

**THE JOINT PROVISIONAL LIQUIDATORS' SECOND REPORT TO
THE GRAND COURT OF THE CAYMAN ISLANDS
LUCKIN COFFEE INC. (IN PROVISIONAL LIQUIDATION)**

For the period: 18 December 2020 to 29 January 2021

Issue Date: 29 January 2021

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Disclaimers

The following report has been prepared by the Joint Provisional Liquidators of Luckin Coffee Inc. (in Provisional Liquidation) for the purposes of providing the Grand Court of the Cayman Islands with an update on the conduct of the provisional liquidation. Therefore, it may not be copied or disclosed to any third party or otherwise be quoted or referred to, in whole or in part, without the Joint Provisional Liquidators' prior written consent. In the event that the following report is obtained by a third party or used for any purpose other than in accordance with its defined purpose, any such party relying on the report does so entirely at its own risk and shall have no right of recourse against the Joint Provisional Liquidators, their respective firms, partners, directors, employees, professional advisors or agents. This report should be read in conjunction with the Joint Provisional Liquidators' first report dated 17 December 2020.

Any reference to legal advice or otherwise is not intended to, and does not, waive any privilege.

None of the Joint Provisional Liquidators, their respective firms, partners, directors, employees, professional advisors or agents accept any liability or assume any duty of care to any third party (whether it is an assignee or successor of another third party or otherwise) in respect of the following report and any such party who receives a copy of this report, whether from the Joint Provisional Liquidators, their respective firms, or any other source shall have no right of recourse against the Joint Provisional Liquidators or their respective firms, partners, directors, employees, professional advisors or agents.

As discussed further in the following report, whilst the Joint Provisional Liquidators will continue to request independent third-party information, the work undertaken to date to prepare this report has been largely based on information obtained from Luckin Coffee Inc. (in Provisional Liquidation) and its advisors. The Joint Provisional Liquidators have not performed an audit examination of this information. Unless otherwise specifically stated, the Joint Provisional Liquidators have not independently verified the reliability of the sources of information presented to the Joint Provisional Liquidators.

The following report is intended to update the Grand Court of the Cayman Islands on only the relevant and material developments since the Joint Provisional Liquidators' appointment and as such it does not include details of every event that has taken place in the provisional liquidation thus far.

The following report has not been sensitised to consider the potential impact of COVID-19 on Luckin Coffee Inc. (in Provisional Liquidation), or market conditions generally. It will be the stakeholder's responsibility to consider Alvarez & Marsal's findings in light of your own analysis of the impact of COVID-19 on Luckin Coffee Inc. (in Provisional Liquidation).

The following report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements can be identified by terminology such as “will,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates,” “potential,” “continue,” “ongoing,” “targets,” “guidance” and similar statements. Any statements that are not historical facts, including statements about Luckin Coffee Inc.’s (in Provisional Liquidation) beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties. A number of factors could cause actual results to differ materially from those contained in any forward-looking statement, including but not limited to the following: the expense, timing and outcome of existing or future legal and governmental proceedings, investigations in connection with Luckin Coffee Inc. (in Provisional Liquidation); the outcome and effect of the ongoing restructuring of the Luckin Coffee Inc.’s (in Provisional Liquidation) financial obligations; Luckin Coffee Inc.’s (in Provisional Liquidation) growth strategies; its future business development, results of operations and financial condition; the effect of the non-reliance identified in, and the resultant restatement of, certain of the Luckin Coffee Inc.’s (in Provisional Liquidation) previously issued financial results; the timing of the completion or outcome of the audit of the Company’s financial statements; the effectiveness of its internal control; its ability to retain and attract its customers; its ability to maintain and enhance the recognition and reputation of its brand; its ability to maintain and improve quality control policies and measures; its ability to establish and maintain relationships with its suppliers and business partners; trends and competition in China’s coffee industry or China’s food and beverage sector in general; changes in its revenues and certain cost or expense items; the expected growth of China’s coffee industry or China’s food and beverage sector in general; People’s Republic of China governmental policies and regulations relating to Luckin Coffee Inc.’s (in Provisional Liquidation) industry; the potential effects of COVID-19; and general economic and business conditions globally and in China and assumptions underlying or related to any of the foregoing. The Joint Provisional Liquidators and the Luckin Coffee Inc. (in Provisional Liquidation) undertake no obligation to update any forward-looking statement, except as required under applicable law.

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Schedule of Defined Terms

All capitalised terms not otherwise defined in this Second Report shall have the meaning ascribed to them in the First Report.

Term	Definition
3 January Letter	Letter received by the Board on 3 January 2021 concerning allegations against the Company's CEO
BVI Court	Commercial Division of the High Court of Justice of the BVI
DLA U.S./PRC	DLA Piper's LLP (US)-China Cross-Border Investigations Team, representing the JPLs and the independent directors in the Special Panel investigation
First Report	The JPLs' first report to the Cayman Court dated 17 December 2020
Fourth Consent Order	Order by the Cayman Court extending the Second Report due date to 29 January 2021
KWM	King & Wood Mallesons Shanghai Office, the Company's PRC legal counsel
Remediation Team	The remediation team which comprises of the finance, internal audit and legal and compliance functions under the auspices of the audit committee of the Board
Second Report	The JPLs' second report to the Cayman Court dated 29 January 2020 (i.e. this report)
Special Panel	A JPL-led panel formed by the Board to investigate allegations made in the 3 January Letter
U.S. Bankruptcy Court	U.S. Bankruptcy Court, Southern District of New York
JPLs' website	The JPLs' website established for the purposes of publishing all notices, documents and reports in respect of the ongoing provisional liquidation. Link to JPLs' website: https://dm.epiq11.com/luckin

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1 Introduction

- 1.1.1 This is the Second Report of Alexander Lawson and Wing Sze Tiffany Wong of A&M in their capacities as JPLs of the Company. This Second Report was to be submitted on 15 January 2021 however, as the Cayman Court will be aware, by the Fourth Consent Order, that deadline was extended until 29 January 2021 to allow the Company and the JPLs to continue their negotiations with stakeholders.
- 1.1.2 Accordingly, the primary purpose of this Second Report is to provide the Cayman Court with an update on the further material developments in the provisional liquidation since the period covered in the First Report.
- 1.1.3 This Second Report should be read in conjunction with the First Report and therefore, the JPLs do not intend to restate the detailed background previously provided.

Summary

- 1.1.4 As detailed in the subsequent sections of this Second Report, since their First Report, the JPLs have successfully achieved the following:
- continued to work collaboratively and diligently on various aspects of the restructuring with the Company and stakeholders, and whilst substantial progress has been made towards formulating a robust restructuring proposal, various matters are still being negotiated with stakeholders;
 - substantially progressed and are near conclusion of the independent investigation into the 3 January 2021 allegations against the Company's CEO;
 - progressed their discussions with SAFE as it relates to the remittance of funds out of the PRC, and considered the impact that may have on the restructuring;
 - assisted the Company in its negotiations with certain service providers in respect of unpaid debts;
 - continued to monitor and oversee operational and cash management controls per the Protocol; and
 - observed and in their capacity as JPLs contributed in meetings of the Board as agreed under the Protocol.
- 1.1.5 As at the date of this Second Report, the JPLs had hoped to have concluded various stakeholder negotiations that are crucial in shaping the overall trajectory of the restructuring, however, further time is required.
- 1.1.6 **Notwithstanding the above, it should be noted that the negotiations with key stakeholder groups remain ongoing and constructive. The JPLs are optimistic about the Company's ability to successfully implement a restructuring proposal and emerge from the provisional liquidation as a going concern.**

- 1.1.7 The JPLs intend to report on all material developments in respect of the ongoing restructuring as and when they can be publicly disclosed.

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2 Indebtedness and stakeholders

Convertible bondholders (unsecured creditors)

- 2.1.1 The JPLs understand that the CBs are still currently owed US\$467M (in principal and accrued interest) by the Company, as reported in section 7.1.1 of the First Report.
- 2.1.2 An agreement in principle with the Ad-hoc Group has been reached, and the precise terms of the RSA continue to be negotiated between the parties.
- 2.1.3 The JPLs understand that there has been no change to the Ad hoc Group's composition and collectively they control over 80% of the issued convertible bonds, by value.

Shareholders (contingent unsecured creditors)

- 2.1.4 A restructuring of the Company's indebtedness will likely include a restructuring of these contingent claims. In that regard, the JPLs, through Campbells, have started to engage with various US and Cayman attorneys involved in the various class actions and direct claims against the Company and are in the process of agreeing NDAs with each of the following:
- Bernstein Litowitz Berger & Grossmann LLP, Kessler Topaz Meltzer & Check LLP and Bedell Cristin on behalf of the plaintiffs in In re Luckin Coffee Inc. Securities Litigation 1:20-cv-01293 (SDNY) (consolidated class action).
 - Brown Rudnick LLP and Priestleys on behalf of the plaintiffs in Kingstown Capital Management et al. v. Luckin et al., 1:20-cv-07029 (SDNY).
 - Robbins Geller Rudman & Dowd LLP, Berger Montague PC, Shapiro, Haber & Urmy LLP and Ritch & Connolly on behalf of the plaintiffs in In re Luckin Coffee Securities Litigation 651939/2020 (NY Supreme) (consolidated class action).
 - Rolnick Kramer Saighi LLP and Loeb Smith on behalf of the plaintiffs in Nuveen Winslow Large-Cap Growth ESG Fund v. Lu, 655177/2020 (NY Supreme).
- 2.1.5 The JPLs shall continue to engage with these parties, and any other identified plaintiffs, with a view to seeking to negotiate restructuring terms.

SEC and DOJ

- 2.1.6 The JPLs confirm that as at the date of this Second Report, there is no update in respect of the DOJ's investigation and the resolution reached with the SEC remains as previously reported at section 7.4 of the First Report.

Chinese regulators

- 2.1.7 The JPLs confirm that at the date of this Second Report, there have not been additional fines imposed on the Company by any PRC regulators since the events previously reported at section 7.5 of the First Report.
- 2.1.8 The JPLs are not able to confirm whether any of the investigations by any PRC regulators or authorities have been concluded.

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3 Assets

- 3.1.1 As explained in the First Report, the Company is an investment holding company with its principal assets being shares held in its wholly-owned BVI subsidiaries, which in turn, owns the H.K. subsidiaries. As at 31 December 2020, the cash held in the Cayman, BVI and H.K. subsidiaries is approximately RMB192.6M¹ (US\$29.6M).
- 3.1.2 The remainder of the Group's cash is located in the PRC as the Company's operations are principally conducted through its PRC subsidiaries. As at 31 December 2020, cash held in the bank accounts of the PRC subsidiaries totalled RMB4,863.8M (US\$745.2M).
- 3.1.3 A summary of the Group's cash and cash equivalents has been included at Appendix I.
- 3.1.4 As required by the Protocol, a separate sub-account with EFG Bank has been opened for the purposes of paying the Company's reasonable fees and expenses and other expenses as determined by the Board and the JPLs. The sub-account was funded via internal transfer from the JPLs-controlled account with EFG Bank in the amount of US\$13.3M and as at 31 December 2020 the remaining balance in the sub-account is approximately US\$7.0M (which is included in the US\$29.6M that is held by the offshore subsidiaries).

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¹ Unless otherwise noted, the conversion from Renminbi to U.S. dollars is made at RMB6.527 to US\$1.00.

4 Investigations

Special Panel investigation

- 4.1.1 On 3 January 2021, the Board received the 3 January Letter signed by 31 senior to middle management staff members of the Group. On 4 January 2021, another 15 signatures were added on the same 3 January Letter and presented to the Board.
- 4.1.2 The 3 January Letter raised the following general allegations against the Company's CEO:
- Corruption in supplier selection and circumvention of procurement process;
 - Abuse of power and favoritism in relation to staff promotion;
 - Failure to follow expense reimbursement process for personal expenses; and
 - Mismanagement and putting personal interest before the interests of the Company.
- 4.1.3 The Company and the JPLs sought to carry out an investigation without delay in order to safeguard the Company's position (and that of its stakeholders) and as such, at a Board meeting (attended by the JPLs) the Board formed an independent Special Panel, led by the JPLs and with participation of the Company's independent directors, to oversee the investigation into the allegations. One of the independent directors who was appointed by the Board on the Special Panel has voluntarily ceased his participation and further involvement in the independent investigation.
- 4.1.4 The Special Panel has engaged A&M Dispute & Investigation team in PRC, international legal counsel DLA U.S./PRC and PRC legal counsel YLO to assist them in this JPL led investigation.
- 4.1.5 The JPL led investigation has substantially progressed and as at 27 January 2021, 27 interviews have been conducted, and a significant amount of data has been collected from email servers, individuals' laptops and cell phones.
- 4.1.6 The document review process is also underway and the current expectation is that the final investigation report will be presented to the Board during the week commencing 8 February 2021.

JPLs' assessment of remedial steps

- 4.1.7 As noted in section 7.3.1 of the First Report, the JPLs were advised that the Company has continued to take steps to enhance its corporate governance structure and the accounting, banking and financial disclosure controls following the discovery of the fraudulent transactions disclosed in the Company's public disclosure on 2 April 2020. This effort has been led by Remediation Team.

- 4.1.8 In order to fortify the future of the Company against the effects of any past wrong-doing and ensure all parties responsible for those wrong-doings are held fully accountable, the JPLs will review and assess the remedial steps taken by the Company with the view to proposing to the Board any further action that may need to be taken.

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5 SAFE and the remittance of funds from the PRC

- 5.1.1 As explained in the First Report, SAFE regulates and categorises all foreign exchange transactions that may involve cross-border remittance of funds into and out of the PRC. Back in December 2020, the Company expressed concern to the JPLs regarding its ability to get SAFE's approval for the repatriation of the funds needed, to facilitate the restructuring.
- 5.1.2 Following this, the JPLs advised the Company that, given the material and adverse effect this development could potentially have on the restructuring, the JPLs would need a thorough legal explanation, as well as direct dialogue with SAFE (via the JPLs' PRC legal counsel), to comprehensively understand this matter.
- 5.1.3 The JPLs have now:
- received legal advice from KWM (the Company's PRC legal counsel) in relation to the process that SAFE must undertake to allow the repatriation of funds offshore (i.e. out of the PRC); and
 - arranged for their PRC counsel to attend a meeting with KWM, other representatives from the Company and SAFE officials, which took place on 9 December 2020.
- 5.1.4 Following a detailed and thorough review of the information received from the Company's legal counsel, as well as during YLO's meeting with SAFE officials, the JPLs understand that the timing and ability to obtain funds from the PRC is likely to be a protracted process, and will require not only the approval of SAFE, but other PRC governmental bodies, as well.
- 5.1.5 Given the uncertainty surrounding the remittance of funds from the PRC, the JPLs and the Company are continuing to explore various options, for the purposes of fulfilling the Company's restructuring obligations.
- 5.1.6 The JPLs and the Company, through the assistance of their PRC counsel, are continuing their dialogue with SAFE officials and the JPLs will notify all stakeholders of any material developments that arise out of these discussions in due course.
- 5.1.7 As at 31 December 2020, approximately US\$745.2M (i.e. 96%) of the Group's cash is located in the PRC.

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6 Financial statement audit for the year ended 31 December 2019

- 6.1.1 As at the date of this Second Report, the audit of the Company's financial statements for the period ended 31 December 2019 is still ongoing. The JPLs understand that the Company is working with Marcum to resolve the outstanding issues. There is no assurance with respect to the timing of the completion or outcome of the audit.
- 6.1.2 The JPLs further understand that Marcum wish to be advised of the findings of the Special Panel investigation as a further milestone to audit finalisation.
- 6.1.3 The JPLs continue to receive regular updates from the Company on Marcum's progress.

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7 Proposed restructuring and preliminary timeline

- 7.1.1 Since their appointment, the JPLs have been working closely with the Company and its advisors to develop a comprehensive restructuring proposal for key stakeholders.
- 7.1.2 As noted in the First Report, negotiations with different stakeholder groups are still at different stages of development. This phased approach is deliberate, given the legal and commercial complexities of the case. Discussions with the Ad-hoc Group are the most advanced given there is an agreement in principle, with the RSA to follow in due course (as set out at section 2 above).
- 7.1.3 The JPLs continue to engage with U.S. and Cayman Islands counsel for various SH claimants and are developing a robust plan that will allow for the compromise of all SH claims.
- 7.1.4 Following the completion of the RSA, and the finalisation of a robust plan for the SHs, if the JPLs and the Company continue to implement the restructuring by way of schemes of arrangement, the JPLs' reasonable expectation is that completion of the scheme process will take approximately 3-6 months from the filing of such schemes.
- 7.1.5 Meanwhile, the progress and completion of the restructuring is affected by various factors, including the completion of the audit of the Company's financial statements for the period ended 31 December 2019. See section 6 above.
- 7.1.6 The JPLs will keep the Cayman Court updated about the progress made with respect to the proposed restructuring and will advise the Cayman Court of any material updates thereto, as soon as practicable.

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8 JPLs' view on next steps and ongoing restructuring

- 8.1.1 In light of the work that the JPL team and their legal counsel (in all jurisdictions) have undertaken since the appointment, the JPLs' are optimistic that there is scope for a viable restructuring of the Company's indebtedness via the implementation of one or more schemes of arrangement before the Cayman Court. The JPLs intend to file a third update report prior to the filing of such schemes, in order to update the Cayman Court in relation to the progress of the restructuring.



Alexander Lawson

Joint Provisional Liquidator



Wing Sze Tiffany Wong

Joint Provisional Liquidator

Alexander Lawson and Wing Sze Tiffany Wong are authorised to act as JPLs in accordance with the Companies Act (2020 Revision). The JPLs act as agents of the Company only and do so without personal liability.

AI Group cash and cash equivalents as at 31 December 2020

Cash and Cash Equivalents	As of December 31, 2020 (RMB'M)	As of December 31, 2020 (USD'M)
PRC	4,863.8	745.2
H.K.	12.5	2.0
Cayman Islands and BVI	180.1	27.6
Total	5,056.4	774.7

Notes: USD/RMB FX rate of 6.527 assumed