMB265,537 and RMB251,688 (US\$39,494) of research and development costs to expense for the years ended December 31, 2019, 2020 and 2021, respectively.

(t) Store reopening and other expenses

Store reopening expenses mainly include store rental costs during the start-up of new stores. Other expenses include lease exit costs, such as the write offs of prepaid store rental costs, deposits and leasehold improvements. Costs incurred in connection with the start-up and closure of stores are expensed as incurred.

(u) Leases

The Group enters into lease agreements to have leasing for self-operated stores, office spaces, and other corporate assets that the Group utilizes.

Before January 1, 2021, the Group adopted ASC Topic 840 ("ASC 840"), Leases, and each lease is classified at the inception date as either a capital lease or an operating lease. The Group did not enter into any leases whereby it is the lessor for any of the periods presented.

The Group adopted the new lease accounting standard, ASC Topic 842, Leases ("ASC 842"), from January 1, 2021 since the Group ceased to act as an emerging growth company ("EGC") as defined by the Jumpstart Our Business Startups Act ("JOBS Act") in 2021, using the modified retrospective transition approach through a cumulative-effect adjustment in the period of adoption rather than retrospectively adjusting prior periods and the package of practical expedients. The Group categorizes leases with contractual terms longer than twelve months as either operating or finance lease. However, the Group did not enter into finance leases for any of the periods presented.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange of a consideration. To assess whether a contract is or contains a lease, the Group assess whether the contract involves the use of an identified asset, whether it has the right to obtain substantially all the economic benefits from the use of the asset and whether it has the right to control the use of the asset.

Right-of-use ("ROU") assets represent the Group's rights to use underlying assets for the lease term and lease liabilities represent the Group's obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at commencement date. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Leases (continued)

Operating lease ROU assets

The right-of-use assets are initially measured at cost, which comprise the initial amounts of the lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and less any lease incentive received.

Operating lease liabilities

Lease liabilities are initially measured at the present value of the outstanding lease payments at the commencement date, discounted using the discount rate for the leases. As most of the Group's leases do not provide an implicit rate, the Group uses its incremental borrowing rate based on the information available at lease commencement date in determining the present value of lease payments. Lease payments included in the measurement of the lease liabilities comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee and any exercise price under a purchase option that the Group is reasonably certain to exercise. The Group's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise that option.

Lease liabilities are measured at amortized cost using the effective interest rate method. They are re-measured when there is a change in future lease payments, if there is a change in the estimate of the amount expected to be payable under a residual value guarantee, or if there is any change in the Group assessment of option purchases, contract extensions or termination options.

(v) Income taxes

The Group follows the liability method of accounting for income taxes in accordance with ASC 740 ("ASC 740"), *Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Group records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in tax expense in the period that includes the enactment date of the change in tax rate.

The Group accounts for uncertainties in income taxes in accordance with ASC 740. Interest and penalties related to unrecognized tax benefit recognized in accordance with ASC 740 are classified in the consolidated statements of comprehensive (loss)/income as income tax expenses. No interest and penalties related to unrecognized tax benefit were recorded for the years ended December 31, 2019, 2020 and 2021.

(w) Employee benefit expenses

As stipulated by the regulations of the PRC, full-time employees of the Group are entitled to various government statutory employee benefit plans, including medical insurance, maternity insurance, workplace injury insurance, unemployment insurance, pension benefits and housing provident fund through a PRC government-mandated multi-employer defined contribution plan. The Group is required to make contributions to the plan and accrues for these benefits based on certain percentages of the qualified employees' salaries. The total expenses the Group incurred for the plan were RMB197,327, RMB139,621 and RMB247,315 (US\$38,809) for the years ended December 31, 2019, 2020 and 2021, respectively.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Comprehensive (loss)/income

Comprehensive (loss)/income is defined as the (decrease)/increase in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Amongst other disclosures, ASC 220, *Comprehensive Income*, requires that all items that are required to be recognized under current accounting standards as components of comprehensive (loss)/income be reported in a financial statement that is displayed with the same prominence as other financial statements. For each of the periods presented, the Group's comprehensive (loss)/income included net (loss)/income and foreign currency translation adjustments that are presented in the consolidated statements of comprehensive (loss)/income.

(y) Segment reporting

The Group follows ASC 280, *Segment Reporting*. The Group's Chief Executive Officer as the chief operating decision-maker reviews the consolidated financial results when making decisions about allocating resources and assessing the performance of the Group as a whole and hence, the Group has only one reportable segment. The Group operates and manages its business as a single segment. As the Group's long-lived assets are substantially all located in the PRC and substantially all the Group revenues are derived from within the PRC, no geographical segments are presented.

(z) Net (loss)/income per share

In accordance with ASC 260, *Earnings per Share*, basic (loss)/income per share is computed by dividing net (loss)/income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For the calculation of diluted net (loss)/income per share, the weighted average number of ordinary shares is adjusted by the effect of dilutive potential ordinary shares, including unvested RSUs, ordinary shares issuable upon the exercise of outstanding share options using the treasury stock method and convertible senior preferred shares. The effect mentioned above is not included in the calculation of the diluted (loss)/income per share when inclusion of such effect would be anti-dilutive.

(aa) Share-based compensation

The Group applies ASC 718, *Compensation-Stock Compensation* ("ASC 718"), to account for its employee share-based payments. In accordance with ASC 718, the Group determines whether an award should be classified and accounted for as a liability award or equity award. All the Group's share-based awards to employees were classified as equity awards and are recognized in the consolidated financial statements based on their grant date fair values. The Group recognizes share-based compensation cost for equity awards to employees with a performance condition based on the probable outcome of that performance condition. Compensation cost is recognized using the accelerated method if it is probable that the performance condition will be achieved. The Group accounts for forfeitures as they occur.

(bb) Comparative information

Certain items in prior years' consolidated financial statements have been reclassified to conform to the current period's presentation to facilitate comparison.

(cc) Emerging Growth Company Status

The Company was an emerging growth company ("EGC"), as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). In accordance with the JOBS Act, the Company previously elected to delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company met certain thresholds for qualification as an "accelerated filer" in the year ended December 31, 2021 as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended. Therefore, the Company no longer has EGC status as of December 31, 2021.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(dd) Recently Adopted Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Additionally, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326* in April 2019 and ASU 2019-05, *Financial Instruments — Credit Losses (Topic 326) — Targeted Transition Relief* in May 2019. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. In November 2019, the FASB issued ASU No. 2019-10, which defers the effective date of ASU No. 2016-13 for smaller reporting companies to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Since as of December 31, 2021 the Company no longer qualifies as an EGC, it no longer qualifies for the deferral of the effective date available for EGCs. As such the Company adopted the standard by using the modified retrospective method, effective as of January 1, 2021, and reflected the impact in its financial statements for the year ended December 31, 2021. The impact of the adoption on the consolidated balance sheets, statements of operations, and statements of cash flows was immaterial.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations related to their leasing arrangements. This comprehensive new standard amends and supersedes existing lease accounting guidance and is intended to increase transparency and comparability among organizations by recognizing right-of-use (“ROU”) lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. Lease expense continues to be recognized in a manner similar to legacy U.S. GAAP. The Company adopted the new lease standard effective as of January 1, 2021, using the optional transition method to the modified retrospective approach. Under this transition provision, results for reporting periods beginning on January 1, 2021 are presented under Topic 842, while prior period amounts continue to be reported and disclosed in accordance with the Company’s historical accounting treatment under Topic 840, and as a result, the consolidated balance sheet as of December 31, 2021 is not comparable with that of December 31, 2020 (see Note-2(u) and 19).

In August 2020, the FASB issued ASU No. 2020-06, *Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity’s Own Equity (Subtopic 815-40) (“ASU 2020-06”)* for the fiscal year beginning January 1, 2021, that eliminates the current models that require separation of beneficial conversion and cash conversion features from convertible instruments and simplifies the derivative scope exception guidance pertaining to equity classification of contracts in an entity’s own equity. The guidance in ASU No. 2020-06 is required for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2021, for public business entities. Early adoption is permitted, but no earlier than annual reporting periods beginning after December 15, 2020, including interim periods within those annual reporting periods. The Company early adopted this guidance for the fiscal year beginning January 1, 2021, and did so on a modified retrospective basis, without requiring any adjustments (see Note-13).

(ff) Recent accounting pronouncements

The Company did not identify other recent accounting pronouncements that could potentially have a material impact to the Company’s consolidated results of operations or financial position.

LUCKIN COFFEE INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (Amounts in thousands of RMB and US\$, except for number of shares and per share data)

3. PRINCIPAL RISKS

(a) Credit risk

Financial instruments that potentially subject the Group to significant concentration of credit risk consist primarily of cash and cash equivalents, restricted cash, short-term investments, accounts receivable and receivables from online payment platforms. As of December 31, 2019, 2020 and 2021, the aggregate amounts of cash and cash equivalents and short-term investments of RMB5,358,181, RMB4,902,826 and RMB3,402,915 (US\$533,991), respectively, were held at major financial institutions located in the PRC and US\$1,098, US\$23,478 and US\$482,491 (RMB3,074,721), respectively, were deposited with major financial institutions located outside the PRC. Management believes that these financial institutions are of high credit quality and continually monitors the credit worthiness of these financial institutions. Historically, deposits in Chinese banks are secure due to the state policy on protecting depositors' interests. However, China promulgated a new Bankruptcy Law in August 2006 that came into effect on June 1, 2007 which contains a separate article expressly stating that the State Council may promulgate implementation measures for the bankruptcy of Chinese banks based on the Bankruptcy Law. Under the new Bankruptcy Law, a Chinese bank may go into bankruptcy. In addition, since China's accession to the World Trade Organization, foreign banks have been gradually permitted to operate in China and have been significant competitors against Chinese banks in many aspects, especially since the opening of the Renminbi business to foreign banks in late 2006. Therefore, the risk of bankruptcy of those Chinese banks in which the Group has deposits has increased. In the event of bankruptcy of one of the banks which holds the Group's deposits, the Group is unlikely to claim its deposits back in full since the bank is unlikely to be classified as a secured creditor based on PRC laws.

Accounts receivable and receivables from online payment platforms are unsecured and denominated in RMB. Accounts receivable are mainly derived from sales of materials to partners and sales of exchange code to corporate customers which is redeemed as coupons and had already been utilized for the purchase of products. Receivables from online payment platforms are derived when the third-party payment platforms, on behalf of the Company, collect the proceeds of sales made by the Group to its customers. They are exposed to credit risk. The risk is mitigated by credit evaluations the Group performs on the selected corporate customers and online payment platforms that are highly reputable, and the deposits from partners as guarantees. There has been no default of payments in history.

(b) Business, customer, political, social and economic risks

The Group participates in a dynamic and competitive industry and believes that changes in the following areas could have a material adverse effect on the Group's future financial position, results of operations or cash flows:

- (i) **Supplier risk** — The Group's operations rely on some suppliers for its major raw materials including coffee beans, dairy, sugar and syrup, pre-made products and coffee machine equipment. There can be no assurance that the Group will be able to secure the raw materials, pre-made products and coffee machine equipment supply from these suppliers. Any termination or suspension of the supply arrangements, any change in cooperation terms, or the deterioration of cooperation relationships with these suppliers may materially and adversely affect the Group's results of operations.

Suppliers accounting for 10% or more of total cost of purchased materials were:

Supplier	For the year ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	US\$
A	265,014	196,886	*	*
B	*	*	*	*
C	*	*	*	*
D	*	194,838	*	*

* Accounts for less than 10% during the period.

- (ii) **Customer risk** – The success of the Group's business going forward will rely in part on the Group's ability to continue to obtain and expand business from existing customers while also attracting new customers. No customer accounted for 10% or more of the Group's revenues for the years ended December 31, 2019, 2020 and 2021.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

3. PRINCIPAL RISKS (CONTINUED)

(b) Business, customer, political, social and economic risks (continued)

(iii) Economic risk – The Group’s operations could be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC political, economic and social conditions. There is also no guarantee that the PRC government’s pursuit of economic reforms will be consistent or effective.

(c) Foreign currency exchange rate risk

From July 21, 2005, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The appreciation/ (depreciation) of the US\$ against RMB was approximately 1.3%, (6.3)% and (2.3)% for the years ended December 31, 2019, 2020 and 2021, respectively. The functional currency and the reporting currency of the Company, Luckin BVI and Luckin HK, Luckin Roasting and Luckin Roastery are the US\$ and the RMB, respectively. The functional currency of the PRC subsidiaries and the VIE is the RMB. All of the Group’s revenues and costs are denominated in RMB, while a portion of cash and cash equivalents are denominated in U.S. dollars. Any significant revaluation of RMB may materially and adversely affect the Group’s cash flows, revenues, earnings and financial position in U.S. dollars.

(d) Currency convertibility risk

The Group transacts all of its business in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People’s Bank of China (the “PBOC”). However, the unification of the exchange rates does not imply that the RMB may be readily convertible into US\$ or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers’ invoices, shipping documents and signed contracts.

(e) Interest rate risk

The Group is exposed to interest rate risk on its interest-bearing assets and liabilities. As part of its asset and liability risk management, the Group reviews and takes appropriate steps to manage its interest rate exposures on its interest-bearing assets and liabilities. The Group has not been exposed to material risks due to changes in market interest rates, and not used any derivative financial instruments to manage the interest risk exposure during the years presented.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

4. SHORT-TERM INVESTMENTS, NET

The Group's short-term investments included wealth management products issued by commercial banks or other financial institutions with non-guaranteed principle within one year or more than one year but to be mature or early redeemed within the next twelve months.

	As of December 31,		
	2020 RMB	2021 RMB	US\$
Wealth management products	250,000	—	—
Xiamen Trust	590,000	590,000	92,584
Yunnan Trust	550,000	542,170	85,078
Short-term investment, gross	1,390,000	1,132,170	177,662
Less: allowance for uncollectable trust investments	(1,140,000)	(1,132,170)	(177,662)
Short-term investment, net	250,000	—	—

For the years ended December 31, 2019, 2020 and 2021, the Group recognized interest income from its short-term investments of RMB22,318, RMB66,923 and RMB13,331 (US\$2,092), respectively, in the consolidated statements of comprehensive (loss)/income.

For the year ended December 31, 2020, two trust investments, namely investments into Xiamen Trust-Huijin No. 2007 Trust Project ("Xiamen Trust") and Yunnan Trust-You Xiang No. 1 Trust Project ("Yunnan Trust"), in the total amount of RMB1,140,000 were made by Luckin China under the direction of former management. The two trust investments were identified after changes to the Group's management team and reporting lines following the suspension of Ms. Jenny Zhiya Qian, the former CEO of the Group. Full impairment of RMB1,140,000 has been provided for the two trust investments after considering all available information after the Group has used its best efforts to take actions, including legal actions.

Background of Xiamen Trust

- Xiamen Trust was established on March 12, 2020 with a term of 12 months from the establishment date and a total trust fund of RMB600,000, which includes RMB590,000 from Luckin China and RMB10,000 from another trustor/beneficiary, Meifu Jiaye (Xiamen) Automobile Service Co., Ltd. ("Meifu Jiaye"). Xiamen International Trust Co., Ltd. ("Xiamen Trustee") is the trustee of Xiamen Trust.
- The trust instruments provide that all of the trust fund shall be used to purchase receivables from Xiamen Yishi Finance Lease Co., Ltd. ("Yishi", which subsequently changed its name to Yishi (Xiamen) Supply Chain Management Co., Ltd.) relating to property (auto assembly line and equipment) leased to Borgward (the "Leased Property"). Borgward is controlled by UCAR Inc., an entity controlled by Mr. Charles Zhengyao Lu and persons acting in concert with him at the time of the creation of Xiamen Trust.
- In accordance with the receivables purchase agreement between Xiamen Trustee (on behalf of Xiamen Trust) and Yishi, Borgward is obligated to pay Xiamen Trust lease interest on a monthly basis. The actual annual rate of return for the trustors/beneficiaries is 6.1% (with trust management fee and other expenses deducted from the contractual annual rate of return of 7.2%). All outstanding interest payments before the termination of Xiamen Trust were received pursuant to the contractual agreement.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

4. SHORT-TERM INVESTMENTS, NET (CONTINUED)

Background of Yunnan Trust

- Yunnan Trust was established on March 17, 2020 with a term of 24 months from the establishment date and a total trust fund of RMB600,000, which includes RMB550,000 from Luckin China and RMB50,000 from another trustor/beneficiary, Meifu Jiaye. Yunnan International Trust Co., Ltd. (“Yunnan Trustee”) is the trustee of Yunnan Trust.
- The trust instruments provide that all of the trust fund shall be used to purchase equity interests in Yousheng Chengyi (Tianjin) Information Technology Co., Ltd. (“Yousheng Information”).
- Under the equity investment and buyback agreement between Yunnan Trustee (on behalf of Yunnan Trust) and Yousheng (Tianjin) Technology Development Co., Ltd. (“Yousheng Development”), Yunnan Trust acquired 46.15% equity interests in Yousheng Information. Additionally, Yousheng Development, the other shareholder of Yousheng Information holding 53.85% of its equity interests, is obligated to buy back the equity interest of Yousheng Information held by Yunnan Trust at the end of the trust term of 24 months. Public record searches show that Yousheng Development has a registered capital of RMB5,000.
- Yousheng Information has also pledged to Yunnan Trustee 40.36 million shares of UCAR Inc. as guarantee. UCAR Inc.’s shares were listed on China’s National Equities Exchange and Quotations Co., Ltd. (“NEEQ”) when the trust was created and were subsequently delisted by the NEEQ on March 19, 2021. The stock price of UCAR Inc. dropped to RMB0.99 when it was suspended from trading on August 31, 2020.
- The equity investment and buyback agreement provide that Yousheng Development shall pay Yunnan Trust the premium of the principal on a quarterly basis. The actual annual rate of return for the trustors/beneficiaries is 6.5% (with trust management fee and other expenses deducted from the contractual annual rate of return of 7.1%). Previously, interest payments, including the payment due on March 20, 2021, were timely received. However, Yousheng Development had failed to make the most recent interest payment due on June 20, 2021, even after repeated demands from Yunnan Trustee on instructions from Luckin China. A default on interest payment is an event for which Yunnan Trust could be terminated early.

Actions Taken or to be Taken by the Group’s Management

After the Board and the current management of the Company identified the trust investments by Luckin China, they have been assessing the available information concerning the two trusts to manage dissipation risk. With the help of the forensic advisors of the Special Committee of the Board, the Company obtained copies of the underlying trust agreements and immediately engaged reputable PRC law firms to look into the issue and formulate an action plan to preserve the trust investments and recover the trust assets. Throughout the process, the Board has been kept updated about the progress and instructed management to explore options with respect to the trusts and take appropriate actions.

Following its review of available options with the assistance from its PRC counsel, and to safeguard the assets of the Group and mitigate dissipation risk, the Group has exercised its rights to request for early termination of Xiamen Trust and to redeem the funds invested by Luckin China on an accelerated basis. Specifically:

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

4. SHORT-TERM INVESTMENTS, NET (CONTINUED)

Actions Taken or to be Taken by the Group's Management (continued)

For Xiamen Trust

- Pursuant to the trust instruments, early redemption is allowed starting six months from the date of creation of the trust. As authorized by the Board, the Group's management issued the formal early redemption notice to Xiamen Trustee on November 4, 2020, demanding Xiamen Trustee to request Borgward to promptly pay back the principal and corresponding interests. Xiamen Trustee has since confirmed with Borgward that Borgward cannot make the payment as requested on time, and made an in-kind distribution of the trust asset to Luckin China on February 25, 2021 as demanded by Luckin China. On March 26, 2021, Luckin China obtained ownership of the Leased Property from Yishi and subsequently issued a formal letter to Borgward to announce ownership and demand to inspect the status of the Leased Property.
- Luckin China and its PRC counsel sent demand letters to Borgward to demand payments and made multiple attempts to negotiate with Borgward to secure prompt payments. The parties failed to reach a viable settlement. Hence, Luckin China filed a lawsuit against Borgward, which was accepted by the Xiamen Intermediate People's Court ("Xiamen Court") on March 26, 2021. In addition, Luckin China successfully obtained an asset preservation order by the Xiamen Court on April 6, 2021. The Xiamen Court had issued a formal notice (the "Notice") to state that it completed a search of Borgward's bank accounts and froze two bank accounts with a total of only RMB1.68 and attached by multiple court freezing orders. The Xiamen Court has held a hearing on October 26, 2021 and attempted to mediate the dispute without success.
- On March 11, 2022, Luckin China, via its PRC counsel, received a judgment rendered by the Xiamen Court. The Xiamen Court held in favor of Luckin China, finding that Borgward is liable to pay Luckin China: (i) the lease principal of RMB590,000; and (ii) the lease interest, penalty and occupancy fee. In addition, the Xiamen Court also ruled that Borgward shall bear the litigation fee in the amount of RMB3,399 while Luckin China shall bear RMB174, which will result a refund of RMB3,399 litigation fee to Luckin China after the judgment becomes effective and final. The PRC counsel confirmed with Xiamen Court that Borgward did not appeal within the statutory period and the judgment had become final and effective.
- Pursuant to the judgement rendered by the Xiamen Court, Borgward is ordered to fulfill all of its payment obligation to Luckin China within 10 days since the effective date of the judgment. Borgward had failed to make any payment within the period prescribed by the court. Therefore, Luckin China will work diligently with its PRC counsel to enforce the judgement with the court and collect the monetary awards by the court.
- It was reported that, on April 8, 2022, Borgward held a temporary shareholder meeting and resolved to file for bankruptcy with court in Beijing. The Group estimates that it will not be able to collect all or part of the monetary awards because Borgward's willingness and ability to make repayment to the Group is in substantial doubt, due to the reported bankruptcy of Borgward and the numerous lawsuits against Borgward (see below "Collectability Assessment").

For Yunnan Trust

- The right of early redemption is not provided for in the trust instruments. Therefore, Luckin China was not able to unilaterally terminate the trust by exercising such right. Under the trust instruments and at the request from Luckin China, Yunnan Trustee exercised its discretionary right to terminate Yunnan Trust upon certain circumstances provided in the agreement between the trustors/beneficiaries and Yunnan Trustee.
- The existing guarantee by Yousheng Information included the shares of UCAR Inc, which have been delisted from NEED. As a result, Luckin China has been communicating with Yunnan Trustee to request certain actions, including (i) requesting Yousheng Information to add or provide a new guarantee and (ii) requesting Yousheng Development to repurchase the equity interest of Yousheng Information purchased by Yunnan Trust.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

4. SHORT-TERM INVESTMENTS, NET (CONTINUED)

Actions Taken or to be Taken by the Group's Management (continued)

For Yunnan Trust (continued)

- As advised by its PRC counsel, in light of UCAR Inc.'s delisting and Yousheng Development's recent failure to make the interest payment due as of June 20, 2021, Luckin China sent two formal letters on June 28, 2021 and July 23, 2021, respectively, to Yunnan Trustee to demand that, among other things, Yunnan Trustee (i) requests Yousheng Information to add or provide a new guarantee considering the significant decrease in value of the existing guarantee; (ii) requests Yousheng Development to repurchase the equity interest of Yousheng Information purchased by Yunnan Trust and take any other legal actions that are necessary; and (iii) files a lawsuit against Yousheng Development for breach of contract.
- Since the default of interest payment, Luckin China has continuously communicated with Yunnan Trustee regarding arrangement of early termination, in-kind distribution of trust asset, filing a lawsuit against the Yousheng Development and other post-termination matters. Upon Yunnan Trustee's refusal to bring the lawsuit for the trustor/beneficiary's benefit, and its decision to early terminate the trust, Luckin China and Meifu Jiaye, the other trustor/beneficiary of the trust, have agreed with Yunnan Trustee on in-kind distribution of trust asset, so Luckin China may sue Yousheng Development and other obligators in its own name. On December 16, 2021, Luckin China filed the lawsuit against Yousheng Development, Yousheng Information, and UCAR Inc. The case was docketed by the Kunming Intermediate People's Court in Yunnan, and the first court hearing has been scheduled on April 27, 2022 by the court.

Collectability assessment

For Xiamen Trust

- a) As of the date of this report, the Group has not yet obtained the Leased Property. Nor has the Group been able to inspect and confirm the status of the Leased Property;
- b) The mortgage and other titles of the Leased Property are not registered in the name of the Group. Borgward does not respond to the Group's requests in a meaningful way. Therefore, the Group's ownership of the Leased Property is not secured and the value of the Leased Property is uncertain;
- c) Except for other creditors' entitlements attached to Borgward's assets, according to the Notice, the only realizable assets of Borgward for the Group is cash in bank amounted to RMB1.68 (which is already attached by multiple court freezing orders);
- d) On March 11, 2022, Luckin China, via its PRC Counsel, received a judgment rendered by the Xiamen Court. The Xiamen Court held in favor of Luckin China, finding that Borgward is liable to pay Luckin China. Although the favorable judgment has become final and effective since Borgward did not appeal, it was reported that, on April 8, 2022, Borgward held a temporary shareholder meeting and resolved to file for bankruptcy with court in Beijing. The Group estimates that Borgward's willingness and ability to make repayment to the Group is in substantial doubt, due to the reported bankruptcy of Borgward and the numerous lawsuits against Borgward.

For Yunnan Trust

- a) As of the date of this report, a default of interest payment has occurred. The Group has not been able to engage either Yousheng Information or Yousheng Development in a meaningful way and cannot ascertain whether Yousheng Information is capable of making the interest payments;
- b) Yousheng Development's registered capital is only RMB5,000 with no sign of real business activities, while the total trust investment is RMB600,000, far beyond the registered capital of Yousheng Development and the market value of the pledged assets. Yunnan Trust is exposed with relatively high investment risks given the uncertainty around Yousheng Development's ability to repurchase the equity interest of Yousheng Information purchased by the Yunnan Trust;
- c) The current pledged UCAR Inc.'s shares are illiquid due to UCAR Inc.'s delisting from NEEQ. The stock price on the date of delisting was below RMB1.00 per share. While the pledged shares still have certain value, the Group could neither assess the risk of going concern of UCAR Inc. nor value the shares of UCAR Inc. due to limited access to information. Therefore, the value of the pledged shares is uncertain.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

4. SHORT-TERM INVESTMENTS, NET (CONTINUED)

Collectability assessment (continued)

For Yunnan Trust (continued)

- d) Although the Group filed a lawsuit against Yousheng Development, Yousheng Information and UCAR Inc., there is substantial doubt that the Group can collect all or part of the damages if awarded by the court, due to lack of willingness and ability for the defendants to make payments.

There is no assurance that the Group will be able to recover the funds invested in Xiamen Trust and Yunnan Trust in whole or in part. Further, according to the actions taken by the management and external counsel, there is evidence to suggest that the Group is likely unable to collect the underlying assets of the two trusts. The Group had provided full impairment on the two trust investments on a prudent basis since the year ended December 31, 2020.

Related party transaction assessment

The trust instruments show that the funds of Xiamen Trust and Yunnan Trust were designated to be used to purchase receivables relating to property leased to Borgward and to invest in equity interests of Yousheng Information, respectively. At the time of the creation of Xiamen Trust, Borgward was an affiliate of Mr. Charles Zhengyao Lu. Additionally, based on public records, the supervisor of Yousheng Information and the legal representative of Yousheng Development is the same person and was an employee of UCAR Inc., an affiliate of Mr. Charles Zhengyao Lu at the time of the creation of Yunnan Trust. On the basis of substance over form, even without a direct contractual relationship between Xiamen Trust and Borgward and between Yunnan Trust and UCAR Inc., management considers the two trust investments made by former management as related party transactions.

5. ACCOUNTS RECEIVABLE, NET

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Receivables due from partners	2,364	8,688	1,363
Receivables due from corporate customers	15,017	30,682	4,815
Accounts receivable	17,381	39,370	6,178
Allowance for doubtful accounts	—	(765)	(120)
Accounts receivable, net	<u>17,381</u>	<u>38,605</u>	<u>6,058</u>

6. INVENTORIES

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Raw materials	121,600	378,520	59,398
Packaging and other supplies	132,593	191,188	30,002
Pre-made food and beverage items	21,375	23,632	3,708
	<u>275,568</u>	<u>593,340</u>	<u>93,108</u>

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

7. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Deductible input VAT	606,520	636,923	99,947
Prepaid rental and deposits	241,718	234,885	36,859
Prepayments for materials and advertising fees	19,677	79,332	12,449
Interest receivables	5,975	4,360	684
Others	61,607	88,507	13,889
	<u>935,497</u>	<u>1,044,007</u>	<u>163,828</u>

8. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Store operating equipment	1,287,211	1,260,623	197,819
Leasehold improvements	1,048,351	873,449	137,063
Office equipment and others	97,322	105,721	16,590
Office buildings	675,488	798,657	125,327
Mechanical equipment	—	77,072	12,094
Construction in progress	192,032	15,054	2,363
	<u>3,300,404</u>	<u>3,130,576</u>	<u>491,256</u>
Less: accumulated depreciation	(1,001,459)	(1,244,914)	(195,354)
Less: impairment	(228,487)	(80,561)	(12,642)
	<u>2,070,458</u>	<u>1,805,101</u>	<u>283,260</u>

Depreciation expense was RMB411,713, RMB483,279 and RMB465,237 (US\$73,006) for the years ended December 31, 2019, 2020 and 2021, respectively.

The Group entered into a project cooperation agreement and a strategic cooperation agreement with Xiamen municipal government and UCAR Inc. (collectively as the “Tri-Party Agreement”), pursuant to which the Group acquired the new headquarters building under favorable pricing terms that came with commitments, including meeting certain requirements around tax contribution, operating performance and capital investments. As of the date of this annual report, the Group is in the process of obtaining the real property ownership certificate for its headquarters, and is currently in discussions with the Xiamen municipal government to agree on a solution, including to enter into a new cooperation agreement.

Impairment for property and equipment was RMB228,487 and RMB80,561 (US\$12,642) as of December 31, 2020 and 2021, respectively. It consisted of:

- (1) RMB54,179 and RMB53,957 (US\$8,467) for the asset group related to Luckin Coffee EXPRESS in connection with the first generation Luckin Coffee EXPRESS machines purchased in 2019 for trial operation and launching in early 2020 as of December 31, 2020 and 2021, respectively. (See Note 2(m));
- (2) RMB117,778 and nil for the asset group related to the underperforming or planned closed self-operating stores as of December 31, 2020 and 2021, respectively (See Note 2(m));
- (3) RMB46,696 and RMB61 (US\$10) for the asset group related to Luckin POP as of December 31, 2020 and 2021, respectively (See Note 2(m)); and
- (4) RMB9,834 and RMB26,543 (US\$4,165) for the asset group related to store operating equipment and others as of December 31, 2020 and 2021, respectively (See Note 2(m)).

LUCKIN COFFEE INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (Amounts in thousands of RMB and US\$, except for number of shares and per share data)

8. PROPERTY AND EQUIPMENT, NET (CONTINUED)

During the year ended December 31, 2021, impairment provision of RMB117,778 (US\$18,482) related to the asset group related to the underperforming or closed self-operating stores, RMB46,635 (US\$7,318) related to Luckin POP, impairment provision of RMB707 (US\$111) for the asset group related to store operating equipment and others and impairment provision of RMB222 (US\$35) related to Luckin Coffee EXPRESS were written off.

9. OTHER NON-CURRENT ASSETS, NET

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Long-term deposits ⁽¹⁾	96,796	117,345	18,414
Prepayments for equipment, net	25,718	16,866	2,647
Land use rights, net ⁽²⁾	38,754	6,947	1,090
Prepaid Leasehold improvements	8,734	22,768	3,573
	<u>170,002</u>	<u>163,926</u>	<u>25,724</u>

(1) Deposits for rental is net of impairment of RMB7,083, and nil as of December 31, 2020 and 2021, respectively, for the prepaid rental deposits in the asset group related to the underperforming or planned closed self-operating stores (See Note 2(m)).

(2) Land use rights represent payments to the local government authorities for use of lands for 50 years from year 2019, net of accumulated amortization. The land use rights are amortized on a straight-line basis with amortization of RMB170, RMB142 and RMB147 (US\$23) for the years ended December 31, 2019, 2020 and 2021, respectively. The land use rights are net of impairment of RMB4,185 as of December 31, 2020 related to land use rights in Tongan city, Fujian province and Tianjin, which were returned to local government in 2021. The land use right as of December 31, 2021 was in Pingnan used for roasting factory.

10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Payables for the purchase of property and equipment	87,766	124,456	19,530
Payroll and welfare payables	155,445	260,177	40,827
Payables for delivery costs	76,110	138,833	21,786
Payables for advertising expenditures	64,069	66,203	10,389
Payables for office supplies and utilities	111,661	149,557	23,470
Accrued liabilities for free coupons	19,743	—	—
Others	188,323	582,780	91,450
	<u>703,117</u>	<u>1,322,006</u>	<u>207,452</u>

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

11. RELATED PARTY TRANSACTIONS

(a) Related parties

Names of related parties	Relationship with the Company
UCAR Inc. (“UCAR Inc.”) (1)	An entity controlled by Mr. Charles Zhengyao Lu
Haode Group Inc. (“Haode Group”) (1)	An affiliate of Mr. Charles Zhengyao Lu
Haode Investment Inc. (“Haode Investment”) (1)	An affiliate of Mr. Charles Zhengyao Lu
Beijing QWOM Digital Technology Co., Ltd. (“QWOM”) (1)	An affiliate of Mr. Charles Zhengyao Lu
Borgward Automobile (China) Co., Ltd (“Borgward”)(1)	An affiliate of Mr. Charles Zhengyao Lu
Yousheng Chengyi (Tianjin) Information Technology Co., Ltd (“Yousheng Information”)(1)	An entity ultimately significantly influenced by Mr. Charles Zhengyao Lu

(1) UCAR Inc., Haode Group, Haode Investment, QWOM, Borgward and Yousheng Information are no longer related parties of the Company since the termination of Mr. Charles Zhengyao Lu from the Group on July 5, 2020.

(b) Other than disclosed elsewhere, the Group had the following significant related party transactions for the years ended December 31, 2019, 2020 and 2021:

	For the year ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	US\$
Cash paid to				
—Haode Group ⁽¹⁾	306,319	—	—	—
Cash received from:				
—Borgward ⁽³⁾	45,000	—	—	—
—Haode Investment ⁽²⁾	306,319	—	—	—
	351,319	—	—	—
Services received from:				
—QWOM	60,391	28,920	—	—
—UCAR Inc.	5,549	6,334	—	—
Total	65,940	35,254	—	—
Repayment of loan from:				
—Haode Group	147,559	—	—	—
Goods supplied to:				
—UCAR Inc.	80	—	—	—
Agreement of payment for leasehold improvement of sublet rental office to:				
—UCAR Inc. ⁽⁴⁾	—	36,599	—	—
Trust investments ⁽⁵⁾				
—Xiamen Trust	—	590,000	—	—
—Yunnan Trust	—	550,000	—	—
	—	1,140,000	—	—

(1) RMB139,236 (US\$20,000) out of the payment was paid to an individual who received the cash on behalf of Haode Group.

(2) Haode Investment made the repayment on behalf of Haode Group.

(3) The cash received from Borgward is related to the misconduct in 2019 as described in “Note 21 Subsequent events - Independent investigation and related matters” in Form 20-F for fiscal year 2019.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

11. RELATED PARTY TRANSACTIONS (CONTINUED)

- (4) The Group has entered into an agreement with UCAR Inc. on July 1, 2020 to pay RMB36,599 (US\$5,609) to UCAR Inc. for the costs UCAR Inc. incurred as a result of the leasehold improvements of certain office space that UCAR Inc. sublet to the Group. In December 2021, UCAR Inc. initiated an arbitration proceeding against Luckin China in China International Economic and Trade Arbitration Commission, seeking to recover its costs of the leasehold improvements, which had been recorded in the Group's consolidated statements of comprehensive (loss)/income. The Group has not yet made the payment as of the issuance date of this report. As UCAR Inc. is no longer a related party of the Company since the termination of Mr. Charles Zhengyao Lu from the Group on July 5, 2020, the balance of amounts due to UCAR Inc. was classified in accrued expenses and other current liabilities as of December 31, 2020 and 2021.
- (5) Xiamen Trust and Yunnan Trust were designated to be used to purchase receivables relating to property leased to Borgward and to invest in equity interests of Yousheng Information, respectively, upon the entry of the trust instruments. On the basis of substance over form, management considers the two trust investments made by former management as related party transactions.

12. RESTRICTED NET ASSETS

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries and VIE. Relevant PRC statutory laws and regulations permit payments of dividends by the Company's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's PRC subsidiaries and VIE.

In accordance with the PRC Regulations on Enterprises with Foreign Investment and the articles of association of the Company's PRC subsidiaries, a foreign-invested enterprise established in the PRC is required to provide certain statutory reserves, namely the general reserve fund, the enterprise expansion fund and the staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A foreign-invested enterprise is required to allocate at least 10% of its annual net profit to the general reserve until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and the staff welfare and bonus fund are at the discretion of the board of directors for all foreign-invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. The PRC subsidiaries were established as foreign-invested enterprises and therefore, are subject to the above mandated restrictions on distributable profits. For the years ended December 31, 2019, 2020 and 2021, profit appropriation to statutory reserve for the Group's entities incorporated in the PRC was approximately RMB421, RMB603 and RMB2,617 (US\$411), respectively. No appropriation to other reserve funds was made for any of the periods presented.

Foreign exchange and other regulations in the PRC may further restrict the Company's VIE from transferring funds to the Company in the form of dividends, loans and advances. Amounts restricted include paid-in capital and statutory reserves of the Company's PRC subsidiaries and the VIE, as determined pursuant to PRC generally accepted accounting principles. As of December 31, 2020 and 2021, restricted net assets of the Company's PRC subsidiaries and the VIE were RMB8,512,475 and RMB6,606,949 (US\$1,036,775), respectively.

13. CONVERTIBLE SENIOR NOTES

On January 14, 2020, the Company closed the offering of US\$400,000 in aggregate principal amount of convertible senior notes due 2025 (the "Primary Notes Offering") and on January 17, 2020, the Company completed the issuance of an additional US\$60,000 in aggregate principal amount of convertible senior notes due 2025 (the "Additional Notes Offering" and the notes offered under the Primary Notes Offering and the Additional Notes Offering collectively, the "Notes"). The Company received aggregate net proceeds of approximately US\$449,654 from the Primary Notes Offering and the Additional Notes Offering.

The Notes did not have any embedded conversion option which shall be bifurcated and separately accounted for as a derivative under ASC 815, nor did they contain a cash conversion feature. The Company accounted for the Notes in accordance with ASC 470, as a single debt instrument. No beneficial conversion feature (the "BCF") was recognized as the set conversion price for the Notes was greater than the fair value of the ADSs price at date of issuance.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

13. CONVERTIBLE SENIOR NOTES (CONTINUED)

The Company early adopted ASU No. 2020-06 using a modified retrospective method of transition. In applying the modified retrospective method, the Company should apply the guidance to transactions outstanding as of the beginning of the fiscal year in which the amendments are adopted. Transactions that were settled (or expired) during prior reporting periods are unaffected. The convertible senior notes issued on January 14, 2020 automatically became immediately due and payable as a normal liability upon the appointment of the joint provisional liquidators (the “JPLs”) on July 15, 2020 which constituted an event of default (“Event of Default”) pursuant to the indenture with respect to the Notes (see below). Therefore, the adoption of ASU 2020-06 does not have an impact on the Notes which has turned to a normal liability upon the default event before the beginning of the fiscal year 2021.

Upon the occurrence of this Event of Default, 100% of the principal of, and accrued and unpaid interest on the Notes automatically became immediately due and payable.

Pursuant to the indenture with respect to the Notes, the Company was obligated to pay additional interest at a rate equal to 0.5% per annum of the principal amount of the Notes outstanding for: (1) each day during the six-month period beginning on, and including, the date that is six months after the last date of original issuance of the Notes, as the Company failed to timely file any document or report that it is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act, as applicable (i) after giving effect to all applicable grace periods thereunder and (ii) other than reports on Form 6-K; and (2) for so long as the restrictive legend on the Notes has not been removed as of the 380th day after the last date of original issuance of the Notes. The Company accrued the additional interest payable in the amount of US\$1,071 and US\$2,012 and charged against the interest expenses accordingly during the years ended December 31, 2020 and 2021, respectively.

Due to the Event of Default, 100% of the principal of the Notes in the amount of US\$460,000, the unpaid interest in the amount of US\$3,341 and US\$6,826, and the additional interest in the amount of US\$1,071 and US\$2,083 were due and accrued as of December 31, 2020 and 2021, respectively. The Notes balances included the principal, the unpaid interest and the additional interest were recorded as non-current liabilities with total amount of US\$464,412 as of December 31, 2020 and current liabilities with total amount of US\$469,909 as of December 31, 2021. The accrued interest, additional interest and the unamortized issuance cost of the Notes with total amount of US\$15,362 and US\$5,497 were charged against the interest expenses in the consolidation statements of comprehensive (loss)/income for the years ended December 31, 2020 and 2021, respectively.

Subsequently in January 2022, a restructuring of the Notes was substantially consummated (as disclosed below), pursuant to which, the Notes were cancelled and the Company issued instructions to distribute certain consideration to all eligible holders of the Notes. The Group derecognized the Notes and recognized newly issued instruments upon the effectiveness of the restructuring in January 2022 and issuance of additional ADSs in April 2022 pursuant to the top-up mechanism of the restructuring.

Restructuring of the Notes

On March 16, 2021, the Company announced that it entered into a restructuring support agreement (the “RSA”) with holders of a majority of the Notes in respect of a restructuring of the Company’s financial obligations under the supervision of the JPLs. On September 21, 2021, the Company announced that, in accordance with the terms of the RSA, it had filed a petition and summons for directions in the Cayman Court regarding a scheme of arrangement in respect of the Notes (the “Scheme”), which is a court approved arrangement in the Cayman Islands pursuant to the Companies Act. On December 1, 2021, the Company announced that at a meeting regarding the Scheme held on November 30, 2021, creditors representing approximately 97.7% in aggregate outstanding principal amount of the Notes voted unanimously to approve the Scheme and that accordingly, the Scheme was approved by the requisite majority of creditors. On December 14, 2021, the Company announced that the Cayman Court had sanctioned the Scheme.

Effectiveness of the Restructuring

On January 31, 2022, the Company announced that the Restructuring had been substantially consummated and the effective date of the Restructuring contemplated in the Scheme had occurred on January 28, 2022 (the “Restructuring Effective Date”).

On January 28, 2022, the Notes were cancelled, and, in aggregate, the Company has issued consideration (collectively, the “Scheme Consideration”) totaling US\$245,455 of cash, US\$109,855 of 9.00% Series B Senior Secured Notes due 2027 (the “New Notes”) and 9,527,601 ADSs representing 76,220,808 class A ordinary shares, which included 291,699 ADSs issued on April 4, 2022 pursuant to the top-up mechanism under the Scheme. The New Notes represent the Company’s only offshore debt securities. See “Note 22 – Subsequent Events”.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

14. ORDINARY SHARES

Prior to the completion of the Company's IPO, the outstanding ordinary shares consisted of Ordinary Shares and Angel Shares. Upon the completion of the Company's IPO, 750,000 Ordinary Shares, 1,428,750 Angel Shares, 544,688 Series A Preferred Shares, 279,152 Series B Preferred Shares and 173,182 Series B-1 Preferred Shares were automatically converted into 3,175,772 Class B ordinary shares at the conversion ratio of 1:1 and were divided into 1,587,886,000 shares at the par value of US\$0.000002 per share, after the 1-to-500 share split. 15,211 Series B-1 Preferred Shares were automatically converted into 15,211 Class A ordinary shares at the conversion ratio of 1:1 and were divided into 7,605,500 shares at the par value of US\$0.000002 per share, after the 1-to-500 share split.

The Company issued an aggregate 33,000,000 ADSs through the IPO, representing 264,000,000 Class A ordinary shares for total proceeds net of underwriting discounts and commissions of US\$527,724 (RMB3,640,876). The Company also issued 23,529,412 Class A ordinary shares to Louis Dreyfus Company B.V. at the price of US\$2.125 per share, through private placement concurrent with the IPO for total proceeds of US\$50,000 (RMB344,950). In addition, the underwriters exercised their over-allotment option on June 14, 2019 and June 18, 2019. As a result, the Company newly issued an aggregate of 4,950,000 ADSs, representing 39,600,000 Class A ordinary shares for total proceeds net of underwriting discounts and commissions of US\$79,522 (RMB547,977).

In November 2019, 310,198,928 Class B ordinary shares were converted into Class A ordinary share at the conversion ratio of 1:1. In December 2019, the Company issued 19,753,888 Class A ordinary shares to The Bank of New York Mellon, the depository of the Company on the vest of share options to the eligible employees.

On January 9, 2020, the Company issued an aggregate 10,350,000 ADSs through the follow-on offering, representing 82,800,000 Class A ordinary shares (reflecting the full exercise of the over-allotment option by the underwriters to purchase an additional 4,950,000 ADSs) at a public offering price of US\$42.00 per ADS for a total for total proceeds net of underwriting discounts and commissions of US\$419,485 (RMB2,888,517).

In 2020, 1,132,908,520 Class B ordinary shares were converted into Class A ordinary share at the conversion ratio of 1:1.

In 2021, the Company issued 70,061,136 Class A ordinary shares for the vested options and restricted share units to the eligible employees.

The outstanding ordinary shares as of December 31, 2021 consisted of Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Each Class A ordinary share is entitled to one vote; and each Class B ordinary share is entitled to ten votes and is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

15. Senior Preferred Shares

On April 15, 2021, the Company entered into an investment agreement (the “Investment Agreement”) with an affiliate of Centurium Capital, as the lead investor, and Joy Capital to raise funds through a private placement, totaling US\$240,000 from Centurium Capital and US\$10,000 from Joy Capital, of convertible senior preferred shares of the Company (“Senior Preferred Share(s)”) (collectively, the “Transactions”).

On November 30, 2021, the Company issued 295,384,615 Senior Preferred Shares to Cannonball Limited, the affiliate of Centurium Capital with the proceeds of US\$240,000 (RMB1,527,360) at a subscription price equal to US\$0.8125 per share with rights, preferences and privileges pursuant to the certificate of designation dated November 30, 2021 (the “Certificate of Designation”), some of which are summarized below:

Liquidation Preferences

In the event of any Liquidation (as defined below), the holders of Senior Preferred Shares then issued and outstanding shall be entitled to be paid out of the assets of the Company available for distribution to its shareholders before any distribution or payment out of the assets of the Company shall be made to the holders of junior securities of the Company including ordinary shares by reason of their ownership thereof, an amount in cash equal to the greater of (a) 100% of the original aggregate subscription price of the Senior Preferred Shares held by such holders, plus any declared but unpaid dividends on all such Senior Preferred Shares and (b) the aggregate value that such holders of Senior Preferred Shares would have received had all holders of Senior Preferred Shares, immediately prior to such liquidation, converted all Senior Preferred Shares then issued and outstanding (together with any declared but unpaid dividends thereon) into the Class A ordinary shares or the ADSs (the “Conversion Securities”) at the applicable conversion price.

“Liquidation” is defined as the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary. If there shall occur any reclassification, statutory exchange, reorganization, recapitalization, consolidation or merger involving the Company with or into another person (excluding a merger solely for the purpose of changing the Company’s jurisdiction of incorporation), then any distribution following such event(s) with respect to the Senior Preferred Shares shall be subject to Liquidation preference described in the preceding paragraph.

Dividend Ranking

With respect to payment of dividends or distribution of assets upon any Liquidation, all the Senior Preferred Shares shall rank senior to all ordinary shares in issue from time to time.

Voting Rights

Each holder of issued and outstanding Senior Preferred Shares shall be entitled to vote with holders of issued and outstanding Class A ordinary shares, voting together as a single class, with respect to any and all matters presented to the shareholders, and such holder shall be entitled to a number of votes equal to the number of Class A ordinary shares into which such holder’s Senior Preferred Shares are convertible.

Conversion Rights

Each Senior Preferred Share is convertible, at the option of its holder at any time after the original issue date, into that number of Conversion Securities determined by dividing (i) the sum of the original issue price, US\$0.8125 per Senior Preferred Share, plus any declared but unpaid dividends on each such Senior Preferred Share, by (ii) the conversion price in effect immediately prior to such conversion, which shall initially be the original issue price, US\$0.8125 per Senior Preferred Share, and is subject to adjustment from time to time based on a variety of events pursuant to the Certificate of Designation including any subsequent equity financing, regulatory event, etc. The initial conversion ratio of Senior Preferred Shares to Convertible Securities shall be 1:1.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

15. Senior Preferred Shares (CONTINUED)

Accounting of Senior Preferred Shares

The Group classified the Senior Preferred Shares as mezzanine equity in the consolidated balance sheets because the Senior Preferred Shares are considered redeemable in the event of any Liquidation, including certain liquidation events outside of the Company's control (the "Involuntary Liquidation Event") since the holders of Senior Preferred Shares shall be entitled to be paid out of an amount in cash according to liquidation preference. Therefore, the Group classifies the Senior Preferred Shares as mezzanine equity outside of permanent equity in accordance with SEC's Accounting Series Release 268, Presentation in Financial Statements of Redeemable Preferred Stocks (ASR 268) and ASC 480 "Distinguishing Liabilities from Equity". The Group early adopted ASU No. 2020-06 to eliminate the analysis requirement of separation of beneficial conversion and cash conversion features from convertible instruments. The mezzanine equity was initially measured based on its fair value at date of issue.

At each reporting date, the Group evaluates the probability of occurrence of any Involuntary Liquidation Event that entitles the holders of the Senior Preferred Shares to be paid an amount in cash (the "redemption value") subject to liquidation preference. If it is probable that an Involuntary Liquidation Event will occur and Senior Preferred Shares will become redeemable, the Group recognizes changes in carrying value immediately as the Involuntary Liquidation Event occurs and adjusts the carrying value of the instrument to equal the redemption value at the end of each reporting period. Increases or decreases in the carrying amount of Senior Preferred Shares shall be affected by charges against retained earnings, or additional paid-in capital in the absence of retained earnings. Accordingly, if the Senior Preferred Shares are not currently redeemable and it is not probable that the Senior Preferred Shares will become redeemable, subsequent adjustment of the amount presented in temporary equity is unnecessary.

As of December 31, 2021, the Company evaluated that the Senior Preferred Shares were not currently redeemable and it is not probable that the Senior Preferred Shares would become redeemable as there was no noted indicator of any Involuntary Liquidation Event, and recorded the Senior Preferred Shares as carrying value accordingly.

16. SHARE BASED COMPENSATION

2019 Equity Incentive Plan

On January 18, 2019, the shareholders and Board of Directors of the Company approved the 2019 share option plan (the "2019 Plan"), which is administrated by the Board of Directors and has a term of 10 years from the date of adoption. Under the 2019 Plan, the Company issued 79,015,500 options to purchase the Ordinary Shares of the Company, after the 1-to-500 share split, to its eligible employees, officers, directors or any other individual as determined by the board of directors. The purpose of the 2019 Plan is to attract and retain exceptionally qualified individuals and to motivate them to exert their best efforts on behalf of the Group by providing incentives through granting awards.

The options granted under the 2019 Plan have a contractual term of 10 years. The first 25% of the share options shall vest on December 31, 2019, which is "the First Vesting Date" and 25% of the share options shall vest on each anniversary day from the First Vesting Date thereafter over the next three years.

The grantees can exercise vested options after the commencement date of vest and before the earlier of: 1) its contractual term (i.e., 10 years after its grant date); or 2) upon the grantee terminates their employment if the vested option has not been exercised. The commencement date of vest is upon the completion of the Company's IPO.

Options granted to employees

The options granted to employees are accounted for as equity awards and measured at their grant date fair values. Given that the inability of the grantees to exercise these options until the completion of the Company's IPO constituted a performance condition that was not considered probable until the completion of the Company's IPO, the Company did not recognize any compensation expense prior to the IPO. Upon the completion of the IPO, the Company immediately recognize certain expenses associated with the options and will continue to recognize the remaining compensation expenses over the remaining service requisite periods using the accelerated method.

LUCKIN COFFEE INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (Amounts in thousands of RMB and US\$, except for number of shares and per share data)

16. SHARE BASED COMPENSATION (CONTINUED)

Options granted to employees (continued)

A summary of the employee equity award activity under the 2019 Plan is stated below:

	Number of options	Weighted- average exercise price US\$	Weighted- average grant-date fair value US\$	Weighted- average remaining contractual term Years	Aggregate intrinsic Value US\$
Outstanding as of December 31, 2018	—	—	—	—	—
Granted	79,015,500	0.0002	43,045	—	—
Vested	(19,753,888)	0.0002	10,761	—	—
Forfeit	—	—	—	—	—
Outstanding as of December 31, 2019	59,261,584	0.0002	32,284	9	291,567
Granted	25,917,240	0.0002	16,387	—	—
Vested	(18,499,536)	0.0002	10,985	—	—
Forfeit	(32,492,992)	0.0002	17,701	—	—
Outstanding as of December 31, 2020	34,186,296	0.0002	19,985	8	36,237
Granted	2,795,601	0.0002	2,984	—	—
Vested	(19,617,776)	0.0002	12,181	—	—
Forfeit	(2,370,736)	0.0002	1,292	—	—
Outstanding as of December 31, 2021	14,993,385	0.0002	9,496	7	17,692
Expected to vest as of December 31, 2021	14,993,385	0.0002	9,496	—	17,692
Exercisable as of December 31, 2021	45,459,688	0.0002	27,168	—	53,642

2021 Equity Incentive Plan

On January 25, 2021, the Company announced the adoption of a 2021 Equity Incentive Plan (the “2021 Plan”) to retain, attract and motivate employees and directors by providing them with equity incentives. The 2021 Plan has a ten-year term, and has a maximum number of 222,769,232 Class A ordinary shares, represented by 27,846,154 American Depositary Shares, available for issuance pursuant to all awards under the 2021 Plan. The Company may grant options, restricted shares, restricted share units and other form of awards pursuant to the 2021 Plan.

A summary of the employee equity award activity under the 2021 Plan is stated below:

	Number of RSUs	Weighted-Average Grant-Date Fair Value US\$
Unvested as of December 31, 2020	—	—
Granted	40,842,760	44,585,350
Vested	(31,943,824)	(35,084,762)
Forfeited or cancelled	(6,368,184)	(6,749,550)
Unvested as of December 31, 2021	2,530,752	2,751,038

The aggregated intrinsic value of share options and RSUs vested and outstanding as of December 31, 2019, 2020 and 2021 was calculated based on the closing price of the Company’s Ordinary Shares on December 31, 2019, 2020 and 2021 of US\$39.36 per ADS (equivalent to US\$4.92 per Ordinary Share), US\$8.50 per ADS (equivalent to US\$1.06 per Ordinary Share) and US\$9.44 per ADS (equivalent to US\$1.18 per Ordinary Share), respectively.

The total weighted average grant-date fair value of the equity awards granted during the year ended December 31, 2019, 2020 and 2021 was US\$0.5448, US\$0.6323 and US\$1.0673 per option, respectively. The Company issued new shares upon the vest of 19,753,888 options on December 31, 2019, not issued new shares upon the vest of 18,499,536 options on December 31, 2020, and issued new shares upon the vest of 18,499,536 and 19,617,776 options on December 31, 2021.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

16. SHARE BASED COMPENSATION (CONTINUED)

2021 Equity Incentive Plan (continued)

The total weighted average grant-date fair value of the RSUs granted during the year ended December 31, 2021 was US\$1.0916 per RSU. The Company issued new shares upon the vest of 31,943,824 RSUs on December 31, 2021.

For the years ended December 31, 2019, 2020 and 2021, the Company recognized share-based compensation expense of RMB152,285, RMB22,029, RMB293,549 (US\$46,064) in general and administrative expenses and nil, nil, RMB9,185 (US\$1,441) in sales and marketing expenses. As of December 31, 2021, there was US\$5,842 of unrecognized share-based compensation expense, which are expected to be recognized over a weighted average period of 0.67 years.

Fair value of employee share options

The fair value of share options was determined using the binomial option valuation model, with the assistance from an independent third-party appraiser. The binomial model requires the input of highly subjective assumptions, including the expected share price volatility and the suboptimal early exercise factor. For expected volatilities, the Company has made reference to historical volatilities of several comparable companies. The suboptimal early exercise factor was estimated based on the Company's expectation of exercise behavior of the grantees. The dividend yield is estimated based on the Company's expected dividend policy over the expected term of the options. The risk-free rate for periods within the contractual lives of the options is based on the market yield of U.S. Treasury Bonds in effect at the time of grant. The exercised multiple is estimated based on the changes in intrinsic value of the options and the likelihood of early exercises by employees. The estimated fair value of the ordinary shares, at the option grant dates, were determined with the assistance from an independent third-party appraiser.

The assumptions used to estimate the fair value of the share options granted to employees were as follows:

	2020	2021
Risk-free interest rate	0.82 %	1.04 %
Expected volatility	74.37 %	74.49 %
Expected dividend yield	0.00 %	0.00 %
Exercise multiple	2.20	2.20
Expected post-vesting forfeiture rate	0.00 %	0.00 %
Fair value of share option	US\$ 0.6323	US\$ 1.0675

17. TAXATION

Enterprise income tax ("EIT")

Cayman Islands

The Company is incorporated in the Cayman Islands and conducts its primary business operations through the subsidiaries and VIE in the PRC. Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain arising in Cayman Islands. Additionally, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands

Luckin BVI is incorporated in the British Virgin Islands and conducts its primary business operations through the subsidiaries and VIE in the PRC. Under the current laws of the British Virgin Islands, Luckin BVI is not subject to tax on income or capital gains. Additionally, upon payments of dividends by the Company to its shareholders, no BVI withholding tax will be imposed.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

17. TAXATION (CONTINUED)***Hong Kong***

Luckin HK, Luckin Roasting and Luckin Roastery are incorporated in Hong Kong and are subject to Hong Kong profits tax rate. Under the two-tiered profits tax rates regime, the first 2,000 Hong Kong Dollar (“HKD”) of profits of the qualifying group entity will be taxed at 8.25%, and profits above HKD2,000 will be taxed at 16.5%. Additionally, upon payments of dividends by the Company to its shareholders, no HK withholding tax will be imposed.

PRC

Under the PRC Enterprise Income Tax Law (the “EIT Law”), the standard enterprise income tax rate for domestic enterprises and foreign invested enterprises is 25%. In January 2019, the State Administration of Taxation provides a preferential corporate income tax rate of 20% and an exemption ranged from 50% to 75% in the assessable taxable profits for entities qualified as small-size enterprises (the exemption range has been changed to from 50% to 87.5% for the period from January 1, 2021 to December 31, 2022, then the exemption range has been changed to from 75% to 87.5% for the period from January 1, 2022 to December 31, 2024). The policy is effective for the period from January 1, 2019 to December 31, 2024.

Dividends, interests, rent or royalties payable by the Company’s PRC subsidiaries, to non-PRC resident enterprises, and proceeds from any such non-resident enterprise investor’s disposition of assets (after deducting the net value of such assets) shall be subject to 10% withholding tax, unless the respective non-PRC resident enterprise’s jurisdiction of incorporation has a tax treaty or arrangements with China that provides for a reduced withholding tax rate or an exemption from withholding tax.

The components of (loss)/income before tax are as follows:

	For the year ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	US\$
(Loss)/income before tax				
Non-PRC	750	(2,937,591)	617,090	96,835
PRC	(3,159,870)	(3,303,200)	5,427	852
Total (loss)/income before tax	(3,159,120)	(6,240,791)	622,517	97,687
Income tax (expenses)/benefit				
Current income tax expenses	(1,387)	(919)	(360)	(57)
Deferred tax benefits	—	638,720	64,221	10,078
Income tax (expenses)/benefits	(1,387)	637,801	63,861	10,021

LUCKIN COFFEE INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (Amounts in thousands of RMB and US\$, except for number of shares and per share data)

17. TAXATION (CONTINUED)

PRC (continued)

The reconciliation of tax computed by applying the statutory income tax rate of 25% for the years ended December 31, 2019, 2020 and 2021 to income tax expense were as follows:

	For the year ended December 31,			
	2019 RMB	2020 RMB	2021 RMB US\$	
(Loss)/income before income taxes	(3,159,120)	(6,240,791)	622,517	97,687
Income tax benefit computed at PRC statutory income tax rate of 25%	789,780	1,560,198	(155,629)	(24,422)
Additional deduction for R&D expenses	4,192	9,108	11,095	1,741
Non-deductible share-based compensation expenses	(38,071)	(5,507)	(58,581)	(9,193)
Non-deductible expenses and non-taxable income	(43,651)	(24,495)	17,516	2,750
Change of valuation allowance	(535,424)	(164,850)	(60,352)	(9,471)
Effect of preferential tax rate	(181,304)	(9,395)	158,362	24,850
Effect of International tax rates	3,091	(727,446)	155,242	24,361
Prior-year tax filing difference	—	188	(3,792)	(595)
Income tax (expenses)/benefits	<u>(1,387)</u>	<u>637,801</u>	<u>63,861</u>	<u>10,021</u>

Deferred Taxes

The significant components of deferred taxes were as follows:

	As of December 31,		
	2020 RMB	2021 RMB	US\$
Deferred tax assets			
Advertising expenses	—	—	—
Donation	1,613	4,075	639
Accrued expenses	40,189	31,843	4,997
Accrued welfare	833	14,538	2,281
Impairment loss of long-lived assets and investments	317,846	303,168	47,574
Allowance for doubtful accounts	21,122	22,577	3,543
Tax losses	1,359,044	1,441,091	226,139
Valuation allowance	<u>(1,101,927)</u>	<u>(1,114,351)</u>	<u>(174,866)</u>
Total deferred tax assets, net	<u>638,720</u>	<u>702,941</u>	<u>110,307</u>

Realization of the net deferred tax assets is dependent on factors including future reversals of existing taxable temporary differences and adequate future taxable income. The Group evaluates the potential realization of deferred tax assets on an entity-by-entity basis. As of December 31, 2020 and 2021, the Company and most of its subsidiaries and VIE were in cumulative loss position, except some new entities with immaterial taxable income. The valuation allowance of RMB1,101,927 and RMB 1,114,351 (US\$174,866) as of December 31, 2020 and 2021 was primarily provided for the deferred income tax assets of certain subsidiaries, which were not estimated to generate enough future taxable income to utilize its some portion or all of the benefits of the deferred tax assets.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

17. TAXATION (CONTINUED)*Deferred Taxes (continued)*

Valuation allowances were provided against deferred tax assets in entities where it was determined it was more likely than not that some portion or all of the benefits of the deferred tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or utilizable. Management considers projected future taxable income and tax planning strategies in making this assessment.

As of December 31, 2021, the Group had accumulated tax losses of RMB5,943,276 (US\$932,630) derived from entities in the mainland PRC, which can be carried forward per tax regulation to offset future taxable income. The PRC taxable losses will expire from 2022 to 2026 and 2028 if not utilized.

Unrecognized Tax Benefits

As of December 31, 2019, 2020 and 2021, unrecognized tax benefit of RMB32,480, RMB53,961 and RMB54,956 (US\$8,624) if ultimately recognized would impact the effective tax rate. The unrecognized tax benefits were primarily related to deemed sales of free coupons to customers. The unrecognized tax benefits represent a reduction of the deferred income tax assets for tax loss carry forwards since the uncertain tax position would reduce the tax loss carry forwards under the tax law and the estimated income tax expenses the Group would be required to pay should its revenue for tax purposes be recognized in accordance with current PRC tax laws and regulations. The amounts of unrecognized tax benefits will change in the next 12 months, pending clarification of current tax law or audit by the tax authorities, however, an estimate of the range of the possible change cannot be made at this time.

A roll-forward of unrecognized tax benefits is as follows:

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Balance at beginning of year	32,480	53,961	8,468
Additions based on tax positions related to the current year	21,481	995	156
Balance at end of year	53,961	54,956	8,624

For the years ended December 31, 2019, 2020 and 2021, no interest expense or penalty was accrued in relation to the unrecognized tax benefit.

The Group is currently under examination of PRC tax authorities. As of the issuance date of this report, the Group is not notified of any fine or penalty from the PRC tax authorities. For the years ended December 31, 2019, 2020 and 2021, the Company, its subsidiaries and the VIE remain subject to tax examinations.

LUCKIN COFFEE INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (Amounts in thousands of RMB and US\$, except for number of shares and per share data)

18. NET (LOSS)/INCOME PER SHARE

Basic and diluted net (loss)/income per share for the years presented were calculated as follows:

	For the year ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
<i>Numerator:</i>				
Net (loss)/income attributable to ordinary shareholders – basic	(3,160,507)	(5,602,990)	686,378	107,708
Add: accretion to redemption value of convertible redeemable preferred shares	(552,036)	—	—	—
Add: deemed distribution to a certain holder of Series B convertible redeemable preferred shares	(2,127)	—	—	—
Less: Net (loss)/income attributable to non-controlling interests	(2,074)	(13,885)	108	17
Net (loss)/income attributable to ordinary shareholders – diluted	<u>(3,712,596)</u>	<u>(5,589,105)</u>	<u>686,270</u>	<u>107,691</u>
<i>Denominator:</i>				
Weighted average number of shares – basic	1,609,200,055	2,021,919,061	2,025,366,744	2,025,366,744
Adjustments for dilutive options, RSUs and preferred shares	—	—	110,477,513	110,477,513
Weighted average number of shares – diluted	<u>1,609,200,055</u>	<u>2,021,919,061</u>	<u>2,135,844,257</u>	<u>2,135,844,257</u>
Basic net (loss)/income per share attributable to ordinary shareholders	<u>(2.31)</u>	<u>(2.76)</u>	<u>0.34</u>	<u>0.05</u>
Diluted net (loss)/income per share attributable to ordinary shareholders	<u>(2.31)</u>	<u>(2.76)</u>	<u>0.32</u>	<u>0.05</u>

Generally, basic net (loss)/income per share is computed using the weighted average number of ordinary shares outstanding during the respective year. Diluted net (loss)/income per share is computed using the weighted average number of ordinary shares and dilutive potential ordinary shares outstanding during the respective year. The potentially dilutive ordinary shares included RSUs and options or Senior Preferred Shares to purchase or convert to ordinary shares of 74,896,940, 54,785,705 and 110,477,513 for the years ended December 31, 2019, 2020 and 2021 on a weighted average basis, respectively. They were not included in the calculation of diluted net loss per share in 2019 and 2020 presented where their inclusion would be anti-dilutive.

1-to-500 share split concurrent with the completion of IPO in May 2019 was accounted for on a retrospective basis for the calculation of basic and diluted loss per share as if they were completed at the inception of the Company. Basic and diluted (loss)/income per share are not reported separately for different classes of ordinary shares as each class of shares had the same rights to profits and losses.

19. LEASES

The Group enters into lease agreements to have leasing for self-operated stores, office spaces, and other corporate assets that the Group utilizes.

Supplemental balance sheet information related to operating lease was as follows:

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Right-of-use assets	—	1,237,734	194,227
Operating lease liabilities – current	—	598,062	93,850
Operating lease liabilities – non-current	—	575,060	90,239
Total operating lease liabilities	<u>—</u>	<u>1,173,122</u>	<u>184,089</u>

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

19. LEASES (CONTINUED)

The weighted average remaining lease terms and discount rates for the operating lease as of December 31, 2021 were as follows:

Remaining lease term and discount rate:	
Weighted average remaining lease term (years)	1.35
Weighted average discount rate	5.525 %

During the years ended December 31, 2021, the Group incurred total operating lease expenses and operating lease payment of RMB672,910 (US\$105,594) and RMB 637,243 (US\$99,997).

Future minimum lease payments under non-cancellable operating leases with initial terms in excess of one year consisted of the following as of December 31, 2021:

	RMB	US\$
2022	598,062	93,850
2023	369,272	57,947
2024	174,845	27,437
2025	65,989	10,355
2026 and thereafter	50,459	7,918
Less: interest	(85,505)	(13,418)
Total	1,173,122	184,089

20. PROVISION FOR SEC SETTLEMENT

On December 16, 2020, the SEC announced its settlement with the Company (“SEC Settlement”) regarding the Fabricated Transactions. Under the terms of the settlement, the Group, without admitting or denying the allegations of the SEC, consented to the entry of an order (i) requiring it to pay a civil money penalty in the amount of US\$180,000 to the SEC, which shall be offset by any cash payments made by the Group to its security holders pursuant to any schemes of arrangement approved by the Cayman Court in the proceeding for our provisional liquidation and restructuring, provided that such payments are made within 18 months subject to extensions granted by the SEC up to 24 months and the final distribution plan is not reasonably objectionable to the SEC staff, and (ii) permanently enjoining it from violations of certain federal securities laws, including Section 10(b) of the Securities Exchange Act of 1934. On February 4, 2021, the United States District Court for the Southern District of New York issued a judgment (the “Judgement”) approving the SEC Settlement.

On March 16, 2021, the Company announced that it entered into a restructuring support agreement with holders of a majority of the Notes. See “Note 13. Convertible Senior Notes – Restructuring of the Notes”.

Upon the issuance of the 2020 Form 20-F, the Company was unable to predict with certainty the total amount of cash that would be paid to security holders according to the Cayman Court proceeding within the timeframe stipulated in the SEC Settlement and whether any ultimately approved distribution plan would be subject to any successful reasonable objections by the SEC Staff as contemplated by the SEC Settlement. Consequently, as of December 31, 2020, the full amount of the SEC penalty in the amount of US\$180,000 (RMB1,174,500) was recorded as non-current liability.

On December 17, 2021, the Scheme that was proposed by the Company with the support of its JPLs in relation to the restructuring of the Notes became effective. The Restructuring contemplated in the Scheme was substantially consummated on the Restructuring Effective Date of January 28, 2022, on which date the Company completed the tender process with respect to the Notes and issued the Scheme Consideration to the Scheme creditors in accordance with the terms of the Scheme. On April 4, 2022, pursuant to the top-up mechanism under the Scheme, the Company issued 291,699 ADSs representing 2,333,592 class A ordinary shares to Scheme creditors.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

20. PROVISION FOR SEC SETTLEMENT (CONTINUED)

According to the offset criteria provided in the Judgement, the final distribution plan is not reasonably objectionable to Commission staff as to the fairness consideration. Pursuant to the Scheme which was effective on December 17, 2021, the Company's best estimate as of December 31, 2021 was that the final total cash payment to the bond holders would well exceed US\$180,000 even though the exact amount would not be determined until closer to the Restructuring Effective Date in January 2022. During December 2021, the Company had informal communications with SEC on predicted distribution plan and the proposed proof of cash payment to Scheme creditors that the Company would be able to provide. The SEC did not state any objection and agreed to the method of payment confirmation proposed by the Company. Therefore, based on all available conditions as of December 31, 2021, it was very probable that the SEC staff would be satisfied that the cash payment to the bond holders to be made in January 2022, estimated at the time to exceed US\$180,000, would fully offset the SEC civil penalty as stated in the Judgement. Accordingly, the Company reversed the provision for the SEC Settlement for the year ended December 31, 2021.

On February 3, 2022, the Company received a Notice of Satisfaction of Penalty Provision of the Final Judgment from SEC. See "Note 22. Subsequent events – Satisfaction Notice from SEC".

21. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

As of December 31, 2021, the Group had no capital commitment.

(b) Legal proceedings

From time to time, the Group is involved in claims and legal proceedings that arise in the ordinary course of business. The Group records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Group made adequate disclosure of contingency loss of which an unfavorable outcome of legal proceeding is determined to be reasonably possible but not probable, or if the amount of loss cannot be reasonably estimated.

U.S. Department of Justice Investigation (the "DOJ")

The Group was contacted by the U.S. Attorney's Office for the Southern District of New York ("SDNY") following the Group's public disclosure on April 2, 2020 relating to the Fabricated Transactions. The SDNY indicated that it had commenced an investigation into the Fabricated Transactions. The Group has been in regular contact with the SDNY regarding its investigation including apprising the SDNY of the relevant Chinese laws that restrict the Group from providing evidence and information without prior approval from the Chinese Ministry of Justice. The Group is committed to cooperating with the DOJ to the extent permissible under the applicable PRC laws. The Group cannot predict the outcome or the duration of this investigation or any other legal proceedings or any enforcement actions or other remedies that may be imposed on the Group arising out of this investigation. No liability or loss was recognized as of December 31, 2020 and 2021 and for the year then ended.

Ministry of Finance Investigation

On May 6, 2020, the Ministry of Finance of the PRC initiated its investigation into the accounting information of two entities of the Group. On July 31, 2020, the Ministry of Finance of the PRC announced its investigation has been substantially completed. The Ministry of Finance of the PRC further announced that they would impose and publish its relevant penalty decision to the Group in due course. The Group cannot predict the outcome or the duration of this investigation or any other legal proceedings or any enforcement actions or other remedies that may be imposed on the Group arising out of this investigation. No liability or loss was recognized as of December 31, 2020 and 2021 and for the year then ended.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

21. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(b) Legal proceedings (continued)

U.S. Class Action

On February 13, 2020, April 2, 2020, April 8, 2020, and April 10, 2020, putative securities class action complaints were filed in the United States District Court for the Eastern and Southern Districts of New York against the Company, certain of its current and former directors and executives, and the underwriters of the Company's initial public offering and follow-on offering. These lawsuits have been consolidated in the Southern District of New York, and is captioned In re Luckin Coffee Inc. Securities Litigation, 1:20-cv-01293 (S.D.N.Y.) (the "Federal Class Action"). On June 12, 2020, the court appointed co-lead plaintiffs (the "Federal Lead Plaintiffs") pursuant to the Private Securities Litigation Reform Act of 1995 and ordered the lawsuits consolidated. A consolidated class action complaint was filed on September 24, 2020 that alleges, among other things, that the Company made false and misleading statements and material omissions in its prior registration statements and other public statements by failing to disclose the Fabricated Transactions disclosed in the Company's April 2, 2020 announcement, and the impact of those Fabricated Transactions on the Company's financial statements. The consolidated class action complaint variously alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, Rule 10b-5 of the Securities Exchange Act of 1934, and Sections 11 and 15 of the Securities Act for a putative class period between May 17, 2019 to April 1, 2020. On March 5, 2021, the court entered a Stipulation and Order provisionally certifying the class for settlement purposes. On March 30, 2021, the United States Bankruptcy Court for the Southern District of New York (the "U.S. Bankruptcy Court") issued an order in the case (the "Chapter 15 Case") commenced with respect to the Company under chapter 15 of title 11 of the United States Code (the "U.S. Bankruptcy Code") recognizing the Company's provisional liquidation proceeding in the Cayman Court with proceeding number FSD 157 of 2020 (the "Cayman Proceeding") as a foreign main proceeding. This order also imposed an automatic stay of litigation in the territorial jurisdiction of the United States against the Company and its assets in the territorial jurisdiction of the United States, to the extent provided in the U.S. Bankruptcy Code and for the duration of the Chapter 15 Case. The Chapter 15 Case was closed – at the request of the JPLs, in coordination with the Company – on April 8, 2022. On July 6, 2021, the court entered an order regarding dissemination of class notice. Notice was disseminated to the class and the deadline to opt out of the class action was September 17, 2021. On September 20, 2021, the Company entered into binding term sheets with the Federal Lead Plaintiffs, on behalf of the provisional certified class to settle the Federal Class Action, and on October 20, 2021, the Company and the Federal Lead Plaintiffs entered into a Stipulation and Agreement of Settlement ("Federal Settlement Agreement"). On October 26, 2021, the court issued an order preliminarily approving the settlement and scheduling the final settlement hearing for July 22, 2022. The deadline for members of the class to file objections is June 24, 2022. The class settlement amount is US\$175,000. Upon the date of issuance of 2021 Form 20-F, the class settlement is contingent on the Company funding the settlement amount and final approval by the federal court.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

21. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(b) Legal proceedings (continued)

On May 26, 2020, June 18, 2020, and June 23, 2020, putative securities class actions complaints were filed in the Supreme Court of the State of New York, County of New York, against the Company, certain of its current and former directors and executives, and the underwriters of the Company's initial public offering and follow-on offering. The lawsuits variously alleged that the Company made false and misleading statements and material omissions in its prior registration statements and other public statements by failing to disclose the Fabricated Transactions disclosed in the Company's April 2, 2020 announcement, and the impact of those Fabricated Transactions on the Company's financial statements, in violation of Sections 11, 12 and 15 of the Securities Act. On October 16, 2020, the court appointed co-lead plaintiffs and consolidated the lawsuits under the caption *In re Luckin Coffee Inc. Securities Litigation*, 651939/2020 (N.Y. Sup. Ct.). A consolidated amended complaint was filed on December 23, 2020, adding claims against investment vehicles owned by former officers and directors of Luckin and Luckin's agent for service of process, Cogency Global. The amended complaint also asserted claims under the Securities Act on behalf of a class of purchasers of convertible senior notes issued by Luckin in January 2020. On March 30, 2021, the U.S. Bankruptcy Court issued an order recognizing the Company's Cayman Proceeding as a foreign main proceeding. This order also imposed an automatic stay of litigation in the territorial jurisdiction of the United States against the Company and its assets in the territorial jurisdiction of the United States, to the extent provided in the U.S. Bankruptcy Code and for the duration of the Chapter 15 Case. The Chapter 15 Case was closed – at the request of the JPLs, in coordination with the Company – on April 8, 2022. On December 21, 2021, the court issued an order staying the action, pending final approval of the Federal Class Action settlement. The named plaintiffs did not file a notice to opt-out of the Federal Class Action. On January 9, 2022, the Company reached an agreement in principle to settle the claims that have been or could be asserted on behalf of the Notes Class that is not being released pursuant to the Cayman Noteholder Scheme of Arrangement (or otherwise) (the "State Class Settlement"). The State Class Settlement is contingent on the negotiation and execution of a stipulation of settlement, customary approvals by the Board of Trustees of the named plaintiff, and approval of state court.

U.S. "Opt Out" Claims

The Company has also been named as a defendant in the following opt-out lawsuits alleging violations of U.S. securities laws: *Kingstown Capital Management. v. Luckin Coffee*, 1:20-cv-07029 (S.D.N.Y.), which seeks to recover over \$22,000 in alleged losses; *Lai Ye v. Luckin Coffee et al.*, 1:21-cv-2020 (S.D.N.Y.), who seeks to recover \$4,000 in alleged losses; *Nuveen Winslow Large-Cap Growth ESG Fund et al. v. Luckin Coffee et al.*, 655177/2020 (N.Y. Sup. Ct.), which seeks to recover over \$100,000 in alleged losses; and *Bequai v. Luckin Coffee*, GV20019430-00 (Va. D. Ct., Fairfax Cty.), which seeks to recover \$25 in losses. On March 30, 2021, the U.S. Bankruptcy Court issued an order recognizing the Company's Cayman Proceeding as a foreign main proceeding. This order also imposed an automatic stay of litigation in the territorial jurisdiction of the United States against the Company and its assets in territorial jurisdiction of the United States, to the extent provided in the U.S. Bankruptcy Code and for the duration of the Chapter 15 Case. The Chapter 15 Case was closed – at the request of the JPLs, in coordination with the Company – on April 8, 2022.

On November 29, 2021, in the action *Kingstown Capital Management. v. Luckin Coffee*, 1:20-cv-07029 (S.D.N.Y.), which seeks to recover over \$22,000 in alleged losses; and in the action *Lai Ye v. Luckin Coffee et al.*, 1:21-cv-2020 (S.D.N.Y.), who seeks to recover \$4,000 in alleged losses, the court issued an order extending Defendants' time to respond to Plaintiffs' complaint until 30 days after the resolution of the motion for final approval of the Federal Class Action settlement, or after the lifting of the automatic bankruptcy stay, whichever is earlier.

On December 7, 2021, in the action *Nuveen Winslow Large-Cap Growth ESG Fund et al. v. Luckin Coffee et al.*, 655177/2020 (N.Y. Sup. Ct.), which seeks to recover over \$100,000 in alleged losses, the court denied the Underwriter Defendants' motions to dismiss. The Underwriter Defendants filed a notice of appeal of the court's order on December 17, 2021.

For *Bequai v. Luckin Coffee*, GV20019430-00 (Va. D. Ct., Fairfax Cty.), which seeks to recover \$25 in losses, the plaintiff did not file a notice to opt-out of the federal class action.

Certain individuals and institutions claiming to be ADS investors have made informal demands for the company to pay alleged losses resulting from the Fabricated Transactions disclosed on April 2, 2020, but have not commenced legal proceedings. In the aggregate, the investors that have made information demands have asserted losses in excess of \$327,700.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

21. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(b) Legal proceedings (continued)

U.S. Derivative Action

The Company is a nominal defendant in a consolidated putative derivative action filed in the Supreme Court of the State of New York captioned In re Luckin Coffee Inc. Derivative Litigation, 652800/2020 (N.Y. Sup. Ct.). This action is stayed pending the court's order resolving defendants' motion to dismiss the complaint in the federal securities class action. On March 30, 2021, the U.S. Bankruptcy Court issued an order recognizing the Company's Cayman Proceeding as a foreign main proceeding. This order also imposed an automatic stay of litigation in the territorial jurisdiction of the United States against the Company and its assets in the territorial jurisdiction of the United States, to the extent provided in the U.S. Bankruptcy Code and for the duration of the Chapter 15 Case. The Chapter 15 Case was closed – at the request of the JPLs, in coordination with the Company – on April 8, 2022.

On December 16, 2021, the court issued an order staying the case until the later of March 11, 2022, or otherwise agreed to by the parties. On March 17, 2022, the court issued an order staying the case until the earlier of 90 days after the entry of the order or 30 days after termination of the U.S. Bankruptcy Court proceeding.

Canadian Class Action

On or about April 14, 2020, an Application for Authorization to Bring a Class Action was filed against Luckin Coffee Inc. by Martin Banoon (the "Applicant") in the Superior Court of Quebec file no. 500-06-001058-201. The Applicant seeks authorization to institute a class action on behalf of the proposed class members comprised of holders of Luckin Coffee's ADS, as a result of Fabricated Transactions. At the request of the Applicant, the Superior Court of Quebec issued an order staying proceedings pending the Quebec Court of Appeal's decision in an unrelated class action that is expected to address jurisdictional defenses similar to those that Luckin Coffee Inc. may raise in the Banoon class action. No liability or loss was recognized as of December 31, 2020 and 2021 and for the year then ended.

Cayman Bondholder Action

In May 2020, a group of bondholders commenced proceedings in the Cayman Court seeking to recover approximately US\$155,000 of losses from the Company. By summons dated May 1, 2020, the bondholders applied ex parte for a worldwide freezing order (the "WFO") against the Company, which order was granted by the Cayman Court on May 8, 2020. On July 1, 2020 to July 3, 2020 the Cayman Court heard the Company's application to set aside the WFO. By order dated July 22, 2020, the Cayman Court discharged the WFO. The litigation was automatically stayed on the appointment of the JPLs on July 15, 2020 by operation of section 97 of the Companies Act. On August 12, 2020 the Cayman Court further ordered that the bondholders could seek to appeal the discharge order until 14 days after the discharge of the JPLs. As a result of the restructuring of Luckin's liabilities under the Notes in January 2022, no further action can be taken in these proceedings (FSD 82 of 2020 (IKJ)), which will be discontinued. No liability or loss was recognized as of December 31, 2020 and 2021 and for the year then ended.

(c) Provision for U.S. securities litigation

The Company has been named as a defendant in various U.S. securities litigations described in "Note 21. Commitments And Contingencies – (b) legal proceedings. Where possible, the Company contests liability and/or the amount of damages appropriate in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues a provision for that loss in accordance with relevant ASC 450. The Company recorded a provision for equity litigation of US\$187,500 (approximately RMB1,226,119) in the year ended December 31, 2020, which was the global settlement amount that formed the basis of the Federal Class Settlement. The Company is recording an additional US\$24,385 (approximately RMB155,314) in the year ended December 31, 2021. The Company's estimate of probable losses from these litigations is based on either the amount of a settlement (if a settlement has been reached), the Company's most recent offer made to a claimant (if no settlement has been reached but settlement negotiations have begun), or the implied recovery represented by the Federal Class Action settlement (where no settlement negotiations have begun). The actual loss could be greater or smaller than the Company's current estimate.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

22. SUBSEQUENT EVENTS

In addition to the information disclosed elsewhere in the financial statements, there are the following subsequent events:

Issuance of Senior Preferred Shares

On January 7, 2022, the Company issued 12,307,692 Senior Preferred Shares to Joy Capital with the proceeds of RMB63,726 (US\$10,000) at a subscription price equal to US\$0.8125 per share under the Investment Agreement that was entered on April 15, 2021. See “Note 15 - Senior Preferred Shares”.

U.S. State Class Action

On January 9, 2022, the Company reached an agreement in principle to settle the claims that have been or could be asserted on behalf of the Notes Class that is not being released pursuant to the Cayman Noteholder Scheme of Arrangement (or otherwise) (the “State Class Settlement”). The State Class Settlement is contingent on the negotiation and execution of a stipulation of settlement, customary approvals by the Board of Trustees of the named plaintiff, and approval of the state court. See “Note 21. Commitment and Contingencies - (b) legal proceedings – U.S. Class Action”.

Effectiveness of the Restructuring

On January 31, 2022, the Company announced that (i) the Restructuring Effective Date occurred on January 28, 2022; (ii) on the Restructuring Effective Date (a) the Notes were cancelled; and (b) the Company issued the Scheme Consideration to all eligible Scheme creditors and the Holding Period Trustee (as applicable), in accordance with the terms of the Scheme.

As of January 28, 2022, in aggregate, the Company has issued Scheme Consideration totaling US\$245,455 of cash, US\$109,855 of 9.00% Series B Senior Secured Notes due 2027 (the “New Notes”) and 9,235,902 ADSs representing 73,887,216 class A ordinary shares. On April 4, 2022, pursuant to the top-up mechanism under the Scheme, the Company issued 291,699 ADSs representing 2,333,592 class A ordinary shares to Scheme creditors. The New Notes represent the Company’s only offshore debt securities. See “Note 13- Convertible Senior Notes”

Satisfaction Notice from SEC

On February 3, 2022, the Company received a Notice of Satisfaction of Penalty Provision of the Final Judgment (the “Satisfaction Notice”) on SEC Penalty of US \$180,000 from SEC who acknowledges the Company that the final distribution plan was not objectionable to the SEC, and proof of cash payments of at least US \$180,000 made by the Company and distributed to its security holders has been provided to the Commission. Accordingly, the Company has satisfied the penalty provisions of the Final Judgment and no outstanding balance of penalty shall be paid to SEC.

Dismissal of Provisional Liquidation

On March 7, 2022, the Company announced that pursuant to an order of the Grand Court of the Cayman Islands dated February 25, 2022 (the “Discharge Order”), the winding up petition (as amended) in respect of the Company has been dismissed and the “light-touch” JPLs of the Company have been discharged from their duties effective on March 4, 2022, bringing the Company’s provisional liquidation to a successful close.

The Discharge Order was made following a consensual application by the relevant parties, and after the Company’s previously announced successful restructuring of the Notes by way of the Scheme in the Cayman Islands.

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

22. SUBSEQUENT EVENTS (CONTINUED)*Closing of Chapter 15 Case*

In addition, with the Company's support and coordination, the JPLs filed a final report with the U.S. Bankruptcy Court on March 4, 2022. The final report confirmed that the purpose of the JPLs' appearance in the U.S. Bankruptcy Court was complete, and requested entry of an order closing the Chapter 15 Case. The U.S. Bankruptcy Court granted this relief and entered an order closing the Chapter 15 Case on April 8, 2022.

23. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION*Condensed balance sheets*

	As of December 31,		
	2020 RMB	2021 RMB	US\$
ASSETS			
Current assets:			
Cash and cash equivalents	180,001	3,078,291	483,051
Amount due from a shareholder	22,335	12,975	2,036
Amounts due from subsidiaries	13,082,149	15,657,977	2,457,078
Other current assets	10,889	3,951	619
Total current assets	13,295,374	18,753,194	2,942,784
Non-current assets:			
Investments in subsidiaries and VIE	(4,824,019)	(7,495,627)	(1,176,227)
Total non-current assets	(4,824,019)	(7,495,627)	(1,176,227)
Total assets	8,471,355	11,257,567	1,766,557
LIABILITIES AND SHAREHOLDERS' DEFICITS			
Current liabilities:			
Amounts due to subsidiaries	111,539	1,410,584	221,351
Other payables	106,921	419,533	65,834
Total current liabilities	218,460	1,830,117	287,185
Other non-current liabilities	197,091	—	—
Convertible notes	3,001,500	2,931,396	460,000
Payable for SEC settlement	1,174,500	—	—
Payable for equity litigants settlement	1,223,438	1,350,257	211,885
Total non-current liabilities	5,596,529	4,281,653	671,885
Total liabilities	5,814,989	6,111,770	959,070

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

23. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (CONTINUED)

Condensed balance sheets (continued)

	As of December 31,		
	2020 RMB	2021 RMB	US\$
LIABILITIES AND SHAREHOLDERS' EQUITY			
Mezzanine equity:			
Convertible senior preferred shares (US\$0.000002 par value; nil and 307,692,307 shares authorized as of December 31, 2020 and 2021, respectively; nil and 295,384,615 issued and outstanding as of December 31, 2020 and 2021, respectively)	—	1,514,660	237,683
Total Mezzanine equity	—	1,514,660	237,683
Shareholders' equity:			
Class A ordinary shares (US\$0.000002 par value; 20,000,000,000 and 19,692,307,693 shares authorized as of December 31, 2020 and 2021, respectively, 1,880,396,244 and 1,950,457,380 issued and outstanding as of December 31, 2020 and 2021, respectively)	20	21	3
Class B ordinary shares (US\$0.000002 par value; 5,000,000,000 and 5,000,000,000 shares authorized as of December 31, 2020 and 2021, respectively; 144,778,552 and 144,778,552 issued and outstanding as of December 31, 2020 and 2021, respectively)	2	2	—
Additional paid-in capital	14,745,172	15,040,609	2,360,200
Accumulated deficit	(12,452,882)	(11,768,626)	(1,846,754)
Accumulated other comprehensive income	364,054	359,131	56,355
Total shareholders' equity	2,656,366	3,631,137	569,804
Total liabilities and shareholders' equity	8,471,355	11,257,567	1,766,557

LUCKIN COFFEE INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (Amounts in thousands of RMB and US\$, except for number of shares and per share data)

23. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (CONTINUED)

Condensed statements of comprehensive (loss)/income

	For the year ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	US\$
Operating(loss)/income				
Sales and marketing expenses	—	—	188	30
General and administrative expenses	(25,773)	(109,119)	(85,755)	(13,457)
Losses and expenses related to Fabricated Transactions and restructuring	—	(332,814)	(246,410)	(38,667)
Foreign exchange loss	(29)	—	(138)	(22)
Change in the fair value of warrant liability	(8,322)	—	—	—
Share of (losses)/income from subsidiaries and VIE	(3,164,198)	(2,661,076)	67,203	10,546
Interest income	43,606	21,910	296	46
Other (expense)/income	(3,635)	2,445	(4,784)	(751)
Interest and financing expenses	(82)	(107,258)	(35,490)	(5,569)
Provision for SEC settlement	—	(1,177,074)	1,146,474	179,907
Provision for equity litigants settlement	—	(1,226,119)	(155,314)	(24,372)
Net (loss)/income before income taxes	(3,158,433)	(5,589,105)	686,270	107,691
Income tax expense	—	—	—	—
Net (loss)/income	(3,158,433)	(5,589,105)	686,270	107,691
Accretion to redemption value of convertible redeemable preferred shares	(552,036)	—	—	—
Deemed distribution to a certain holder of Series B Preferred Shares	(2,127)	—	—	—
Net (loss)/income attributable to the Company's ordinary shareholders and angel shareholders	(3,712,596)	(5,589,105)	686,270	107,691
Net (loss)/income	(3,712,596)	(5,589,105)	686,270	107,691
Other comprehensive income/(loss), net of tax of nil:				
Foreign currency translation difference, net of tax of nil	79,433	286,697	(4,923)	(773)
Total Comprehensive (loss)/income	(3,633,163)	(5,302,408)	681,347	106,918

LUCKIN COFFEE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of RMB and US\$, except for number of shares and per share data)

23. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (CONTINUED)

Condensed statements of cash flows

	For the year ended December 31,			
	2019	2020	2021	
		RMB	RMB	US\$
Net cash provided by operating activities	17,722	130,504	1,281,735	201,133
Net cash (used in)/provided by investing activities	(5,419,820)	(6,802,055)	170,329	26,728
Net cash provided by financing activities	5,604,614	5,806,861	1,446,226	226,944
Net increase/(decrease) in cash and cash equivalents	202,516	(864,690)	2,898,290	454,805
Cash and cash equivalents at beginning of the years	842,175	1,044,691	180,001	28,246
Cash and cash equivalents at end of the years	<u>1,044,691</u>	<u>180,001</u>	<u>3,078,291</u>	<u>483,051</u>

Basis of presentation

Condensed financial information is used for the presentation of the Company, or the parent company. The condensed financial information of the parent company has been prepared using the same accounting policies as set out in the Company's consolidated financial statements except that the parent company used the equity method to account for investments in its subsidiaries and VIE.

The parent company records its investments in its subsidiaries and VIE under the equity method of accounting as prescribed in ASC 323, *Investments-Equity Method and Joint Ventures*. Such investments are presented on the condensed balance sheets as "Investments in subsidiaries and the VIE" and their respective profit or loss as "Share of loss in subsidiaries and the VIE" on the condensed statements of comprehensive (loss)/income. Equity method accounting ceases when the carrying amount of the investment, including any additional financial support, in a subsidiary or VIE is reduced to zero unless the parent company has guaranteed obligations of the subsidiary or VIE or is otherwise committed to provide further financial support. If the subsidiary or VIE subsequently reports net income, the parent company shall resume applying the equity method only after its share of that net income equals the share of net loss not recognized during the period the equity method was suspended.

The subsidiaries and VIE did not pay any dividends to the Company for the years presented.

THE COMPANIES ACT (AS REVISED)

OF THE CAYMAN ISLANDS

COMPANY LIMITED BY SHARES

SIXTH AMENDED AND RESTATED
MEMORANDUM AND ARTICLES

OF

ASSOCIATION

OF

LUCKIN COFFEE INC.

瑞幸咖啡有限公司

(Adopted pursuant to a special resolution passed on December 11, 2021)

(with effect from December 11, 2021)

THE COMPANIES ACT (AS REVISED)
OF THE CAYMAN ISLANDS
COMPANY LIMITED BY SHARES

SIXTH AMENDED AND RESTATED

MEMORANDUM OF ASSOCIATION

OF

LUCKIN COFFEE INC.

瑞幸咖啡有限公司

(Adopted pursuant to a special resolution passed on December 11, 2021)
(with effect from December 11, 2021)

1. The name of the Company is Luckin Coffee Inc. and its dual foreign name is 瑞幸咖啡有限公司.
 2. The registered office of the Company shall be at the offices of Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, or at such other place as the Directors may determine.
 3. The objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act (as revised) or as the same may be revised from time to time, or any other law of the Cayman Islands.
 4. The liability of each Member is limited to the amount from time to time unpaid on such Member's Shares.
 5. The authorized share capital of the Company is US\$50,000 divided into 25,000,000,000 ordinary shares of par value of US\$0.000002 each, comprising (a) 20,000,000,000 Class A Ordinary Shares of par value of US\$0.000002 each and (b) 5,000,000,000 Class B Ordinary Shares of par value of US\$0.000002 each. Subject to the Statute and these Articles, the Company shall have power to redeem or purchase any of its Shares and to increase or reduce its authorized share capital and to sub-divide or consolidate the said Shares or any of them and to issue all or any part of its capital whether original, redeemed, increased or reduced with or without any preference, priority, special
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privilege or other rights or subject to any postponement of rights or to any conditions or restrictions whatsoever and so that unless the conditions of issue shall otherwise expressly provide every issue of shares whether stated to be ordinary, preference or otherwise shall be subject to the powers on the part of the Company hereinbefore provided.

6. The Company has power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.
 7. Capitalized terms that are not defined in this Memorandum of Association bear the same meaning as those given in the Articles of Association of the Company.
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THE COMPANIES ACT (AS REVISED)

OF THE CAYMAN ISLANDS

COMPANY LIMITED BY SHARES

SIXTH AMENDED AND RESTATED

ARTICLES OF ASSOCIATION

OF

LUCKIN COFFEE INC.

瑞幸咖啡有限公司

(Adopted pursuant to a special resolution passed on December 11, 2021)

(with effect from December 11, 2021)

TABLE OF CONTENTS

	<u>PAGE</u>
INTERPRETATION	1
SHARE CAPITAL	6
SHARES	7
FRACTIONAL SHARES	9
REGISTER OF MEMBERS	9
CLOSING REGISTER OF MEMBERS OR FIXING RECORD DATE	9
SHARE CERTIFICATES	10
REDEMPTION	11
TREASURY SHARES	11
NON RECOGNITION OF TRUSTS	11
LIEN ON SHARES	12
CALLS ON SHARES	12
FORFEITURE OF SHARES	13
TRANSFER OF SHARES	14
TRANSMISSION OF SHARES	16
UNTRACEABLE MEMBERS	17
AMENDMENTS OF MEMORANDUM AND ARTICLES OF ASSOCIATION AND ALTERATION OF CAPITAL	18
SHARE RIGHTS	19
VARIATION OF RIGHTS OF SHARES	21
REGISTERED OFFICE	22
GENERAL MEETINGS	22
NOTICE OF GENERAL MEETINGS	23
VOTES OF MEMBERS	25
PROXIES	25
CORPORATIONS ACTING BY REPRESENTATIVES	26
SHARES THAT MAY NOT BE VOTED	27
EPOSITARY AND CLEARING HOUSES	27
DIRECTORS	27
POWERS AND DUTIES OF DIRECTORS	28
BORROWING POWERS OF DIRECTORS	30
DISQUALIFICATION OF DIRECTORS	30
MEETINGS OF THE BOARD OF DIRECTORS	30
PRESUMPTION OF ASSENT	31
DIRECTORS' INTERESTS	32
MINUTES	33
ALTERNATE DIRECTORS	34
AUDIT COMMITTEE	34
NO MINIMUM SHAREHOLDING	34
SEAL	34
DIVIDENDS, DISTRIBUTIONS AND RESERVE	35
CAPITALIZATION	36

BOOKS OF ACCOUNT	37
AUDIT	38
SHARE PREMIUM ACCOUNT	38
NOTICES	39
INFORMATION	40
WINDING UP	40
INDEMNITY	41
FISCAL YEAR	42
DISCLOSURE	42
TRANSFER BY WAY OF CONTINUATION	42
MERGERS AND CONSOLIDATIONS	42

INTERPRETATION

1. In these Articles Table A in the First Schedule to the Statute does not apply and, unless there is something in the subject or context inconsistent therewith:

“ADS”	means an American Depositary Share representing the Company’s Class A Ordinary Shares;
“Affiliate”	means, with respect to any specified Person, any other Person who directly or indirectly Controls, is Controlled by, or is under common Control with such specified Person, provided. With respect to any Person who is a natural Person, such Person’s Affiliates shall also include his or her Immediate Family Members and their respective Affiliates;
“Articles”	means these articles of association of the Company, as amended and altered from time to time by Special Resolutions;
“Associate”	has the meaning set forth in Rule 13d-2 under the Exchange Act;
“Audit Committee”	means the audit committee of the Company formed by the Board pursuant to Article 138 hereof, or any successor audit committee.
“Auditor”	means the person for the time being performing the duties of auditor of the Company (if any);
“Board” and “Board of Directors”	means the board of directors of the Company;
“Business Day”	means any day other than a Saturday, Sunday or other day on which commercial banking institutions in Hong Kong, New York, Singapore, the Cayman Islands or the PRC are authorized or required by Law or executive order to close;
“Chairman”	means the chairman of the Board of Directors;
“Class” or “Classes”	means any class or classes of Shares as may from time to time be issued by the Company;
“Class A Ordinary Share”	a class A ordinary share of par value US\$0.000002 each in the share capital of the Company having the rights set out in these Articles;
“Class B Ordinary Share”	a class B ordinary share of par value US\$0.000002 each in the share capital of the Company having the rights set out in these Articles;

“Commission”	means the Securities and Exchange Commission of the United States of America or any other federal agency for the time being administering the Securities Act;
“Company”	means Luckin Coffee Inc., a Cayman Islands exempted company;
“Company’s Website”	means the main corporate/investor relations website of the Company, the address or domain name of which has been disclosed in any registration statement filed by the Company in connection or which has otherwise been notified to Members;
“Control”	means, as used with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; the terms “Controlled by” and “under common Control with” shall have correlative meanings;
“Designated Stock Exchange”	means the stock exchange in the United States on which any Shares or ADSs are listed for trading;
“Designated Stock Exchange Rules”	means the relevant code, rules and regulations, as amended, from time to time, applicable as a result of the original and continued listing of any Shares or ADSs on the Designated Stock Exchange;
“Directors”	means the directors for the time being of the Company;
“Electronic Transactions Act”	means the Electronic Transactions Act (as revised) of the Cayman Islands and any statutory amendment or re-enactment thereof;
“Exchange Act”	means the United States Securities Exchange Act of 1934, as amended from time to time;
“Government Authority”	means any nation or government or any province or state or any other political subdivision thereof, or any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission or instrumentality or any political subdivision thereof, any court, tribunal or arbitrator, and any self-regulatory organization or national or international stock exchange on which the securities of the applicable Party or its Affiliates are listed;

“Immediate Family Members”	means, with respect to any natural Person, (a) such Person’s spouse, parents, parents-in-law, grandparents, children, grandchildren, siblings and siblings-in-law (in each case whether adoptive or biological), (b) spouses of such Person’s children, grandchildren and siblings (in each case whether adoptive or biological), and (c) estates, trusts, partnerships and other Persons which directly or indirectly through one or more intermediaries are Controlled by the foregoing;
“Law”	means any federal, state, territorial, foreign or local law, common law, statute, ordinance, rule, regulation, code, measure, notice, circular, opinion or order of any Government Authority, including any rules promulgated by a stock exchange or regulatory body;
“Lien”	means any encumbrance, right, interest or restriction, including any mortgage, judgment lien, materialman’s lien, mechanic’s lien, other lien (statutory or otherwise), charge, security interest, pledge, hypothecation, encroachment, easement, title defect, title retention agreement, voting trust agreement, right of pre-emption, right of first refusal, claim, option, limitation, forfeiture, penalty, equity, adverse interest or other third party right or security interest of any kind or an agreement, arrangement or obligation to create any of the foregoing;
“Member”	has the same meaning as in the Statute;
“Memorandum”	means the memorandum of association of the Company or as amended and altered from time to time by Special Resolutions;
“Ordinary Resolution”	means a resolution passed by a simple majority of the votes cast by the Members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting, and includes a unanimous written resolution. In computing the majority when a poll is demanded regard shall be had to the number of votes to which each Member is entitled by these Articles;
“Ordinary Shares”	means the Class A Ordinary Shares and the Class B Ordinary Shares, collectively;
“Person”	means any individual or any partnership, firm, corporation, limited liability company, association, trust, unincorporated organization or other entity;

“PRC”	means the People’s Republic of China, excluding, for purposes of these Articles, Hong Kong, Macau and Taiwan);
“Register of Members”	means the register maintained in accordance with the Statute and includes (except where otherwise stated) any duplicate Register of Members;
“Registered Office”	means the registered office for the time being of the Company;
“Restricted Person”	means (i) any former director, officer or member of management of the Company or any of its subsidiaries with respect to whom the Special Committee recommended resignation or removal from the Board in connection with such person’s conduct during the time when such person served on the Board or termination of employment, or whose employment was terminated by the Board, or any such person’s respective Affiliates or Associates or any legal Person controlled by such Person; and (ii) any other Person (or any Affiliate or Associate thereof) with whom any Person under the foregoing clause (i) (or any Affiliate or Associate thereof) has any agreement, arrangement or understanding, whether or not in writing, with respect to, or with whom such Person is otherwise cooperating or collaborating with, for the purpose of (a) acquiring, holding, sharing, voting or disposing of securities of the Company or any financial interest in or deriving from the value of the securities of the Company, or (b) changing or influencing the control of the Company or in connection with or as a participant in any transaction having that purpose or effect;
“Seal”	means the common seal of the Company and includes every duplicate seal;
“Securities Act”	means the Securities Act of 1933 of the United States of America, as amended, or any similar federal statute and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time;
“Secretary”	means any person, firm or corporation appointed by the Board to perform any of the duties of secretary of the Company and includes any assistant, deputy, temporary or acting secretary;
“Share” and “Shares”	means a share in the capital of the Company, and includes an Ordinary Share. All references to “Shares” herein shall be deemed to be Shares of any or all Classes as the context may require. For the avoidance of doubt,

in these Articles the expression “Share” shall include a fraction of a Share;

“Share Premium Account”

means the share premium account established in accordance with these Articles and the Statute;

“Special Committee”

means the special committee created by the Board on March 19, 2020 to oversee an internal investigation into certain issues brought to the Board’s attention during the audit of the consolidated financial statements for the fiscal year ended December 31, 2019;

“Special Resolution”

has the same meaning as in the Statute, and includes a unanimous written resolution;

“Statute”

means the Companies Act (as revised) of the Cayman Islands, as amended;

“transfer”

means, in relation to any Shares, to sell, assign, transfer or otherwise dispose of or grant any option over such Shares, and shall include (a) any direct or indirect sale, assignment or transfer in relation to the equity interests of any Member which has the effect of transferring an indirect interest in any Shares, and (b) an event, transaction or circumstance where a Person that holds the controlling equity interests in an entity which is in liquidation or similar winding-up proceedings (a “**Liquidating Subsidiary**”) is or becomes a beneficial owner of the Company’s Shares or acquires the power to vote such Shares through that Liquidating Subsidiary as a result of a stay or termination of the liquidation winding-up or similar insolvency proceedings of that Liquidating Subsidiary (the “**Liquidation Termination Event**”) or an amendment or change to the power and authority the liquidator or similar officer appointed in respect of the Liquidating Subsidiary (the “**Liquidation Amendment Event**”), which causes all or part of the voting, disposition or other rights previously granted to the liquidator or similar officer appointed in respect of the Liquidating Subsidiary to revert to that Person upon the Liquidation Termination Event or the Liquidation Amendment Event;

“US\$”

means the lawful money of the United States of America; and

“United States”

means the United States of America, its territories, its possessions and all areas subject to its jurisdiction.

2. In these Articles:

- 2.1 words importing the singular number include the plural number and vice versa;
- 2.2 words importing the masculine gender include the feminine gender;
- 2.3 words importing persons include corporations;
- 2.4 references to provisions of any law or regulation shall be construed as references to those provisions as amended, modified, re-enacted or replaced from time to time;
- 2.5 the word “including” or any variation thereof means (unless the context of its usage otherwise requires) “including, without limitation” and shall not be construed to limit any general statement that it follows to the specific or similar items or matters immediately following it;
- 2.6 when calculating the period of time before which, within which or following which any act is to be done or step taken pursuant to these Articles, the date that is the reference date in calculating such period shall be excluded;
- 2.7 “fully-diluted” or any variation thereof means all of the issued and outstanding Shares, treating the maximum number of Shares issuable under any issued and outstanding Convertible Securities and all Shares reserved for issuance under the ESOP as issued and outstanding;
- 2.8 references to “in the ordinary course of business” and comparable expressions mean the ordinary and usual course of business of the relevant party, consistent in all material respects (including nature and scope) with the prior practice of such party;
- 2.9 references to “writing,” “written” and comparable expressions include any mode of reproducing words in a legible and nontransitory form including emails and faxes, provided the sender complies with the provision of Article 164;
- 2.10 if any payment hereunder would have been, but for this Article, due and payable on a date that is not a Business Day, then such payment shall instead be due and payable on the first Business Day after such date;
- 2.11 headings are inserted for reference only and shall be ignored in construing these Articles; and
- 2.12 Sections 8 and 19(3) of the Electronic Transactions Act shall not apply.

SHARE CAPITAL

1. The authorized share capital of the Company at the date on which these Articles come into effect shall be US\$50,000 divided into 25,000,000,000 ordinary shares of par value of US\$0.000002 each, comprising (a) 20,000,000,000 Class A Ordinary Shares of par value of US\$0.000002 each and (b) 5,000,000,000 Class B Ordinary Shares of par value of US\$0.000002 each.

2. Subject to the Statute, the Memorandum and these Articles and, where applicable, Designated Stock Exchange Rules and/or the rules of any competent regulatory authority, any power of the Company to purchase or otherwise acquire its own shares shall be exercisable by the Board in such manner, upon such terms and subject to such conditions as it thinks fit.

SHARES

3. Subject to the Law, these Articles and, where applicable, the Designated Stock Exchange Rules (and to any direction that may be given by the Company in general meeting) and without prejudice to any rights attached to any existing Shares, the Directors may in their absolute discretion and without the approval of the Members, cause the Company to:
- (a) allot, issue, grant options over or otherwise dispose of Shares (including fractions of a Share) with or without preferred, deferred or other rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise and to such persons, to Such Persons, at such times and on such other terms as they think proper;
 - (b) grant rights over Shares or other securities to be issued in one or more classes or series as they deem necessary or appropriate and determine the designations, powers, preferences, privileges and other rights attaching to such Shares or securities, including dividend rights, voting rights, conversion rights, terms of redemption and liquidation preferences, any or all of which may be greater than the powers, preferences, privileges and rights associated with the then issued and outstanding Shares, at such times and on such other terms as they think proper; and
 - (c) issue options, warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for, purchase or receive any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.
4. The Directors may authorise the division of Shares into any number of Classes and the different Classes shall be authorized, established and designated (or re-designated as the case may be) and the variations in the relative rights (including, without limitation, voting, dividend and redemption rights), restrictions, preferences, privileges and payment obligations as between the different Classes (if any) may be fixed and determined by the Directors or by a Special Resolution. The Directors may issue from time to time, out of the authorized share capital of the Company, preferred shares with such preferred or other rights, all or any of which may be greater than the rights of Ordinary Shares, at such time and on such terms as they may think appropriate in their absolute discretion and without approval of the Members; provided, however, before any preferred shares of any such series are issued, the Directors may by resolution of Directors determine, with respect to any series of preferred shares, the terms and rights of that series, including:
- (a) the designation of such series, the number of preferred shares to constitute such series and the subscription price thereof if different from the par value thereof;

- (b) whether the preferred shares of such series shall have voting rights, in addition to any voting rights provided by law, and, if so, the terms of such voting rights, which may be general or limited;
- (c) the dividends, if any, payable on such series, whether any such dividends shall be cumulative, and, if so, from what dates, the conditions and dates upon which such dividends shall be payable, and the preference or relation which such dividends shall bear to the dividends payable on any shares of any other class or any other series of shares;
- (d) whether the preferred shares of such series shall be subject to redemption by the Company, and, if so, the times, prices and other conditions of such redemption;
- (e) whether the preferred shares of such series shall have any rights to receive any part of the assets available for distribution amongst the Members upon the liquidation of the Company, and, if so, the terms of such liquidation preference, and the relation which such liquidation preference shall bear to the entitlements of the holders of shares of any other class or any other series of shares;
- (f) whether the preferred shares of such series shall be subject to the operation of a retirement or sinking fund and, if so, the extent to and manner in which any such retirement or sinking fund shall be applied to the purchase or redemption of the preferred shares of such series for retirement or other corporate purposes and the terms and provisions relative to the operation thereof;
- (g) whether the preferred shares of such series shall be convertible into, or exchangeable for, shares of any other class or any other series of preferred shares or any other securities and, if so, the price or prices or the rate or rates of conversion or exchange and the method, if any, of adjusting the same, and any other terms and conditions of conversion or exchange;
- (h) the limitations and restrictions, if any, to be effective while any preferred shares of such series are outstanding upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption or other acquisition by the Company of, the existing shares or shares of any other class of shares or any other series of preferred shares;
- (i) the conditions or restrictions, if any, upon the creation of indebtedness of the Company or upon the issue of any additional shares, including additional shares of such series or of any other class of shares or any other series of preferred shares; and
- (j) any other powers, preferences and relative, participating, optional and other special rights, and any qualifications, limitations and restrictions thereof;

and, for such purposes, the Directors may reserve an appropriate number of Shares for the time being unissued.

5. Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to Members or others with registered addresses in

any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever. Except as otherwise expressly provided in the resolution or resolutions providing for the establishment of any class or series of preferred shares, no vote of the holders of preferred shares of or ordinary shares shall be a prerequisite to the issuance of any shares of any class or series of the preferred shares authorized by and complying with the conditions of the Memorandum and these Articles.

6. The Company shall not issue Shares to bearer.
7. The Company may in connection with the issue of any shares exercise all powers of paying commissions and brokerage conferred or permitted by the Law. Such commissions and brokerage may be satisfied by the payment of cash or the lodgement of fully or partly paid-up Shares or partly in one way and partly in the other.
8. The Directors may refuse to accept any application for Shares, and may accept any application in whole or in part, for any reason or for no reason.

FRACTIONAL SHARES

9. The Directors may issue fractions of a Share and, if so issued, a fraction of a Share shall be subject to and carry the corresponding fraction of liabilities (whether with respect to nominal or par value, premium, contributions, calls or otherwise), limitations, preferences, privileges, qualifications, restrictions, rights (including, without prejudice to the generality of the foregoing, voting and participation rights) and other attributes of a whole Share. If more than one fraction of a Share of the same Class is issued to or acquired by the same Member such fractions shall be accumulated.

REGISTER OF MEMBERS

10. The Company shall maintain or cause to be maintained the Register of Members in accordance with the Statute.

CLOSING REGISTER OF MEMBERS OR FIXING RECORD DATE

11. For the purpose of determining Members entitled to notice of, or to vote at any meeting of Members or any adjournment thereof, or Members entitled to receive payment of any dividend, or in order to make a determination of Members for any other purpose, the Directors may provide that the Register of Members shall be closed for transfers for a stated period which shall not in any case exceed forty (40) calendar days. If the Register of Members shall be closed for the purpose of determining Members entitled to notice of, or to vote at, a meeting of Members, the Register of Members shall be closed for at least ten (10) calendar days immediately preceding the meeting and the record date for such determination shall be the date of closure of the Register of Members.
12. In lieu of, or apart from, closing the Register of Members, the Directors may fix in advance or arrears a date as the record date for any such determination of Members entitled to notice of, or to vote at any meeting of the Members or any adjournment

thereof, or for the purpose of determining the Members entitled to receive payment of any dividend or in order to make a determination of Members for any other purpose.

13. If the Register of Members is not so closed and no record date is fixed for the determination of Members entitled to notice of, or to vote at, a meeting of Members or Members entitled to receive payment of a dividend, the date on which notice of the meeting is sent or the date on which the resolution of the Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of Members. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this Article, such determination shall apply to any adjournment thereof.

SHARE CERTIFICATES

14. A Member shall only be entitled to a share certificate if the Directors resolve that share certificates shall be issued. Share certificates representing Shares, if any, shall be in such form as the Directors may determine. Share certificates shall be signed by one or more Directors or other person authorized by the Directors. The Directors may authorize certificates to be issued with the authorized signature(s) affixed by mechanical process. All certificates for Shares shall be consecutively numbered or otherwise identified and shall specify the Shares to which they relate. All certificates surrendered to the Company for transfer shall be cancelled and, subject to these Articles, no new certificate shall be issued until the former certificate representing a like number of relevant Shares shall have been surrendered and cancelled.
15. No certificate shall be issued representing shares of more than one class.
16. The Company shall not be bound to issue more than one certificate for Shares held jointly by more than one person and delivery of a certificate to one joint holder shall be a sufficient delivery to all of them. In the event that Shares are held jointly by several persons, any request may be made by any one of the joint holders and if so made shall be binding on all of the joint holders.
17. Every share certificate of the Company shall bear legends required under the applicable laws, including the Securities Act.
18. Share certificates shall be issued within the relevant time limit as prescribed by the Law or as the Designated Stock Exchange may from time to time determine, whichever is the shorter, after allotment or, except in the case of a transfer which the Company is for the time being entitled to refuse to register and does not register, after lodgment of a transfer with the Company.
19. (1) Upon every transfer of shares the certificate held by the transferor shall be given up to be cancelled, and shall forthwith be cancelled accordingly, and a new certificate shall be issued to the transferee in respect of the shares transferred to him at such fee as is provided in paragraph (2) of this Article. If any of the shares included in the certificate so given up shall be retained by the transferor a new certificate for the balance shall be issued to him at the aforesaid fee payable by the transferor to the Company in respect thereof.

(2) The fee referred to in paragraph (1) above shall be an amount not exceeding the relevant maximum amount as the Designated Stock Exchange may from time to time determine provided that the Board may at any time determine a lower amount for such fee.

20. If a share certificate shall be damaged or defaced or alleged to have been lost, stolen or destroyed, a new certificate representing the same Shares may be issued to the relevant Member upon request, subject to delivery up of the old certificate or (if alleged to have been lost, stolen or destroyed) compliance with such conditions as to evidence and indemnity and the payment of out-of-pocket expenses of the Company in connection with the request as the Directors may think fit.

REDEMPTION

21. Subject to the provisions of the Statute and these Articles, the Company may:
- (a) issue Shares that are to be redeemed or are liable to be redeemed at the option of the Member or the Company. The redemption of Shares shall be effected in such manner and upon such terms as may be determined, before the issue of such Shares, by the Board;
 - (b) purchase its own Shares (including any redeemable Shares) in such manner and upon such terms as have been approved by the Board, or are otherwise authorized by these Articles; and
 - (c) make a payment in respect of the redemption or purchase of its own Shares in any manner permitted by the Statute, including out of capital.
22. The purchase of any Share shall not oblige the Company to purchase any other Share other than as may be required pursuant to applicable law and any other contractual obligations of the Company.
23. The holder of the Shares being purchased shall be bound to deliver up to the Company the certificate(s) (if any) thereof for cancellation and thereupon the Company shall pay to him the purchase or redemption monies or consideration in respect thereof.
24. The Directors may accept the surrender for no consideration of any fully paid Share.

TREASURY SHARES

25. The Directors may, prior to the purchase, redemption or surrender of any Share, determine that such Share shall be held as a Treasury Share. The Directors may determine to cancel a Treasury Share or transfer a Treasury Share on such terms as they think proper (including, without limitation, for nil consideration).

NON RECOGNITION OF TRUSTS

26. The Company shall not be bound by or compelled to recognize in any way (even when notified) any equitable, contingent, future or partial interest in any Share, or (except only as is otherwise provided by these Articles or the Statute) any other rights in respect of any Share other than an absolute right to the entirety thereof in the registered holder.

LIEN ON SHARES

27. The Company shall have a first and paramount Lien on all Shares (whether fully paid-up or not) registered in the name of a Member (whether solely or jointly with others) for all debts, liabilities or engagements to or with the Company (whether presently payable or not) by such Member or his estate, either alone or jointly with any other person, whether a Member or not, but the Directors may at any time declare any Share to be wholly or in part exempt from the provisions of this Article. The registration of a transfer of any such Share shall operate as a waiver of the Company's Lien thereon. The Company's Lien on a Share shall also extend to any amount payable in respect of that Share.
28. The Company may sell, in such manner as the Directors think fit, any Shares on which the Company has a Lien, if a sum in respect of which the Lien exists is presently payable, and is not paid within fourteen (14) calendar days after notice has been given to the holder of the Shares, or to the person entitled to it in consequence of the death or bankruptcy of the holder, demanding payment and stating that if the notice is not complied with the Shares may be sold.
29. To give effect to any such sale, the Directors may authorize any Person to execute an instrument of transfer of the Shares sold to, or in accordance with the directions of, the purchaser. The purchaser or his nominee shall be registered as the holder of the Shares comprised in any such transfer, and he shall not be bound to see to the application of the purchase money, nor shall his title to the Shares be affected by any irregularity or invalidity in the sale or the exercise of the Company's power of sale under these Articles.
30. The net proceeds of such sale after deduction of expenses, fees and commission incurred by the Company shall be applied in payment of such part of the amount in respect of which the Lien exists as is presently payable and any residue shall (subject to a like Lien for sums not presently payable as existed upon the Shares before the sale) be paid to the person entitled to the Shares at the date of the sale.

CALLS ON SHARES

31. Subject to these Articles and the terms of the allotment and issue of any Shares, the Directors may from time to time make calls upon the Members in respect of any monies due and payable but unpaid on their Shares (whether in respect of par value or premium), and each Member shall (subject to receiving at least fourteen (14) calendar days' notice specifying the time or times of payment) pay to the Company at the time or times so specified the amount called on the Shares. A call may be revoked or postponed as the Directors may determine. A call may be required to be paid by installments. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the Shares in respect of which the call was made.
 32. A call shall be deemed to have been made at the time when the resolution of the Directors authorizing such call was passed.
 33. The joint holders of a Share shall be jointly and severally liable to pay all calls in respect thereof.
 34. If a call remains unpaid after it has become due and payable, the person from whom it is due shall pay interest on the amount unpaid from the day it became due and payable until
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it is paid at such rate as the Directors may determine, but the Directors may waive payment of the interest in whole or in part.

35. An amount payable in respect of a Share on allotment or at any fixed date, whether on account of the par value of the Share or premium or otherwise, shall be deemed to be a call and, if it is not paid, all the provisions of these Articles shall apply as if that amount had become due and payable by virtue of a call.
36. The Directors may issue Shares with different terms as to the amount and times of payment of calls, or the interest to be paid.
37. The Directors may, if they think fit, receive an amount from any Member willing to advance all or any part of the monies uncalled and unpaid upon any Shares held by him, and may (until the amount would otherwise become payable) pay interest at such rate as may be agreed upon between the Directors and the Member paying such amount in advance. No such amount paid in advance of calls shall entitle the Member paying such amount to any portion of a dividend declared in respect of any period prior to the date upon which such amount would, but for such payment, become payable.

FORFEITURE OF SHARES

38. If a call remains unpaid after it has become due and payable, the Directors may give to the person from whom it is due not less than fourteen (14) calendar days' notice requiring payment of the amount unpaid together with any interest, which may have accrued. The notice shall specify where payment is to be made and shall state that if the notice is not complied with, the Shares in respect of which the call was made will be liable to be forfeited.
 39. If the notice is not complied with, any Share in respect of which it was given may, before the payment required by the notice has been made, be forfeited by a resolution of the Directors. Such forfeiture shall include all dividends or other monies declared payable in respect of the forfeited Share and not paid before the forfeiture.
 40. A forfeited Share may be sold, re-allotted or otherwise disposed of on such terms and in such manner as the Directors think fit and at any time before a sale, re-allotment or disposition the forfeiture may be cancelled on such terms as the Directors think fit. Where for the purposes of its disposal a forfeited Share is to be transferred to any person, the Directors may authorize some person to execute an instrument of transfer of the Share in favor of that person.
 41. A person any of whose Shares have been forfeited shall cease to be a Member in respect of them and shall surrender to the Company for cancellation the certificate for the Shares forfeited and shall remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of those Shares together with interest, but his liability shall cease if and when the Company shall have received payment in full of all monies due and payable by him in respect of those Shares.
 42. A certificate in writing under the hand of one Director of the Company that a Share has been forfeited on a specified date shall be conclusive evidence of the fact as against all persons claiming to be entitled to the Share. The certificate shall (subject to the execution of an instrument of transfer) constitute a good title to the Share and the person to whom
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the Share is disposed of shall not be bound to see to the application of the purchase money, if any, nor shall his title to the Share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the Share.

43. The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a Share, becomes payable at a fixed time, whether on account of the par value of the Share or by way of premium as if it had been payable by virtue of a call duly made and notified.

TRANSFER OF SHARES

44. Subject to these Articles, any Member may transfer all or any of his shares by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in any other form approved by the Board and may be under hand or, if the transferor or transferee is a clearing house or a central depository house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.
45. The instrument of transfer of any Share shall be in writing and in any usual or common form or such other form as the Directors may, in their absolute discretion, approve and be executed by or on behalf of the transferor and if in respect of a nil or partly paid up Share, or if so required by the Directors, shall also be executed on behalf of the transferee and shall be accompanied by the certificate (if any) of the Shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. The transferor shall be deemed to remain a Member until the name of the transferee is entered in the Register of Members in respect of the relevant Shares.
46. The Directors may, in their absolute discretion, and without giving any reason therefor, refuse to register a transfer of any Share(s), including where a purported transfer has been attempted in breach of these Articles.
47. The Directors may in their absolute discretion decline to register any transfer of Shares which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any purported transfer of any Share unless:
- (a) the instrument of transfer is lodged with the Company, accompanied by the certificate for the Shares to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
 - (b) the instrument of transfer is in respect of only one Class of Shares;
 - (c) the instrument of transfer is properly stamped, if required;
 - (d) in the case of a transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four; and
 - (e) a fee of such maximum sum as the Designated Stock Exchange may determine to be payable, or such lesser sum as the Board of Directors may from time to time require, is paid to the Company in respect thereof.

48. The registration of transfers may, after compliance with any notice required by the Designated Stock Exchange Rules, be suspended and the Register of Members closed at such times and for such periods as the Directors may, in their absolute discretion, from time to time determine, provided always that such registration of transfer shall not be suspended nor the Register of Members closed for more than thirty (30) calendar days in any calendar year.
49. All instruments of transfer that are registered shall be retained by the Company. If the Directors refuse to register a transfer of any Shares, they shall within two calendar months after the date on which the instrument of transfer was lodged with the Company send notice of the refusal to each of the transferor and the transferee.
50. (a) Notwithstanding any other provision of these Articles, no Member may, without the Company's prior written consent, transfer, or agree to transfer, any of such Member's Share(s) to a Restricted Person. The Company may refuse to provide such consent without giving any reasons whatsoever and may in its sole discretion refuse to enable conversion of Shares to ADSs by or for the benefit of a Restricted Person.
- (b) Notwithstanding any other provision of these Articles, no Restricted Person may, without the Company's prior written consent, transfer, or agree to transfer, any Share(s). The Company may refuse to provide such consent without giving any reasons whatsoever and may in its sole discretion refuse to enable conversion of Shares to ADSs by or for the benefit of a Restricted Person.
51. (a) If a Member purports to transfer or agrees to transfer any Share(s) directly or indirectly to a Restricted Person without the prior written consent of the Company (any such Share(s), "**Article 51(a) Restricted Shares**"), then the Directors may serve a notice on the Member in whose name the Article 51(a) Restricted Shares are registered stating that such Member shall not, in relation to the Article 51(a) Restricted Shares, be entitled to be present or to vote in person or by proxy at any general meeting of the Company or any meeting of the holders of Shares of the relevant class, or to vote on a written resolution of the Members. The Directors may reinstate these rights at any time.
- (b) If a Restricted Person becomes the legal or beneficial owner of any Share or Shares either directly or indirectly in any way whatsoever after the date on which this Article is adopted including pursuant to a direct or indirect transfer (any such Share(s), "**Article 51(b) Restricted Shares**"), then the Directors may serve a notice on the Member in whose name the Article 51(b) Restricted Shares are registered stating that such Member shall not, in relation to the Article 51(b) Restricted Shares, be entitled to be present or to vote in person or by proxy at any general meeting of the Company or any meeting of the holders of Shares of the relevant class, or to vote on a written resolution of the Members. The Directors may reinstate these rights at any time.
52. To enable the Directors to determine whether or not there has been a purported transfer of Share(s) or agreement to transfer Share(s) in the Company in breach of these Articles or whether or not a Restricted Person has, or has sought to, become the legal or beneficial owner of any Share or Shares either directly or indirectly in any way, the Directors may, from time to time, require any Member to provide the Company with such information and evidence as they may reasonably require relevant to that purpose. If a Member fails to provide information or evidence in respect of any Shares registered or sought to be registered in its name to the reasonable satisfaction of the Directors within seven (7)

calendar days after request has been given to such Member, the Company may: (a) serve a notice on such Member stating that such Member shall not, in relation to all Shares held or purported to be held or beneficially owned by such Member, be entitled to be present or to vote in person or by proxy at any general meeting of the Company or any meeting of the holders of Shares of the relevant class, or to vote on a written resolution of the Members; and/or (b) by written notice to such Member, deem such Shares to be owned legally or beneficially by a Restricted Person for all purposes under these Articles. The Directors may reinstate these rights at any time.

53. For purposes of Articles 46, 50, 51 and 52, a Person shall be deemed the “beneficial owner” of any securities as to which such Person or any of such Person’s Affiliates or Associates is or may be deemed to be the beneficial owner pursuant to Rule 13d-3 and 13d-5 under the Exchange Act, and the status of Person as a Restricted Person shall be determined by the Board in its absolute discretion.

TRANSMISSION OF SHARES

54. If a Member dies, the survivor or survivors where he was a joint holder, and his legal personal representatives where he was a sole holder, shall be the only persons recognized by the Company as having any title to his interest. The estate of a deceased Member is not thereby released from any liability in respect of any Share, which had been jointly held by him. Any person becoming entitled to a Share in consequence of the death or bankruptcy or liquidation or dissolution of a Member (or in any other way than by transfer) may, upon such evidence being produced as may from time to time be required by the Directors, elect either to become the holder of the Share or to have some person nominated by him as the transferee. If he elects to become the holder, he shall give notice to the Company to that effect, but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the Share by that Member before the death or bankruptcy or liquidation or dissolution of that Member, as the case may be.
55. If the person so becoming entitled shall elect to be registered himself as holder, he shall deliver or send to the Company a notice in writing signed by him stating that he so elects.
56. A person becoming entitled to a Share by reason of the death or bankruptcy or liquidation or dissolution of a Member (or in any other case than by transfer) shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the Share. However, he shall not, before being registered as a Member in respect of the Share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the Company and the Directors may at any time give notice requiring any such person to elect either to be registered himself or to have some other person nominated by him become the holder of the Share (but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the Share by the relevant Member before the death or bankruptcy or liquidation or dissolution of such Member or in any other case than by transfer, as the case may be). If the notice is not complied with within ninety (90) calendar days, the Directors may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the Share until the requirements of the notice have been complied with.

UNTRACEABLE MEMBERS

- 56A. (1) Without prejudice to the rights of the Company under paragraph (2) of this Article 56A, the Company may cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered.
- (2) The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a Member who is untraceable, but no such sale shall be made unless:
- (a) all cheques or warrants in respect of dividends of the shares in question, being not less than three in total number, for any sum payable in cash to the holder of such shares sent during the relevant period in the manner authorised by these Articles have remained uncashed;
 - (b) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the Member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and
 - (c) the Company, if so required by the rules governing the listing of shares on the Designated Stock Exchange, has given notice to, and caused advertisement in newspapers to be made in accordance with the requirements of the Designated Stock Exchange of its intention to sell such shares in the manner required by the Designated Stock Exchange, and a period of three months or such shorter period as may be allowed by the Designated Stock Exchange has elapsed since the date of such advertisement.

For the purpose of the foregoing, the “relevant period” means the period commencing twelve (12) years before the date of publication of the advertisement referred to in paragraph (c) of this Article and ending at the expiry of the period referred to in that paragraph.

- (3) To give effect to any such sale the Board may authorise some person to transfer the said shares and an instrument of transfer signed or otherwise executed by or on behalf of such person shall be as effective as if it had been executed by the registered holder or the person entitled by transmission to such shares, and the purchaser shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale. The net proceeds of the sale will belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former Member for an amount equal to such net proceeds. No trust shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any sale under this Article 56(A) shall be valid and effective notwithstanding that the Member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

AMENDMENTS OF MEMORANDUM AND ARTICLES OF ASSOCIATION AND ALTERATION OF CAPITAL

57. (1) Subject to the provisions of the Statute and the provisions of these Articles, the Company may from time to time by Ordinary Resolution:
- (a) increase the share capital by such sum, to be divided into Shares of such Classes and amount, as the resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine;
 - (b) consolidate and divide all or any of its share capital into Shares of larger amount than its existing Shares;
 - (c) without prejudice to the powers of the Directors under Article 4, divide its Shares into several classes and without prejudice to any special rights previously conferred on the holders of existing Shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by the Company in general meeting, as the Directors may determine provided always that, for the avoidance of doubt, where a Class of Shares has been authorized by the Company, no resolution of the Company in general meeting is required for the issuance of Shares of that Class and the Directors may issue Shares of that Class and determine such rights, privileges, conditions or restrictions attaching thereto as aforesaid, and further provided that where the Company issues shares which do not carry voting rights, the words "non-voting" shall appear in the designation of such Shares and where the equity capital includes shares with different voting rights, the designation of each Class of Shares, other than those with the most favourable voting rights, must include the words "restricted voting" or "limited voting";
 - (d) subdivide its Shares, or any of them, into Shares of smaller amount than is fixed by the Memorandum or into Shares without par value (subject, nevertheless, to the Law), and may by such resolution determine that, as between the holders of the Shares resulting from such subdivision, one or more of the Shares may have any such preferred, deferred or other rights or be subject to any such restrictions as compared with the other or others as the Company has power to attach to unissued or new shares; and
 - (e) cancel any Shares that at the date of the passing of the resolution have not been taken or agreed to be taken by any Person and diminish the amount of its share capital by the amount of the Shares so cancelled or, in the case of shares, without par value, diminish the number of shares into which its capital is divided.
- (2) No alteration may be made of the kind contemplated by Article 57(1), or otherwise, to the par value of the Class A Ordinary Shares or the Class B Ordinary Shares unless an identical alteration is made to the par value of the Class B Ordinary Shares or the Class A Ordinary Shares, as the case may be.
58. All new Shares created in accordance with the provisions of the preceding Article shall be subject to the same provisions of the Articles with reference to the payment of calls, Liens, transfer, transmission, forfeiture and otherwise as the Shares in the original share

capital. The Board may settle as it considers expedient any difficulty which arises in relation to any consolidation and division under the preceding Article and in particular but without prejudice to the generality of the foregoing may issue certificates in respect of fractions of shares or arrange for the sale of the shares representing fractions and the distribution of the net proceeds of sale (after deduction of the expenses of such sale) in due proportion amongst the Members who would have been entitled to the fractions, and for this purpose the Board may authorise some person to transfer the shares representing fractions to their purchaser or resolve that such net proceeds be paid to the Company for the Company's benefit. Such purchaser will not be bound to see to the application of the purchase money nor will his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

59. Subject to the provisions of the Statute and the provisions of these Articles, the Company may from time to time by Special Resolution:

- (a) change its name;
- (b) alter, amend or add to these Articles;
- (c) alter or add to the Memorandum with respect to any objects, powers or other matters specified therein; and
- (d) reduce its share capital and any capital redemption reserve fund in any manner authorized by Law.

SHARE RIGHTS

60. Subject to the provisions of applicable Law, Designated Stock Exchange Rules, the Memorandum and these Articles and to any special rights conferred on the holders of any Shares or class of Shares, any share in the Company (whether forming part of the present capital or not) may be issued with or have attached thereto such rights or restrictions whether in regard to dividend, voting, return of capital or otherwise as the Board may determine, including without limitation on terms that they may be, or at the option of the Company or the holder are, liable to be redeemed on such terms and in such manner, including out of capital, as the Board may deem fit.

61. Subject to the provisions of applicable Law and these Articles, any preferred shares may be issued or converted into shares that, at a determinable date or at the option of the Company or the holder if so authorized by the Memorandum, are liable to be redeemed on such terms and in such manner as the Company before the issue or conversion may by Ordinary Resolution of the Members determine. Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price as may from time to time be determined by the Board, either generally or with regard to specific purchases. If purchases are by tender, tenders shall comply with applicable Law.

62. The rights and restrictions attaching to the Ordinary Shares are as follows:

- (a) Income.

Holders of Ordinary Shares shall be entitled to such dividends as the Directors may in their absolute discretion lawfully declare from time to time.

(b) Capital

Holders of Ordinary Shares shall be entitled to a return of capital on liquidation, dissolution or winding-up of the Company (other than on a conversion, redemption or purchase of shares, or an equity financing or series of financings that do not constitute the sale of all or substantially all of the shares of the Company).

(c) Attendance at General and Special Meetings and Voting

Holders of Ordinary Shares have the right to receive notice of, attend, speak and vote at general and special meetings of the Company. Holders of Class A Ordinary Shares and Class B Ordinary Shares shall, at all times, vote together as one class on all matters submitted to a vote by the Members. Each Class A Ordinary Share shall be entitled to one (1) vote on all matters subject to vote at general and special meetings of the Company and each Class B Ordinary Share shall be entitled to ten (10) votes on all matters subject to vote at general and special meetings of the Company.

(d) Conversion

- (i) Each Class B Ordinary Share is convertible into one (1) fully paid Class A Ordinary Share at any time by the holder thereof and without the payment of any additional sum. The right to convert shall be exercisable by the holder of the Class B Ordinary Share delivering a written notice to the Company that such holder elects to convert a specified number of Class B Ordinary Shares into Class A Ordinary Shares. In no event shall Class A Ordinary Shares be convertible into Class B Ordinary Shares. A conversion notice shall not be effective if it is not accompanied by the share certificate(s) in respect of the relevant Class B Ordinary Shares and such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising such right (or, if such certificates have been lost or destroyed, such evidence of title and such indemnity as the Directors may reasonably require).
- (ii) Upon any sale, transfer, assignment or disposition of Class B Ordinary Shares by a holder thereof to any person or entity which is not an Affiliate of such holder, or upon a change of beneficial ownership of any Class B Ordinary Shares as a result of which any Person who is not an Affiliate of the registered holders of such Ordinary Shares becomes a beneficial owner of such Ordinary Shares, such Class B Ordinary Share, shall be automatically and immediately converted into an equal number of Class A Ordinary Shares. For the avoidance of doubt, (i) a sale, transfer, assignment or disposition shall be effective upon the Company's registration of such sale, transfer, assignment or disposition in the Register of Members; (ii) the creation of any pledge, charge, encumbrance or other third party right of whatever description on any Class B Ordinary Shares to secure any contractual or legal obligations shall not be deemed as a sale, transfer, assignment or disposition unless and until any such pledge, charge, encumbrance or other third party right

is enforced and results in the third party who is not an Affiliate of the relevant Shareholder becoming a beneficial owner of the relevant Class B Ordinary Shares in which case all the related Class B Ordinary Shares shall be automatically and immediately converted into the same number of Class A Ordinary Shares, and (iii) the termination of directorship on the Board of Directors or employment as an executive officer with the Company of any holder of any Class B Ordinary Shares shall not trigger the automatic conversion contemplated under this Article 62(d).

- (iii) For purposes of this Article 62, “beneficial ownership” shall have the meaning defined in Rule 13d-3 under the U.S. Securities Exchange Act of 1934, as amended.
- (iv) Any conversion of Class B Ordinary Shares into Class A Ordinary Shares pursuant to this Article shall be effected by means of the re-designation and re-classification of the relevant Class B Ordinary Share as a Class A Ordinary Share together with such rights and restrictions and which shall rank pari passu in all respects with the Class A Ordinary Shares then in issue. Such conversion shall become effective forthwith upon entries being made in the Register of Members to record the re-designation and re-classification of the relevant Class B Ordinary Shares as Class A Ordinary Shares.
- (v) Upon conversion, the Company shall allot and issue the relevant Class A Ordinary Shares to the converting Member, enter or procure the entry of the name of the relevant holder of Class B Ordinary Shares as the holder of the relevant number of Class A Ordinary Shares resulting from the conversion of the Class B Ordinary Shares in, and make any other necessary and consequential changes to, the Register of Members and shall procure that certificates in respect of the relevant Class A Ordinary Shares, together with a new certificate for any unconverted Class B Ordinary Shares comprised in the certificate(s) surrendered by the holder of the Class B Ordinary Shares are issued to the holders of the Class A Ordinary Shares and Class B Ordinary Shares.
- (vi) Any and all taxes and stamp, issue and registration duties (if any) arising on conversion shall be borne by the holder of Class B Ordinary Shares requesting conversion.
- (vii) Save and except for voting rights and conversion rights as set out in this Article 62(c) and (d), Class A Ordinary Shares and Class B Ordinary Shares shall rank pari passu and shall have the same rights, preferences, privileges and restrictions.

VARIATION OF RIGHTS OF SHARES

63. Subject to the provisions of these Articles and without prejudice to Articles 60 and 61, if at any time the share capital of the Company is divided into different Classes, the rights attached to any class (unless otherwise provided by the terms of issue of the Shares of that class) may be varied, modified or abrogated with the consent in writing of the

holders of a majority of the issued Shares of that Class, or with the sanction of an Special Resolution passed at a general meeting of the holders of the Shares of that Class.

64. The provisions of these Articles relating to general meetings shall apply to every class meeting of the holders of one Class of Shares except that:
- (a) separate general meetings of the holders of a class or series of shares may be called only by (i) the Chairman of the Board, or (ii) a majority of the Board (unless otherwise specifically provided by the terms of issue of the shares of such class or series). Nothing in this Article 64 shall be deemed to give any Member or Members the right to call a class or series meeting; and
 - (b) the necessary quorum (whether at a separate general meeting or at its adjourned meeting) shall be one person (or in the case of a Member being a corporation, its duly authorized representative) holding or representing by proxy at least one third of the issued Shares of the Class.
65. Subject to the provisions of the Articles, the rights conferred upon the holders of the Shares of any Class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the Shares of that Class, be deemed to be varied by the creation or issue of further Shares ranking pari passu with or subsequent to the Shares of that Class or the redemption or purchase of any Shares of any Class by the Company, and the rights of the holders of Shares shall not be deemed to be varied by the creation or issue of Shares with preferred or other rights including, without limitation, the creation of Shares with enhanced or weighted voting rights.

REGISTERED OFFICE

66. Subject to the provisions of the Statute, the Company may by resolution of the Directors change the location of its Registered Office.

GENERAL MEETINGS

67. All general meetings other than annual general meetings shall be called extraordinary general meetings.
68. The Company may, but shall not (unless required by the Statute) be obliged to hold a general meeting in each calendar year as its annual general meeting and shall specify the meeting as such in the notices calling it. The annual general meeting shall be held at such time and place as the Directors shall appoint. At these meetings the report of the Directors (if any) shall be presented.
69. The Chairman or a majority of the Directors may call general meetings, and they shall on a Member's requisition forthwith proceed to convene an extraordinary general meeting of the Company.
70. A Members' requisition is a requisition of Members of the Company holding at the date of deposit of the requisition not less than ten percent (10%) of all votes attaching to all issued and outstanding Shares entitled to vote at general meetings of the Company.

71. The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the Registered Office, and may consist of several documents in like form each signed by one or more requisitionists.
72. If there are no Directors as at the date of the deposit of a Members' requisition, or if the Directors do not within twenty-one (21) calendar days from the date of the deposit of such requisition duly proceed to convene a general meeting to be held within a further twenty-one (21) calendar days, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a general meeting, but any meeting so convened shall not be held after the expiration of three calendar months after the expiration of the said twenty-one (21) calendar days.
73. A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

NOTICE OF GENERAL MEETINGS

74. At least fifteen (15) calendar days' notice shall be given of any general meeting. Every notice shall be exclusive of the day on which it is given or deemed to be given and of the day for which it is given and shall specify the place, the day and the hour of the meeting and the general nature of the business and shall be given in the manner hereinafter mentioned or in such other manner if any as may be prescribed by the Company, provided that a general meeting of the Company shall, whether or not the notice specified in this regulation has been given and whether or not the provisions of the Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed:
 - (a) in the case of an annual general meeting, by all the Members (or their proxies) entitled to attend and vote thereat; and
 - (b) in the case of an extraordinary general meeting, by a majority in number of the Members (or their proxies) having a right to attend and vote at the meeting, being a majority together holding not less than seventy-five percent (75%) in voting rights of the Shares giving that right.
 75. The accidental omission to give notice of a general meeting to, or the non-receipt of notice of a meeting by, any Person entitled to receive notice shall not invalidate the proceedings at any meeting.
 76. No business shall be transacted at any general meeting unless a quorum is present at the time when the meeting proceeds to business. The holders of Shares which carry a majority of all votes attaching to Shares in issue and entitled to vote at such general meeting, present in person or by proxy or, if a corporate or other non-natural person, by its duly authorised representative, shall constitute a quorum; unless the Company has only one Member entitled to vote at such general meeting in which case the quorum shall be that one Member present in person or by proxy or (in the case of a corporation or other non-natural person) by a duly authorized representative or proxy.
 77. A person may participate at a general meeting by telephone or other similar communications equipment by means of which all the persons participating in such
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meeting can communicate with each other. Participation by a person in a general meeting in this manner is treated as presence in person at that meeting.

78. Any action required or permitted to be taken at any annual or extraordinary general meetings of the Company may be taken only upon the vote of the Members at an annual or extraordinary general meeting duly noticed and convened in accordance with these Articles and the Law and may not be taken by written resolution of Members without a meeting.
79. If a quorum is not present within half an hour from the time appointed for the meeting or if during such a meeting a quorum ceases to be present, the meeting shall stand adjourned to the same day in the next week at the same time and place or to such other day, time or such other place as the Directors may determine, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the Members constituting a majority of the outstanding share capital of the Company (calculated on an as-converted basis) shall be a quorum and may transact the business for which the meeting was called, provided, that, such present Members shall only discuss and/or approve the matters as described in the meeting notice delivered in accordance with these Articles.
80. The chairman, if any, of the Board of Directors shall preside as chairman at every general meeting of the Company, or if there is no such chairman, or if he shall not be present within fifteen (15) minutes after the time appointed for the holding of the meeting, or is unwilling to act, the Directors present shall elect one of their number to be chairman of the meeting.
81. If no Director is willing to act as chairman or if no Director is present within fifteen (15) minutes after the time appointed for holding the meeting, the Members present shall choose one of their number to be chairman of the meeting.
82. The chairman may, with the consent of a meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a general meeting is adjourned for thirty calendar days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Otherwise it shall not be necessary to give any such notice.
83. A resolution put to the vote of the meeting shall be decided on the vote of the requisite majority pursuant to a poll of the Members. Unless otherwise required by the Statute or these Articles, such requisite majority shall be a simple majority of votes that are able to be cast.
84. The Directors may cancel or postpone any duly convened general meeting at any time prior to such meeting, except for general meetings requisitioned by the Members in accordance with these Articles, for any reason or for no reason, upon notice in writing to Members. A postponement may be for a stated period of any length or indefinitely as the Directors may determine. Notice of the business to be transacted at such postponed general meeting shall not be required. If a general meeting is postponed in accordance with this Article, the appointment of a proxy will be valid if it is received as required by

the Articles not less than 48 hours before the time appointed for holding the postponed meeting.

VOTES OF MEMBERS

85. Subject to any rights and restrictions for the time being attached to any Share, every Member present in person or by proxy (or, if a corporation or other non-natural person, by its duly authorized representative or proxy) shall, at a general or special meeting of the Company, have one (1) vote for each Class A Ordinary Share and ten (10) votes for each Class B Ordinary Share, in each case of which he is the holder.
86. In the case of joint holders of record the vote of the senior holder who tenders a vote, whether in person or by proxy (or, if a corporation or other non-natural person, by its duly authorized representative or proxy), shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names of the holders stand in the Register of Members.
87. Shares carrying the right to vote that are held by a Member of unsound mind, or in respect of whom an order has been made by any court, having jurisdiction in lunacy, may be voted by his committee, receiver, curator bonis, or other Person on such Member's behalf appointed by that court, and any such committee, receiver, curator bonis or other person may vote by proxy.
88. No Person shall be entitled to vote at any general meeting or at any separate meeting of the holders of a class of Shares unless he is registered as a Member on the record date for such meeting nor unless all calls or other monies then payable by him in respect of Shares have been paid.
89. No objection shall be raised to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at the meeting shall be valid. Any objection made in due time shall be referred to the chairman whose decision shall be final and conclusive.
90. Votes may be cast either personally or by proxy. A Member may appoint more than one proxy or the same proxy under one or more instruments to attend and vote at a meeting. All resolutions shall be determined by poll and not on a show of hands. An instrument appointing a proxy may be in any usual or common form or such other form as the Directors may approve.
91. A Member holding more than one Share need not cast the votes in respect of his Shares in the same way on any resolution and therefore may vote a Share or some or all such Shares either for or against a resolution and/or abstain from voting a Share or some or all of the Shares and, subject to the terms of the instrument appointing him, a proxy appointed under one or more instruments may vote a Share or some or all of the Shares in respect of which he is appointed either for or against a resolution and/or abstain from voting.

PROXIES

92. The instrument appointing a proxy shall be in writing, be executed under the hand of the appointor or of his attorney duly authorized in writing, or, if the appointor is a

corporation, under the hand of an officer or attorney duly authorized for that purpose. A proxy need not be a Member of the Company.

93. The instrument appointing a proxy shall be deposited at the Registered Office or at such other place as is specified for that purpose in the notice convening the meeting, or in any instrument of proxy sent out by the Company:
- (a) not less than forty-eight (48) hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote; or
 - (b) in the case of a poll taken more than forty-eight (48) hours after it is demanded, be deposited as aforesaid after the poll has been demanded and not less than twenty-four (24) hours before the time appointed for the taking of the poll; or
 - (c) where the poll is not taken forthwith but is taken not more than forty-eight (48) hours after it was demanded be delivered at the meeting at which the poll was demanded to the chairman or to the secretary or to any director;
- provided that the Directors may in the notice convening the meeting, or in an instrument of proxy sent out by the Company, direct that the instrument appointing a proxy may be deposited (no later than the time for holding the meeting or adjourned meeting) at the Registered Office or at such other place as is specified for that purpose in the notice convening the meeting, or in any instrument of proxy sent out by the Company. The chairman may in any event at his discretion direct that an instrument of proxy shall be deemed to have been duly deposited. An instrument of proxy that is not deposited in the manner permitted shall be invalid.
94. The instrument appointing a proxy may be in any usual or common form and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked. An instrument appointing a proxy shall be deemed to confer authority to demand or join or concur in demanding a poll.
95. Votes given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Share in respect of which the proxy is given unless notice in writing of such death, insanity, revocation or transfer was received by the Company at the Registered Office two hours before the commencement of the general meeting, or adjourned meeting at which it is sought to use the proxy.

CORPORATIONS ACTING BY REPRESENTATIVES

96. Any corporation or other non-natural person which is a Member or a Director may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body, authorize such person as it thinks fit to act as its representative at any meeting of the Company or of any meeting of holders of a Class or of the Directors or of a committee of Directors, and the person so authorized shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual Member or Director.

SHARES THAT MAY NOT BE VOTED

97. Shares in the Company that are beneficially owned by the Company shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding Shares at any given time.

DEPOSITARY AND CLEARING HOUSES

98. If a recognised clearing house (or its nominee(s)) or depositary (or its nominee(s)) is a Member of the Company it may, by resolution of its directors or other governing body or by power of attorney, authorise such Person(s) as it thinks fit to act as its representative(s) at any general meeting of the Company or of any Class of Members provided that, if more than one Person is so authorized, the authorization shall specify the number and Class of Shares in respect of which each such Person is so authorized. A Person so authorized pursuant to this Article shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) or depositary (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) or depositary (or its nominee(s)) could exercise if it were an individual Member holding the number and Class of Shares specified in such authorization.

DIRECTORS

99. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than three (3) Directors, and there shall be no maximum number of Directors.
100. The Board of Directors shall have a Chairman elected and appointed by a majority of the Directors then in office. The period for which the Chairman will hold office will also be determined by a majority of all of the Directors then in office. The Chairman shall preside as chairman at every meeting of the Board of Directors, save and except that if the Chairman is not present at a meeting of the Board of Directors within fifteen minutes after the time appointed for holding the same, or if the Chairman is unable or unwilling to act as the chairman of a meeting of the Board of Directors, the attending Directors may choose one of their number to be the chairman of the meeting.
101. The Company may by Ordinary Resolution appoint any person to be a Director.
102. The Board may, by the affirmative vote of a simple majority of the remaining Directors present and voting at a Board meeting, appoint any person as a Director, to fill a casual vacancy on the Board or as an addition to the existing Board.
103. A Director shall hold office until the expiration of his or her term or his or her successor shall have been elected and qualified, or until his or her office is otherwise vacated.
104. A Director shall not be required to hold any Shares in the Company by way of qualification. A Director who is not a Member of the Company shall nevertheless be entitled to attend and speak at general meetings.
105. A Director may be removed from office by Ordinary Resolution of the Company or the affirmative vote of no less than two-thirds of the other Directors present and voting at a Board meeting, notwithstanding anything in these Articles or in any agreement between

the Company and such Director (but without prejudice to any claim for damages under such agreement). A vacancy on the Board created by the removal of a Director under the previous sentence may be filled by Ordinary Resolution or by the affirmative vote of a simple majority of the remaining Directors present and voting at a Board meeting. The notice of any meeting at which a resolution to remove a Director shall be proposed or voted upon must contain a statement of the intention to remove that Director and such notice must be served on that Director not less than ten (10) calendar days before the meeting. Such Director is entitled to attend the meeting and be heard on the motion for his removal.

106. The remuneration of the Directors or past Directors, including by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being payment to which the Director is contractually entitled), may be determined by the Directors.
107. The Directors shall be entitled to be paid their travelling, hotel and other expenses properly incurred by them in going to, attending and returning from meetings of the Directors, or any committee of the Directors, or general meetings of the Company, or otherwise in connection with the business of the Company, or to receive such fixed allowance in respect thereof as may be determined by the Directors from time to time, or a combination partly of one such method and partly the other.
108. Subject to applicable Law, Designated Stock Exchange Rules and the Articles, The Board may establish any committee of the Board as the Board shall deem appropriate from time to time, and committees of the Board shall have the rights, powers and privileges granted to such committees by the Board from time to time.

POWERS AND DUTIES OF DIRECTORS

109. Subject to the provisions of the Statute, the Memorandum and these Articles and to any directions given by Special Resolution, the business and affairs of the Company shall be conducted as directed by the Board of Directors of the Company. The Board shall have all such powers and authorities, and may do all such acts and things, to the maximum extent permitted by applicable Law, the Memorandum and these Articles. No resolution passed by the Company in general meeting shall invalidate any prior act of the Directors that would have been valid if that resolution had not been passed.
110. The Board may, from time to time, and except as required by applicable Law or Designated Stock Exchange Rules, adopt, institute, amend, modify or revoke the corporate governance policies or initiatives of the Company and determine on various corporate governance related matters of the Company as the Board shall determine by resolution of Directors from time to time.
111. Subject to these Articles, the Directors may from time to time appoint any natural person or corporation, whether or not a Director to hold such office in the Company as the Directors may think necessary for the administration of the Company, including but not limited to, chief executive officer, one or more other executive officers, president, one or more vice-presidents, treasurer, assistant treasurer, manager or controller, and for such term and at such remuneration (whether by way of salary or commission or participation in profits or partly in one way and partly in another), and with such powers and duties as the Directors may think fit. Any natural person or corporation so appointed by the

Directors may be removed by the Directors. The Directors may also appoint one or more of their number to the office of managing director upon like terms, but any such appointment shall ipso facto terminate if any managing director ceases for any cause to be a Director, or if the Company by Ordinary Resolution resolves that his tenure of office be terminated.

112. The Directors may appoint any natural person or corporation to be a Secretary (and if need be, two or more persons as joint Secretaries, an assistant Secretary or assistant Secretaries) who shall hold office for such term, at such remuneration and upon such conditions and with such powers as they think fit. Any Secretary or assistant Secretary so appointed by the Directors may be removed by the Directors.
113. The Directors may delegate any of their powers to committees consisting of such member or members of their body as they think fit; any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the Directors.
114. The Directors may from time to time and at any time by power of attorney (whether under Seal or under hand) or otherwise appoint any company, firm or Person or body of Persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys or authorized signatory (any such person being an "Attorney" or "Authorized Signatory", respectively) of the Company for such purposes and with such powers, authorities and discretion (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such power of attorney or other appointment may contain such provisions for the protection and convenience of Persons dealing with any such Attorney or Authorized Signatory as the Directors may think fit, and may also authorise any such Attorney or Authorized Signatory to delegate all or any of the powers, authorities and discretion vested in him.
115. (1) The Directors may from time to time provide for the management of the affairs of the Company in such manner as they shall think fit and the provisions contained in the three next following Articles shall not limit the general powers conferred by this Article.

(2) All cheques, promissory notes, drafts, bills of exchange and other instruments, whether negotiable or transferable or not, and all receipts for moneys paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, in such manner as the Board shall from time to time by resolution determine. The Company's banking accounts shall be kept with such banker or bankers as the Board shall from time to time determine.
116. The Directors from time to time and at any time may establish any committees, local boards or agencies for managing any of the affairs of the Company and may appoint any natural person or corporation to be a member of such committees or local boards and may appoint any managers or agents of the Company and may fix the remuneration of any such natural person or corporation.
117. The Directors from time to time and at any time may delegate to any such committee, local board, manager or agent any of the powers, authorities and discretions for the time being vested in the Directors and may authorise the members for the time being of any such local board, or any of them to fill any vacancies therein and to act notwithstanding

vacancies and any such appointment or delegation may be made on such terms and subject to such conditions as the Directors may think fit and the Directors may at any time remove any natural person or corporation so appointed and may annul or vary any such delegation, but no Person dealing in good faith and without notice of any such annulment or variation shall be affected thereby.

118. Any such delegates as aforesaid may be authorized by the Directors to sub-delegate all or any of the powers, authorities, and discretion for the time being vested in them.

BORROWING POWERS OF DIRECTORS

119. The Directors may from time to time at their discretion exercise all the powers of the Company to borrow money, to mortgage or charge all or any part of its undertaking, property and assets (present and future) and uncalled capital, and to issue debentures, bonds and other securities, whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party. Debentures, bonds and other securities may be made assignable free from any equities between the Company and the person to whom the same may be issued. Any debentures, bonds or other securities may be issued at a discount (other than shares), premium or otherwise and with any special privileges as to redemption, surrender, drawings, allotment of shares, attending and voting at general meetings of the Members, appointment of Directors and otherwise.

DISQUALIFICATION OF DIRECTORS

120. The office of a Director shall be vacated if:
- (a) he gives notice in writing to the Company that he resigns the office of Director;
 - (b) he dies, becomes bankrupt or makes any arrangement or composition with his creditors generally;
 - (c) is prohibited by any applicable Law or Designated Stock Exchange Rules from being a Director;
 - (d) he is found to be or becomes of unsound mind; or
 - (e) is removed from office pursuant to any other provision of these Articles.

MEETINGS OF THE BOARD OF DIRECTORS

121. The Board shall meet at such times and in such places as the Board shall designate from time to time. A meeting of the Board may be called by any Director on no less than three (3) calendar days' prior written notice of the time, place and agenda of the meeting. Nevertheless, a meeting of the Board may be called by shorter notice if it is so agreed by all Directors in writing. Subject to these Articles, questions arising at any meeting shall be decided by a majority of votes of the Directors present at a meeting at which there is a quorum, with each having one (1) vote and in the case of an equality of votes the resolution shall fail.
122. A Director may participate in any meeting of the Board or of any committee of the Board by means of video conference, teleconference or other similar communications

equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute such Director's presence in person at the meeting.

123. The quorum necessary for the transaction of the business of the Board may be fixed by the Directors, and unless so fixed, the presence of a majority of Directors then in office shall constitute a quorum. A Director represented by proxy or by an alternate Director at any meeting shall be deemed to be present for the purposes of determining whether or not a quorum is present.
124. If a quorum is not present at any duly called meeting, such meeting may be adjourned to a time no earlier than forty-eight (48) hours after written notice of such adjournment has been given to the Directors. The Directors present at such adjourned meeting shall constitute a quorum, provided that the Directors present at such adjourned meeting may only discuss and/or approve the matters as described in the meeting notice delivered to the Directors in accordance with Article 121.
125. A resolution in writing (in one or more counterparts), signed by all the Directors or all the members of a committee of Directors entitled to receive notice of a meeting of Directors or committee of Directors, as the case may be (an alternate Director, subject as provided otherwise in the terms of appointment of the alternate Director, being entitled to sign such a resolution on behalf of his appointer), shall be as valid and effectual as if it had been passed at a meeting of the Directors or committee, as the case may be, duly convened and held. When signed a resolution may consist of several documents each signed by one or more of the Directors or his duly appointed alternate.
126. Subject to any regulations imposed on it by the Directors, a committee appointed by the Directors may elect a chairman of its meetings. If no such chairman is elected, or if at any meeting the chairman is not present within fifteen (15) minutes after the time appointed for holding the meeting, the committee members present may choose one of their number to be chairman of the meeting.
127. A committee appointed by the Directors may meet and adjourn as it thinks proper. Subject to any regulations imposed on it by the Directors, questions arising at any meeting shall be determined by a majority of votes of the committee members present and in case of an equality of votes the chairman shall have a second or casting vote.
128. All acts done by any meeting of the Directors or of a committee of Directors, or by any Person acting as a Director, shall notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such Director or Person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such Person had been duly appointed and was qualified to be a Director.
129. The Company shall pay all fees, charges and expenses (including travel and related expenses) incurred by each Director in connection with:
(i) attending the meetings of the Board and all committees thereof (if any) and (ii) conducting any other Company business requested by the Company.

PRESUMPTION OF ASSENT

130. A Director who is present at a meeting of the Board at which action on any Company matter is taken shall be presumed to have assented to the action taken unless his dissent

shall be entered in the minutes of the meeting or unless he shall file his written dissent from such action with the person acting as the chairman or secretary of the meeting before the adjournment thereof or shall forward such dissent by registered post to such person immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

DIRECTORS' INTERESTS

131. A Director may:

- (a) hold any other office or place of profit with the Company (except that of Auditor) in conjunction with his office of Director for such period and upon such terms as the Board may determine. Any remuneration (whether by way of salary, commission, participation in profits or otherwise) paid to any Director in respect of any such other office or place of profit shall be in addition to any remuneration provided for by or pursuant to any other Article;
- (b) act by himself or his firm in a professional capacity for the Company (otherwise than as Auditor) and he or his firm may be remunerated for professional services as if he were not a Director;
- (c) continue to be or become a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of any other company promoted by the Company or in which the Company may be interested as a vendor, shareholder or otherwise and (unless otherwise agreed) no such Director shall be accountable for any remuneration, profits or other benefits received by him as a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of or from his interests in any such other company. Subject as otherwise provided by these Articles the Directors may exercise or cause to be exercised the voting powers conferred by the shares in any other company held or owned by the Company, or exercisable by them as Directors of such other company in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, managing directors, joint managing directors, deputy managing directors, executive directors, managers or other officers of such company) or voting or providing for the payment of remuneration to the director, managing director, joint managing director, deputy managing director, executive director, manager or other officers of such other company and any Director may vote in favour of the exercise of such voting rights in manner aforesaid notwithstanding that he may be, or about to be, appointed a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid.

Notwithstanding the foregoing, no "Independent Director" as defined in the rules of the Designated Stock Exchange or in Rule 10A-3 under the Exchange Act, and with respect of whom the Board has determined constitutes an "Independent Director" for purposes of compliance with applicable Law or the Company's listing requirements, shall without the consent of the Audit Committee take any of the foregoing actions or any other action that

would reasonably be likely to affect such Director's status as an "Independent Director" of the Company.

132. Subject to applicable Law and to these Articles, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the Members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established provided that such Director shall disclose the nature of his interest in any contract or arrangement in which he is interested in accordance with Article 133 herein. Any such transaction that would reasonably be likely to affect a Director's status as an "Independent Director", or that would constitute a "related party transaction" as defined by Item 7.N of Form 20F promulgated by the Commission, shall require the approval of the Audit Committee.

133. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first considered, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested. For the purposes of this Article, a general Notice to the Board by a Director to the effect that:

- (a) he is a member or officer of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with that company or firm; or
- (b) he is to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with a specified person who is connected with him;

shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract or arrangement, provided that no such Notice shall be effective unless either it is given at a meeting of the Board or the Director takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.

134. Following a declaration being made pursuant to the last preceding two Articles, subject to any separate requirement for Audit Committee approval under applicable Law or the Designated Stock Exchange Rules, and unless disqualified by the chairman of the relevant Board meeting, a Director may vote in respect of any contract or proposed contract or arrangement in which such Director is interested and may be counted in the quorum at such meeting.

MINUTES

135. The Directors shall cause minutes to be made for the purpose of all appointments of officers made by the Directors, all proceedings at meetings of the Company or the

holders of any Class of Shares and of the Directors, and of committees of Directors including the names of the Directors or alternate Directors present at each meeting.

136. When the chairman of a meeting of the Directors signs the minutes of such meeting the same shall be deemed to have been duly held notwithstanding that all the Directors have not actually come together or that there may have been a technical defect in the proceedings.

ALTERNATE DIRECTORS

137. Any Director (other than an alternate Director) may by writing appoint any other Director, or any other person willing to act, to be an alternate Director and by writing may remove from office an alternate Director so appointed by him.
138. An alternate Director shall be entitled to receive notice of all meetings of Directors and of all meetings of committees of Directors of which his appointor is a member, to attend and vote at every such meeting at which the Director appointing him is not personally present, and generally to perform all the functions of his appointor as a Director in his absence.
139. An alternate Director shall cease to be an alternate Director if his appointor ceases to be a Director.
140. Any appointment or removal of an alternate Director shall be by notice to the Company signed by the Director making or revoking the appointment or in any other manner approved by the Directors.
141. An alternate Director shall be deemed for all purposes to be a Director and shall alone be responsible for his own acts and defaults and shall not be deemed to be the agent of the Director appointing him.

AUDIT COMMITTEE

142. Without prejudice to the freedom of the Directors to establish any other committees, for so long as the shares of the Company (or depositary receipts therefor) are listed or quoted on the Designated Stock Exchange, the Board shall establish and maintain an Audit Committee as a committee of the Board, the composition and responsibilities of which shall comply with the charter of the Audit Committee as adopted by the Board, the Designated Stock Exchange Rules and the rules and regulations of the Commission.

NO MINIMUM SHAREHOLDING

143. The Company in general meeting may fix a minimum shareholding required to be held by a Director, but unless and until such a shareholding qualification is fixed, a Director is not required to hold Shares.

SEAL

144. The Company may, if the Directors so determine, have a Seal. The Seal shall only be used by the authority of the Directors or of a committee of the Directors authorized by the Directors. Every instrument to which the Seal has been affixed shall be signed by at least

one person who shall be either a Director or some officer or other person appointed by the Directors for the purpose.

145. The Company may have for use in any place or places outside the Cayman Islands a duplicate Seal or Seals each of which shall be a facsimile of the common Seal of the Company and, if the Directors so determine, with the addition on its face of the name of every place where it is to be used.
146. A Director or officer, representative or attorney of the Company may without further authority of the Directors affix the Seal over his signature alone to any document of the Company required to be authenticated by him under seal or to be filed with the Registrar of Companies in the Cayman Islands or elsewhere wheresoever.

DIVIDENDS, DISTRIBUTIONS AND RESERVE

147. Subject to the Statute and these Articles any rights and restrictions for the time being attached to any Shares, the Directors may from time to time declare dividends (including interim dividends) and other distributions on Shares in issue and authorize payment of the dividends or distributions out of the funds of the Company lawfully available therefor. No dividend or distribution shall be paid except out of the realized or unrealized profits of the Company, or out of the share premium account or as otherwise permitted by the Statute.
148. Except as otherwise provided by the rights attached to Shares, all dividends shall be declared and paid according to the par value of the Shares that a Member holds. If any Share is issued on terms providing that it shall rank for dividend as from a particular date, that Share shall rank for dividend accordingly.
149. The Directors may deduct from any dividend or distribution payable to any Member all sums of money (if any) then payable by him to the Company on account of calls or otherwise.
150. The Directors may declare that any dividend or distribution be paid wholly or partly by the distribution of specific assets and in particular of shares, debentures, or securities of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional Shares and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the basis of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees as may seem expedient to the Directors.
151. Any dividend, distribution, interest or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder or by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of the holder who is first named on the Register of Members or to such person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of three or more joint holders may give effectual receipts for any dividends, bonuses, or other monies payable in respect of the Share held by them as joint holders.

152. If several Persons are registered as joint holders of any Share, any of them may give effective receipts for any dividend or other moneys payable on or in respect of the Share.
153. No dividend or distribution shall bear interest against the Company.
154. Any dividend which cannot be paid to a Member and/or which remains unclaimed after six (6) months from the date of declaration of such dividend may, in the discretion of the Directors, be invested or otherwise made use of by the Board for the benefit of the Company until claimed, or be paid into a separate account in the Company's name, provided that the Company shall not be constituted as a trustee in respect of that account and the dividend shall remain as a debt due to the Member. Any dividend which remains unclaimed after a period of six (6) years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

CAPITALIZATION

155. Subject to applicable Law, the Directors may:
- (a) resolve to capitalise any sum standing to the credit of any of the Company's reserve accounts or funds (including the Share Premium Account and capital redemption reserve fund) or any sum standing to the credit of the profit and loss account or otherwise available for distribution;
 - (b) appropriate the sum resolved to be capitalised to the Members in proportion to the nominal amount of Shares (whether or not fully paid) held by them respectively and apply that sum on their behalf in or towards:
 - (i) paying up the amounts (if any) for the time being unpaid on Shares held by them respectively, or
 - (ii) paying up in full unissued Shares or debentures of a nominal amount equal to that sum,and allot the Shares or debentures, credited as fully paid, to the Members (or as they may direct) in those proportions, or partly in one way and partly in the other, but the Share Premium Account, the capital redemption reserve and profits which are not available for distribution may, for the purposes of this Article, only be applied in paying up unissued Shares to be allotted to Members credited as fully paid;
 - (c) make any arrangements they think fit to resolve a difficulty arising in the distribution of a capitalised reserve and in particular, without limitation, where Shares or debentures become distributable in fractions the Directors may deal with the fractions as they think fit;
 - (d) authorise a Person to enter (on behalf of all the Members concerned) into an agreement with the Company providing for either:
 - (i) the allotment to the Members respectively, credited as fully paid, of Shares or debentures to which they may be entitled on the capitalisation, or

(ii) the payment by the Company on behalf of the Members (by the application of their respective proportions of the reserves resolved to be capitalised) of the amounts or part of the amounts remaining unpaid on their existing Shares,

and any such agreement made under this authority being effective and binding on all those Members; and

(e) generally do all acts and things required to give effect to the resolution.

156. Notwithstanding any provisions in these Articles, the Directors may resolve to capitalise any sum standing to the credit of any of the Company's reserve accounts or funds (including the Share Premium Account and capital redemption reserve fund) or any sum standing to the credit of the profit and loss account or otherwise available for distribution by applying such sum in paying up in full unissued Shares to be allotted and issued to:

- (a) employees (including Directors) or service providers of the Company or its Affiliates upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the Directors or the Members;
- (b) any trustee of any trust or administrator of any share incentive scheme or employee benefit scheme to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the Directors or Members; or
- (c) any depository of the Company for the purposes of the issue, allotment and delivery by the depository of ADSs to employees (including Directors) or service providers of the Company or its Affiliates upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the Directors or the Members.

BOOKS OF ACCOUNT

157. The Directors shall cause proper books of account to be kept with respect to all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place, all sales and purchases of goods by the Company and the assets and liabilities of the Company. Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

158. The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors and no Member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by the Statute or authorized by the Directors or by the Company in general meeting.

159. The Directors may from time to time cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by the Law.

AUDIT

160. Subject to applicable Law and Designated Stock Exchange Rules, the Directors may appoint an Auditor of the Company who shall hold office until removed from office by a resolution of the Directors.
161. The remuneration of the Auditor shall be determined by the Audit Committee or, in the absence of such an Audit Committee, by the Board.
162. If the office of auditor becomes vacant by the resignation or death of the Auditor, or by his becoming incapable of acting by reason of illness or other disability at a time when his services are required, the Directors shall fill the vacancy and determine the remuneration of such Auditor.
163. Auditors of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and officers of the Company such information and explanation as may be necessary for the performance of the duties of the Auditors.
164. Auditors shall, if so required by the Directors, make a report on the accounts of the Company during their tenure of office at the next annual general meeting following their appointment and at any time during their term of office upon request of the Directors or any general meeting of the Members.
165. The statement of income and expenditure and the balance sheet provided for by these Articles shall be examined by the Auditor and compared by him with the books, accounts and vouchers relating thereto; and he shall make a written report thereon stating whether such statement and balance sheet are drawn up so as to present fairly the financial position of the Company and the results of its operations for the period under review and, in case information shall have been called for from Directors or officers of the Company, whether the same has been furnished and has been satisfactory. The financial statements of the Company shall be audited by the Auditor in accordance with generally accepted auditing standards. The Auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the Auditor shall be submitted to the Audit Committee. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the Auditor should disclose this act and name such country or jurisdiction.

SHARE PREMIUM ACCOUNT

166. The Directors shall in accordance with the **Statute** establish a Share Premium Account and shall carry to the credit of such account from time to time a sum equal to the amount or value of the premium paid on the issue of any Share.
167. There shall be debited to any Share Premium Account on the redemption or purchase of a Share the difference between the nominal value of such Share and the redemption or

purchase price provided always that at the discretion of the Directors such sum may be paid out of the profits of the Company or, if permitted by the Statute, out of capital.

NOTICES

168. Any notice or document, whether or not, to be given or issued under these Articles from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in appropriate newspapers in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company's website and giving to the member a notice stating that the notice or other document is available there (a "notice of availability"). The notice of availability may be given to the Member by any of the means set out above. In the case of joint holders of a Share, all notices shall be given to that one of the joint holders whose name stands first in the Register of Members in respect of the joint holding, and notice so given shall be sufficient notice to all the joint holders.
169. Any notice or other document, if served by:
- (a) post, shall be deemed to have been served or delivered on the day following that on which the envelope containing the same, properly prepaid and addressed, is put into the post; in proving such service or delivery it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly addressed and put into the post and a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board that the envelope or wrapper containing the notice or other document was so addressed and put into the post shall be conclusive evidence thereof;
 - (b) facsimile, shall be deemed to have been served upon production by the transmitting facsimile machine of a report confirming transmission of the facsimile in full to the facsimile number of the recipient;
 - (c) recognized courier service, shall be deemed to have been served 48 hours after the time when the letter containing the same is delivered to the courier service;
 - (d) electronic mail, shall be deemed to have been served immediately upon the time of the transmission by electronic mail; or
 - (e) placing it on the Company's Website, shall be deemed to have been served immediately upon the time when the same is placed on the Company's Website.

170. Any Members present, either personally or by proxy, at any meeting of the Company shall for all purposes be deemed to have received due notice of such meeting and, where requisite, of the purposes for which such meeting was convened.
171. A notice may be given by the Company to the person or persons which the Company has been advised are entitled to a Share or Shares in consequence of the death or bankruptcy of a Member in the same manner as other notices which are required to be given under these Articles and shall be addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description at the address supplied for that purpose by the persons claiming to be so entitled, or at the option of the Company by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.
172. Notice of every general meeting shall be given in any manner hereinbefore authorized to every person shown as a Member in the Register of Members on the record date for such meeting except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the Register of Members and every person upon whom the ownership of a Share devolves by reason of his being a legal personal representative or a trustee in bankruptcy of a Member of record where the Member of record but for his death or bankruptcy would be entitled to receive notice of the meeting, and no other person shall be entitled to receive notices of general meetings.

INFORMATION

173. No Member shall be entitled to require discovery of any information in respect of any detail of the Company's trading or any information which is or may be in the nature of a trade secret or secret process which may relate to the conduct of the business of the Company and which in the opinion of the Board would not be in the interests of the Members of the Company to communicate to the public.
174. The Board shall be entitled to release or disclose any information in its possession, custody or control regarding the Company or its affairs to any of its Members including, without limitation, information contained in the Register and transfer books of the Company.

WINDING UP

175. If the Company shall be wound up, the liquidator may, with the sanction of a Special Resolution of the Company and any other sanction required by the Statute, divide amongst the Members in species or in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for that purpose value any assets and determine how the division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the Members as the liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any asset upon which there is a liability.
176. If the Company shall be wound up, and the assets available for distribution amongst the Members shall be insufficient to repay the whole of the share capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Members in proportion to the par value of the Shares held by them. If in a winding up the assets

available for distribution amongst the Members shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst the Members in proportion to the par value of the Shares held by them at the commencement of the winding up subject to a deduction from those Shares in respect of which there are monies due, of all monies payable to the Company for unpaid calls or otherwise. This Article is without prejudice to the rights of the holders of Shares issued upon special terms and conditions.

INDEMNITY

177. Every Director (including for the purposes of this Article any alternate Director appointed pursuant to the provisions of these Articles), Secretary, assistant Secretary, or other officer for the time being and from time to time of the Company (but not including the Company's Auditors) and the personal representatives of the same (each, an "**Indemnified Person**") shall be indemnified and secured harmless against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by such Indemnified Person, other than by reason of such Indemnified Person's own dishonesty, wilful default or fraud as determined by a court of competent jurisdiction, in or about the conduct of the Company's business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such Indemnified Person in defending (whether successfully or otherwise) any civil proceedings concerning the Company or its affairs in any court whether in the Cayman Islands or elsewhere.
178. No Indemnified Person shall be liable:
- (a) for the acts, receipts, neglects, defaults or omissions of any other Director or Officer or agent of the Company; or
 - (b) for any loss on account of defect of title to any property of the Company; or
 - (c) on account of the insufficiency of any security in or upon which any money of the Company shall be invested; or
 - (d) for any loss incurred through any bank, broker or other similar Person; or
 - (e) for any loss occasioned by any negligence, default, breach of duty, breach of trust, error of judgement; or
 - (f) oversight on such Indemnified Person's part; or
 - (g) for any loss, damage or misfortune whatsoever which may happen in or arise from the execution or discharge of the duties, powers, authorities, or discretions of such Indemnified Person's office or in relation thereto;

unless the same shall happen through such Indemnified Person's own dishonesty, willful default or fraud as determined by a court of competent jurisdiction.

FISCAL YEAR

179. The fiscal year of the Company is the calendar year unless otherwise determined by the Board from time to time.

DISCLOSURE

180. The Directors, or any service providers (including the officers, the Secretary and the registered office agent of the Company) specifically authorized by the Directors, shall be entitled to disclose to any regulatory or judicial authority any information regarding the affairs of the Company including without limitation information contained in the Register and books of the Company.

TRANSFER BY WAY OF CONTINUATION

181. The Company may by Special Resolution resolve to be registered by way of continuation in a jurisdiction outside the Cayman Islands or such other jurisdiction in which it is for the time being incorporated, registered or existing. In furtherance of a resolution adopted pursuant to this Article, the Directors may cause an application to be made to the Registrar of Companies to deregister the Company in the Cayman Islands or such other jurisdiction in which it is for the time being incorporated, registered or existing and may cause all such further steps as they consider appropriate to be taken to effect the transfer by way of continuation of the Company.

MERGERS AND CONSOLIDATIONS

182. The Company shall have the power to merge or consolidate with one or more other constituent companies (as defined in the Statute) upon such terms as the Directors may determine and (to the extent required by the Statute) with the approval of a Special Resolution.

AMENDMENT NO. 1 TO RESTRUCTURING SUPPORT AGREEMENT

This AMENDMENT NO. 1 TO RESTRUCTURING SUPPORT AGREEMENT, dated as of September 1, 2021 (this “**Amendment**”), is entered into by and among (i) Luckin Coffee Inc. (in Provisional Liquidation), a Cayman Islands exempted company (the “**Company**”), (ii) the undersigned joint provisional liquidators appointed to the Company (the “**JPLs**”) by the order of the Grand Court of the Cayman Islands dated July 15, 2020 in the provisional liquidation proceedings relating to the Company (Cause No. FSD 157 of 2020 (ASCJ)), and (iii) the undersigned Consenting Noteholders (the Company, each of the JPLs and each undersigned Consenting Noteholder, a “**Party**” and collectively, the “**Parties**”). Capitalized terms not otherwise defined herein shall have the meaning ascribed to such terms in the Restructuring Support Agreement (as defined below).

WHEREAS, the Parties entered into that certain *Restructuring Support Agreement*, dated as of March 16, 2021, among (i) the Company; (ii) the JPLs; and (iii) the undersigned Consenting Noteholders (as amended, restated, amended and restated, supplemented or otherwise modified from time to time through the date hereof, the “**Restructuring Support Agreement**”);

WHEREAS, the Parties desire to amend the Restructuring Support Agreement as set forth in this Agreement;

WHEREAS, Section 13(c)(iv) of the Restructuring Support Agreement permits the extension of certain milestones by written agreement of the Company, the JPLs, and the Majority Ad Hoc Group;

WHEREAS, Section 14 of the Restructuring Support Agreement permits certain modifications and amendments of the Restructuring Support Agreement by written agreement of the Company and the Majority Ad Hoc Group; and

WHEREAS, the undersigned Consenting Noteholders constitute the Majority Ad Hoc Group.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, agree as follows:

1. **Amendments**. In accordance with the requirements of the Restructuring Support Agreement, the Parties hereby agree to amend the Restructuring Support Agreement as follows:

(a) Section 3(c) shall be amended and restated in its entirety as follows:

“(c) it is (or is acting in its capacity as discretionary investment manager or investment adviser with authority to bind) the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) of the aggregate principal amount of its Consenting Notes as of July 31, 2021 free and clear of any liens, charges, claims, encumbrances, participations, security interests and similar restrictions that could adversely affect its ability to perform its obligations hereunder;”

(b) Section 3(d) shall be amended and restated in its entirety as follows:

“(d) it has disclosed the principal amount of Notes beneficially owned by it (or for which it acts as discretionary investment manager, advisor or sub-advisor with authority to bind a beneficial owner of the Notes), including Notes held through a custodial account beneficially owned by it, as of July 31, 2021 to Davis Polk (which Davis Polk may report to the Company on an aggregate basis for all Consenting Noteholders only and not on an individual Consenting Noteholder basis in any circumstances) and such information is true and accurate in all respects; and”

(c) Section 13(c)(iv) shall be amended and restated in its entirety as follows:

“the Company fails to comply with any of the following milestones, each of which may be extended upon the prior written agreement of the Company, the JPLs and the Majority Ad Hoc Group, which agreement may be constituted via email from counsel to the Company, counsel to the JPLs and counsel to the Majority Ad Hoc Group:”

(d) Section 13(c)(iv)(B) shall be amended and restated in its entirety as follows:

“(B) on or before September 22, 2021, the Company shall have filed: (i) a petition with the Cayman Court under section 86 of the Companies Act (2021 Revision) for an order sanctioning the Scheme; and (ii) a summons with the Cayman Court for directions to convene the Scheme Meeting.”

(e) Section 14(a) shall be amended and restated in its entirety as follows:

“This Agreement and the Transaction Documents to which the Majority Ad Hoc Group is a Party may be amended, modified, altered or supplemented only with the prior written agreement of the Company and the Majority Ad Hoc Group, which agreement may be constituted via email from counsel to the Company and counsel to the Majority Ad Hoc Group, provided that, where amendment of any provision of this Agreement requires the prior written agreement of the JPLs, such agreement may also be constituted via email from counsel to the JPLs.”

(f) The section of the Restructuring Term Sheet entitled “Denomination” shall be amended and restated in its entirety as follows:

“Any New Notes will be issued in minimum denominations of \$1,000.00 and integral multiples of \$1,000.00 in excess thereof.”

2. **Miscellaneous.** Except as expressly set forth herein, the Restructuring Support Agreement is and shall remain unchanged and in full force and effect, and nothing contained in this Amendment shall, by implication or otherwise, limit, impair, constitute a waiver of, or otherwise affect the rights of any Party, or shall alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants, or agreements contained in the Restructuring Support Agreement or any Definitive Document.

3. **Survival.** This Amendment shall be binding upon and inure to the benefit of and be enforceable by the successors and permitted assigns of the Parties.

4. **Headings**. Titles and headings in this Amendment are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit, or aid in the construction or interpretation of any term or provision hereof.

5. **Counterparts**. This Amendment may be executed by one or more of the Parties on any number of separate counterparts (including by electronic transmission of signature pages hereto), and all of such counterparts taken together shall be deemed an original and to constitute one and the same instrument.

6. **Governing Law**. This Amendment will be governed by, and construed in accordance with, the Law of the State of New York, without regard to Law that may be applicable under conflicts of laws principles (whether of the State of New York or any other jurisdiction) that would cause the application of the Law of any jurisdiction other than the State of New York.

[Signature Pages Follow]

IN WITNESS WHEREOF, the undersigned has executed this Agreement as of the date first set forth above.

LUCKIN COFFEE INC. (in Provisional Liquidation)

By: /s/ Reinout Hendrik Schakel

Name: Reinout Hendrik Schakel

Title: Chief Financial Officer & Chief Strategy Officer

[Signature Page to Amendment No. 1 to Restructuring Support Agreement]

[****]

[Noteholder Party Signature Pages Omitted]

IN WITNESS WHEREOF, the undersigned has executed this Agreement as of the date first set forth above.

Joint Provisional Liquidator of the Company, in his capacity as such and without personal liability

By: /s/ Alexander Lawson

Name: Alexander Lawson

Joint Provisional Liquidator of the Company, in her capacity as such and without personal liability

By: /s/ Wing Sze Tiffany Wong

Name: Wing Sze Tiffany Wong

[Signature Page to Amendment No. 1 to Restructuring Support Agreement]

List of Significant Subsidiaries and VIE of the Registrant

<u>Significant Subsidiaries</u>	<u>Place of Incorporation</u>
Luckin Coffee Investment Inc.	British Virgin Islands
Luckin Coffee (Hong Kong) Limited	Hong Kong
Luckin Coffee Roasting (Hong Kong) Limited	Hong Kong
Luckin Coffee Roastery (Hong Kong) Limited	Hong Kong
Luckin Coffee (China) Co., Ltd.	PRC
Beijing Luckin Coffee Co., Ltd.	PRC
Luckin Investment (Tianjin) Co., Ltd.	PRC
Luckin Coffee Roasting (Xiamen) Co., Ltd.	PRC
Luckin Coffee Roasting (Pingnan) Co., Ltd.	PRC
<u>VIE</u>	<u>Place of Incorporation</u>
Beijing Luckin Coffee Technology Ltd.	PRC

Luckin Coffee Inc.**Code of Business Conduct and Ethics**

Adopted April 16, 2019

Amended April 12, 2022

Introduction

This Code of Business Conduct and Ethics (the “Code”) has been adopted by our Board of Directors (the “Board”) and summarizes the standards that must guide our actions. Although they cover a wide range of business practices and procedures, these standards cannot and do not cover every issue that may arise, or every situation in which ethical decisions must be made, but rather set forth key guiding principles that represent Company policies and establish conditions for employment at the Company.

We must strive to foster a culture of honesty and accountability. Our commitment to the highest level of ethical conduct should be reflected in all of the Company’s business activities, including, but not limited to, relationships with employees, customers, suppliers, competitors, the government, the public and our shareholders. All of our employees, officers and directors must conduct themselves according to the language and spirit of this Code and seek to avoid even the appearance of improper behavior. Even well-intentioned actions that violate the law or this Code may result in negative consequences for the Company and for the individuals involved.

One of our Company’s most valuable assets is our reputation for integrity, professionalism and fairness. We should all recognize that our actions are the foundation of our reputation and adhering to this Code and applicable law is imperative.

I. Compliance with Laws, Rules and Regulations

We are strongly committed to conducting our business affairs with honesty and integrity and in full compliance with all applicable laws, rules and regulations. No employee, officer or director of the Company shall commit an illegal or unethical act, or instruct others to do so, for any reason.

II. Workplace Environment

We are committed to creating and maintaining a working environment where employees respect, trust and help each other. The Company prohibits any level of intimidation, harassment, or retaliation in the workplace or in any work-related setting.

If you have any questions about our workplace environment policies, consult the Compliance Department and/or Legal Department compliance@lkcoffee.com.

III. Doing Business with Others

We strive to promote the application of the standards of this Code by those with whom we do business. Our policies, therefore, prohibit the engaging of a third party to perform any act prohibited by law or by this Code, and we shall avoid doing business with others who intentionally and continually violate the law or the standards of this Code.

IV. Protection of Confidential Proprietary Information

Confidential proprietary information generated by and gathered in our business is a valuable Company asset. Protecting this information plays a vital role in our continued growth and ability to compete, and all proprietary information should be maintained in strict confidence, except when disclosure is authorized by the Company or required by law.

Proprietary information includes all non-public information that might be useful to competitors or that could be harmful to the Company, its customers or its suppliers if disclosed. Intellectual property such as trade secrets, patents, trademarks and copyrights, as well as business, research and new product plans,

objectives and strategies, records, databases, salary and benefits data, employee medical information, customer, employee and suppliers lists, information and data, and any unpublished financial or pricing information must also be protected.

We respect and protect the personal information and privacy of our customers, employees, suppliers and one another.

Unauthorized use or distribution of proprietary information violates Company policy and could be illegal. Such use or distribution could result in negative consequences for both the Company and the individuals involved, including potential legal and disciplinary actions. We respect the property rights of other companies and their proprietary information and require our employees, officers and directors to observe such rights.

Your obligation to protect the Company's proprietary and confidential information continues even after you leave the Company, and you must return all proprietary information in your possession upon leaving the Company.

V. Corporate Opportunities

Employees, officers and directors are prohibited from taking for themselves business opportunities that are discovered through the use of corporate property, information or position. No employee, officer or director may use corporate property, information or position for personal gain, and no employee, officer or director may compete with the Company. Competing with the Company may involve engaging in the same or similar line of business as the Company or any situation in which the employee, officer or director takes away from the Company opportunities for sales or purchases of property, products, services or interests. Employees, officers and directors owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

VI. Protection and Proper Use of Company Assets

Protecting Company assets against loss, theft or other misuse is the responsibility of every employee, officer and director. Loss, theft and misuse of Company assets directly impact our profitability. Any suspected loss, misuse or theft should be reported to their manager and/or the Compliance Department and/or Legal Department compliance@lkcoffee.com.

The sole purpose of the Company's equipment, vehicles, supplies and electronic resources (including hardware, software and the data thereon) is the conduct of our business. They may only be used for Company business consistent with Company guidelines.

VII. Fair Dealing and Anti-Corruption

Each employee, officer and director of the Company should endeavor to deal fairly with customers, suppliers, competitors, the public and one another at all times and in accordance with ethical business practices.

Each employee has an obligation to comply with the anti-corruption and anti-bribery laws of the People's Republic of China, and any other regions and countries in which the Company operates. No one should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair dealing practice. No bribes, kickbacks or other similar payments in any form shall be made directly or indirectly to or for anyone for the purpose of obtaining or retaining business or obtaining any other favorable action. In the event of a violation of these provisions, the Company and any employee, officer or director involved may be subject to disciplinary action as well as potential civil or criminal liability for violation of this policy.

Except in certain limited circumstances, the United States Foreign Corrupt Practices Act (the "FCPA") prohibits offering, giving, or promising to give anything of value directly or indirectly to any "non-U.S. government official" for the purpose of obtaining or retaining business, or obtaining any improper business advantage. There is no minimum threshold in determining what constitutes "anything of value". "Anything of value" includes cash, gift, job opportunity, entertainment, travel expense,

donation and anything that has value to the recipient. "No-U.S. government official" are non-U.S. government officials or any of its agencies, or non-U.S. state-owned or nationally-owned companies staffs (e.g., state-run telecommunications companies, state-owned hospitals, etc.); or candidates for non-U.S. political office, work for political parties or their officials, or a political party itself; or staffs working for public international organizations (e.g., the World Bank).

All employees should abide by the Anti-corruption Program and Policy of the Company. When in doubt as to whether a contemplated payment or gift may violate any applicable law, contact your manager, Compliance Department and/or Legal Department compliance@lkcoffee.com before taking any action.

VIII. Compliance with Antitrust Laws

The antitrust laws prohibit agreements among competitors on such matters as prices, terms of sale to customers and the allocation of markets or customers. Antitrust laws can be complex, and violations may subject the Company and its employees to criminal sanctions, including fines, jail time and civil liability. If you have any questions about our antitrust compliance policies, consult the Compliance Department and/or Legal Department compliance@lkcoffee.com.

IX. Anti-Money Laundering

We will assist in efforts to combat money laundering and terrorist financing. Money laundering is the practice of disguising the ownership or source of illegally obtained funds through a series of transactions to "clean" the funds so they appear to be proceeds from legal activities.

We are committed to cooperating setting up necessary measures to reduce the extent to which the Company's facilities, products and services can be used for a purpose connected with market abuse or financial crimes. Additionally, where necessary, we screen customers, potential customers and suppliers to ensure that our products and services cannot be used to facilitate money laundering or terrorist activity. If you have any questions about our internal anti-money laundering process and procedure, consult Compliance Department and/or Legal Department compliance@lkcoffee.com.

X. Quality of Public Disclosures

The Company has a responsibility to provide full and accurate information in our public disclosures, in all material respects, about the Company's financial condition and results of operations. Our reports and documents filed with or submitted to the United States Securities and Exchange Commission and our other public communications shall include full, fair, accurate, timely and understandable disclosure, and the Company has established a disclosure committee consisting of officers to assist in monitoring such disclosures. Additional information on this topic is contained in the Company's Information Disclosure Policy that is available on the Company's intranet.

XI. Trading on Inside Information

Using non-public Company information to trade in securities, or providing a family member, friend or any other person with non-public Company information, is illegal. All non-public Company information should be considered inside information and should never be used for personal gain. You are required to familiarize yourself and comply with the Company's Policy Against Insider Trading that is available on the Company's intranet. You should contact Compliance Department and/or Legal Department compliance@lkcoffee.com with any questions about your ability to buy or sell securities.

XII. Conflicts of Interest

Our employees, officers and directors have an obligation to conduct themselves in an honest and ethical manner and to act in the best interest of the Company. All employees, officers and directors should endeavor to avoid situations that present a potential or actual conflict between their interest and the interest of the Company.

A "conflict of interest" occurs when a person's private interest interferes in any way, or even appears to interfere, with the interests of the Company as a whole, including those of its subsidiaries and affiliates.

A conflict of interest may arise when an employee, officer or director takes an action or has an interest that may make it difficult for him or her to perform his or her work objectively and effectively. For example, working in any capacity, for a competitor, customer or supplier while employed by the Company. A conflict of interest may also arise when an employee, officer or director (or a member of his or her family) receives improper personal benefits as a result of the employee's, officer's or director's position in the Company.

Situations involving a conflict of interest may not always be obvious or easy to resolve, we have adopted guidelines designed to implement this policy. All employees are expected to review and follow the Company's Conflict of Interests Management Program that is available on the Company's intranet.

In order to avoid conflicts of interests, officers and directors must disclose to the Audit Committee of the Board any material transaction or relationship that reasonably could be expected to give rise to such a conflict.

XIII. Government Inquiries

The Company cooperates with government agencies and authorities. Forward all requests for information, other than routine requests, to the Compliance Department and/or Legal Department compliance@lkcoffee.com.

All information provided must be truthful and accurate. Never mislead any investigator. Do not ever alter or destroy documents or records subject to an investigation.

Reporting Violations to a Governmental Agency

Employees have the right under applicable law to certain protections for cooperating with or reporting legal violations to governmental agencies or entities and self-regulatory organizations. As such, nothing in this Code is intended to prohibit any employee from disclosing or reporting violations to, or from cooperating with, a governmental agency or entity or self-regulatory organization, and employees may do so without notifying the Company. The Company may not retaliate against all employee for any of these activities, and nothing in this Code or otherwise requires any employee to waive any monetary award or other payment that he or she might become entitled to from a governmental agency or entity, or self-regulatory organization.

XIV. Social Media

Unless you are authorized by the Company, you are discouraged from discussing the Company as part of your personal use of social media. While business should only be conducted through approved channels, we understand that social media is used as a source of information and as a form of communicating with friends, family and workplace contacts.

When you are using social media and identify yourself as a Company employee, officer or director or mention the Company incidentally, for instance on a WeChat page or professional networking site, please remember the following:

Never disclose confidential information about the Company or its business, customers or suppliers. Make clear that any views expressed are your own and not those of the Company.

Remember that our policy on equal opportunity, non-discrimination and fair employment applies to social media sites.

Be respectful of your colleagues and all persons associated with the Company, including customers and suppliers.

Promptly report to the Company's corporate communications department any social media content which inaccurately or inappropriately discusses the Company.

Never respond to any information, including information that may be inaccurate about the Company.

Never post documents, parts of documents, images or video or audio recordings that have been made

with Company property or of Company products, services or people or at Company functions or events.

Professional Networking

Online networking on professional or industry sites, such as LinkedIn, has become an important and effective way for colleagues to stay in touch and exchange information. Employees, officers and directors should use good judgment when posting information about themselves or the Company on any of these services.

What you post about the Company or yourself will reflect on all of us. When using professional networking sites, you should observe the same standards of professionalism and integrity described in our code and follow the social media guidelines outlined above.

XV. Social Responsibilities

We are committed to promoting and fulfilling social responsibilities, including environmental protection responsibilities, when engaging in business conducts.

XVI. Accuracy of Company Financial Records

We maintain the highest standards in all matters relating to accounting, financial controls, internal reporting and taxation. All financial books, records and accounts must accurately reflect transactions and events and conform both to required accounting principles and to the Company's system of internal controls. Records shall not be distorted in any way to hide, disguise or alter the Company's true financial position.

Retention of Records

All Company business records and communications shall be clear, truthful and accurate. Employees, officers and directors of the Company shall avoid exaggeration, guesswork, legal conclusions and derogatory remarks or characterizations of people and companies. This applies to communications of all kinds, including email and "informal" notes or memos. Records should always be handled according to the Company's record retention policies. If an employee, officer or director is unsure whether a document should be retained, consult their manager, Compliance Department and/or Legal Department compliance@lkcoffee.com before proceeding.

Definition, Report and Investigation of Fraud

Fraud refers to the intentional deception, misappropriation of resources, manipulation of data and materials, to seek interests or cause disadvantages for individuals or the Company, or other similar improper behaviors contrary to the code of ethics.

Considering the potential of fraud, the management will conduct a formal, systematic, and comprehensive risk assessment of the Company. Risk assessment will be carried out regularly at the entity level, process level and important account level, at least once a year.

The Company has set up the following whistleblowing e-mail 1000@lkcoffee.com. It is the duty of all directors and employees to report fraud immediately. The Company encourages individuals to report fraud to the Director of Internal Audit or the Compliance Department once they are aware or suspect of fraud. The Director of Internal Audit reports directly to the Audit Committee of the Board and is independent of the management. All allegations of fraud, whether real or suspected, shall be determined by the chairman of the Audit Committee of the Board. The main considerations of judgement are the severity of the incident, the credibility of the accusation and the possibility of verification through other resources. The Company prohibits retaliation against any whistleblower and does not tolerate any harassment or fraudulent whistleblowing. The Company will take corresponding measures to protect the whistleblowers truthfully; it will also appropriately punish the identified malicious or fraudulent whistleblowers. Findings and remedies for known or suspected fraud will be returned to the immediate whistleblower, unless prevented by counsel.

XVII. Compliance with this Code and Reporting of Any Illegal or Unethical Behavior

All employees, directors and officers are expected to comply with all of the provisions of this Code. The Code will be strictly enforced and violations will be dealt with immediately, including by subjecting persons who violate its provisions to corrective and/or disciplinary action such as dismissal or removal from office. Violations of the Code that involve illegal behavior will be reported to the appropriate authorities.

Situations which may involve a violation of ethics, laws, rules, regulations or this Code may not always be clear and may require the exercise of judgment or the making of difficult decisions. Employees, officers and directors should promptly report any concerns about a violation of ethics, laws, rules, regulations or this Code to their manager, Compliance Department and/or Legal Department compliance@lkcoffee.com or, in the case of accounting, internal accounting controls or auditing matters, the Audit Committee of the Board. Interested parties may also communicate directly with the Company's non-management directors through contact information located in the Company's annual report. Any concerns about a violation of ethics, laws, rules, regulations or this Code by any officer or director should be reported promptly to the Audit Committee of the Board

The Company encourages all employees, officers and directors to report any suspected violations promptly through 1000@lkcoffee.com in the manner provided in the Company's Whistleblower Policy and intends to thoroughly investigate any good faith reports of violations. The Company will not tolerate any kind of retaliation for reports or complaints regarding misconduct that were made in good faith. Open communication of issues and concerns by all employees, officers and directors without fear of retribution or retaliation is vital to the successful implementation of this Code. All employees, officers and directors are required to cooperate in any internal investigations of misconduct and unethical behavior.

The Company recognizes the need for this Code to be applied equally to everyone it covers. The Compliance Department and Legal Department of the Company will have primary authority and responsibility for the enforcement of this Code, subject to the supervision of the Audit Committee of the Board, and the Company will devote the necessary resources to enable the General Counsel (or an officer with similar duties and responsibilities) to establish such procedures as may be reasonably necessary to create a culture of accountability and facilitate compliance with this Code. Questions concerning this Code should be directed to Compliance Department and/or Legal Department compliance@lkcoffee.com.

XVIII. Political Contributions and Activities

Any political contributions made by or on behalf of the Company and any solicitations for political contributions of any kind must be lawful and in compliance with Company policies. This policy applies solely to the use of Company assets and is not intended to discourage or prevent individual employees, officers or directors from making political contributions or engaging in political activities on their own behalf. No one may be reimbursed directly or indirectly by the Company for personal political contributions.

XIX. Waivers and Amendments

Any waiver (including any implicit waiver) of the provisions in this Code for officers or directors may only be granted by the Board or a committee thereof and will be promptly disclosed to the Company's shareholders. Amendments to this Code must be approved by the Board.

Review

The Board shall review this Code annually and make changes as appropriate.

**Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jinyi Guo, certify that:

1. I have reviewed this annual report on Form 20-F of Luckin Coffee Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 14, 2022

By: /s/ Jinyi Guo
Name: Jinyi Guo
Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Reinout Hendrik Schakel, certify that:

1. I have reviewed this annual report on Form 20-F of Luckin Coffee Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 14, 2022

By: /s/ Reinout Hendrik Schakel
Name: Reinout Hendrik Schakel
Title: Chief Financial Officer and Chief Strategy Officer

**Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of Luckin Coffee Inc. (the "Company") on Form 20-F for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jinyi Guo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 14, 2022

By: /s/ Jinyi Guo
Name: Jinyi Guo
Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report of Luckin Coffee Inc. (the "Company") on Form 20-F for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Reinout Hendrik Schakel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 14, 2022

By: /s/ Reinout Hendrik Schakel
Name: Reinout Hendrik Schakel
Title: Chief Financial Officer and Chief Strategy Officer

CONSENT LETTER

To **Luckin Coffee Inc.**

28th Floor, Building T3, Haixi Jingu Plaza
1-3 Taibei Road
Siming District, Xiamen City, Fujian
People's Republic of China, 361008

April 14, 2022

Dear Sir/Madam:

We hereby consent to the reference of our name under the headings “Item 3. Key Information — D. Risk Factors”, “Item 4. Information on the Company— B. Business Overview”, “Item 4. Information on the Company— C. Organizational Structure” and “Item 10. Additional Information— E. Taxation” in Luckin Coffee Inc.’s Annual Report on Form 20-F for the year ended December 31, 2021 (the “Annual Report”), which will be filed with the Securities and Exchange Commission (the “SEC”) on the date hereof. We further consent to the incorporation by reference of the summaries of our opinions under these headings into Luckin Coffee Inc.’s registration statement on Form S-8 (File No. 333-232089) that was filed on June 13, 2019 and the registration statement on Form S-8 (File No. 333-260577) that was filed on October 29, 2021. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report on Form 20-F for the year ended December 31, 2021.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully

/s/ King & Wood Mallesons
King & Wood Mallesons

金杜律师事务所云办公室

武汉 | 重庆 | 西安 | 郑州 | 昆明 | 沈阳 | 新加坡 | 石家庄 | 海南自由贸易港 | 天津 | 合肥 | 宁波 | 南昌 | 长沙 | 青岛 | 台北 | 韩国

KWM Cloud Offices

Wuhan | Chongqing | Xi'an | Zhengzhou | Kunming | Shenyang | New Zealand | Shi Jiazhuang | Hainan FTP | Tianjin | Hefei | Ningbo | Nanchang | Changsha | Qin'ao | Taipei | South Korea

金杜律师事务所国际联盟成员所

北京 | 成都 | 广州 | 海口 | 杭州 | 香港特别行政区 | 济南 | 青岛 | 三亚 | 上海 | 深圳 | 苏州 | 南京 | 布里斯班 | 堪培拉 | 墨尔本 | 珀斯 | 悉尼 | 东京 | 新加坡 | 布鲁塞尔 | 法兰克福 | 伦敦 | 马德里 | 米兰 | 纽约 | 硅谷

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HARNEYS

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14 April 2022
By Email

Nick.Hoffman@harneys.com/ Chai.Ridgers@harneys.com
+1 345 815 2916/+852 5806 7869
CAR/NXH/054067.0001

Luckin Coffee Inc.
Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Dear Sir or Madam

Luckin Coffee Inc. (the *Company*) - Annual Report on Form 20-F

We hereby consent to the filing of this letter as an exhibit to the Company's annual report on Form 20-F for the year ended 31 December 2021 with the U.S. Securities and Exchange Commission. We confirm that we do not have any objections with the Cayman Islands Taxation advice under the heading "10.E. Taxation" sub-heading "Cayman Islands Taxation" and the statement under the heading "Item 16.G. Corporate Governance" in the annual report. We further consent to the incorporation by reference of the summaries of our opinions under these headings into Luckin Coffee Inc.'s registration statement on Form S-8 (File No. 333-232089) that was filed on June 13, 2019 and the registration statement on Form S-8 (File No. 333-260577) that was filed on October 29, 2021.

Yours faithfully

/s/ Harney Westwood & Riegels

Harney Westwood & Riegels

A list of partners is available for inspection at our offices.
Bermuda legal services provided through an association with Zuill & Co.
HK:11749924_1

Anguilla | Bermuda | British Virgin Islands | Cayman Islands
Cyprus | Hong Kong | London | Luxembourg | Montevideo
São Paulo | Shanghai | Singapore | Vancouver
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中正達會計師事務所
Centurion ZD CPA & Co.
Certified Public Accountants (Practising)

Unit 1304, 13/F, Two Harbourfront, 22 Tak Fung Street, Hunghom, Hong Kong.
香港 紅磡 德豐街22號 海濱廣場二期 13樓1304室
Tel 電話: (852) 2126 2388 Fax 傳真: (852) 2122 9078
Email 電郵: info@czdcpa.com

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statement (Form S-8 No. 333-232089) pertaining to the 2019 Share Option Plan of Luckin Coffee Inc. and the registration statement on Form S-8 (File No. 333-260577) pertaining to the 2021 Equity Incentive Plan of Luckin Coffee Inc. of our report dated April 14, 2022, with respect to the consolidated financial statements of Luckin Coffee Inc., included in this Annual Report (Form 20-F) for the year ended December 31, 2021.

/s/ Centurion ZD CPA & Co.

Centurion ZD CPA & Co.
Hong Kong, China

April 14, 2022
