

Project Bike: Preliminary financial due diligence report

September 13, 2016

Reliance Restricted

Draft



Building a better
working world

Any person intending to read this report should first read this letter

Reliance Restricted

September 13, 2016

Warburg Pincus Asia LLC
Suite 6703, Two International Finance Centre,
8 Finance Street
Central, Hong Kong

Dear Sirs:

Project Bike

In accordance with your instructions, we have performed the work set out in our engagement agreement dated September 10, 2016 (the "Engagement Agreement") in connection with the proposed investment (the "Transaction") in a minority interest in Beijing Mobike Technology Co., Ltd. and its subsidiaries and VIEs (the "Target") (the "Target").

Purpose of this report and restrictions on its use

This report (the "Report") was prepared on the specific instructions of the directors of you solely for the purpose of the Transaction and should not be used or relied upon for any other purpose.

The Report and its contents may not be quoted, referred to or shown to any other parties except as provided in the Engagement Agreement.

We accept no responsibility or liability to any person other than to you, or to such party to whom we have agreed in writing to accept a duty of care in respect of the Report, and accordingly if such other persons choose to rely upon any of the contents of the Report they do so at their own risk.

Nature and scope of the services

The nature and scope of the services, including the basis and limitations, are detailed in the Engagement Agreement.

The contents of the Report have not been reviewed by the Target's management and therefore they have not confirmed to us their factual accuracy.

Whilst each part of the Report addresses different aspects of our work, the entire Report should be read for a full understanding of our findings and advice.

Our work commenced and completed on September 10, 2016. Therefore, the Report does not take account of events or circumstances arising after September 10, 2016 and we have no responsibility to update the Report for such events or circumstances.

We appreciate the opportunity to provide our services to you. Please do not hesitate to contact us if you have any questions about this engagement or if we may be of any further assistance.

Yours faithfully,

Stella Yuan

Ernst & Young Transactions Limited

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Overview

Transaction and Target overview

Chart 1: Shareholding structure as of Sep16

Source: Information provided by management

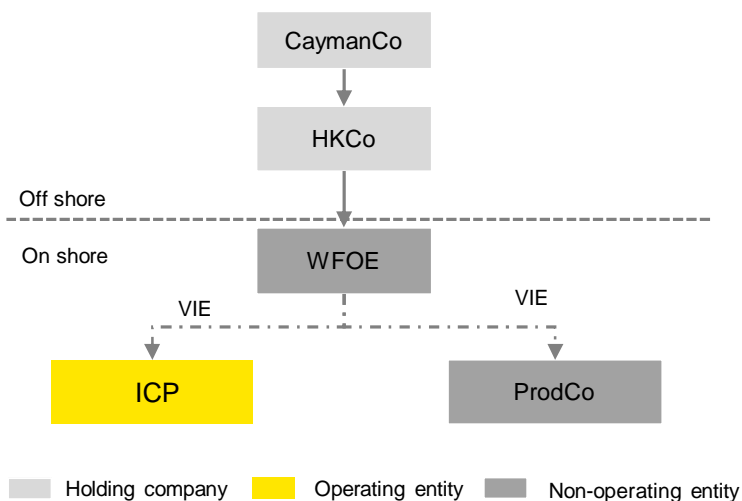
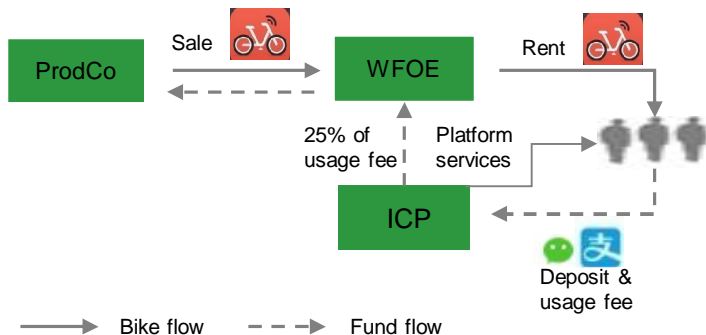


Chart 2: Operation flow - Future arrangement

Source: Information provided by management



Transaction overview

- ▶ Warburg Pincus Asia LLC (referred to as “WP” or the “Investor”) is contemplating an investment in Mobike Group (referred to as the “Target”).

Target overview

- ▶ The WFOE, established in 2015 in Beijing, provides bike rental services to users through its online platform, Mobike. Trial rental services commenced in Shanghai in January 2016 and in Beijing in August 2016.
- ▶ As of Sept16, there were five entities in the Group, of which two (ICP and ProdCo) are under VIE contracts under WFOE. (Please refer to Chart 1 on the left for the Group’s structure as of Sept15 and Table 1 below for the details of three domestic companies.)
- ▶ We understand that the Target has raised three rounds of financing: A round (US\$3 million), B round (US\$8 million) and B+ (US\$8 million). According to management, US\$18 million has been paid to CaymanCo.

Table 1: Company information

Company	Establishment	Registered capital	Major business
WFOE	Jan 2016	US\$3 million	Software development, consulting and sales
ICP	Jan 2015	Rmb5 million	Software development and product design
ProdCo	Apr 2016	US\$10 million	Manufacturing of bikes

Source: Management information and online research

Business overview

- ▶ Currently, all fares and deposits are collected and recorded in ICP. The Target paid VAT at 6% of fares. In the future, the Target will have the following arrangement:
 - ProdCo continues to manufacture bikes and sell them to WFOE
 - Of the rental fee collected from users, 25% was allocated to WFOE for rental income (subject to 17% VAT) and 75% was platform service fees (subject to 6%).

Operation flow

- ▶ Registration: User can register after downloading the app from an appshop.
- ▶ User verification: Prior to upfront payment, the Target verifies the user identify through third-party registration agency at Yuan0.4 per verification.
- ▶ Upfront payment: Once the user is verified, user is requested to pay Yuan300 (Yuan299 upfront refundable deposit and Yuan1 fare).
- ▶ User is required to pay in advance before renting the bike. Usage fee is at Yuan1 per 30 minutes.

Preliminary findings summary

Preliminary findings summary

Item	Description
<p>Scope and access</p>	<p>Scope and access</p> <ul style="list-style-type: none"> ▶ We interviewed CFO Jenny Mu on September 10, 2016 in the Target's office in Beijing; ▶ Financial information obtained included the following: <ul style="list-style-type: none"> – Trial balances and financial statements of May to July, 2016 (August closing is in progress) – Weekly operating data from January 2016 to the first week of September including number of bikes (additions, in operation, losses), user deposits and user usage, etc. – Bank statements of ICP as of July 31, 2016 from China Merchants Bank.

Preliminary findings summary

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Monthly operating results and cash burn	Table 1: Monthly operating results - Shanghai	<p>► The Table 1 presents the monthly operating PL from May to July 2016 and key revenue and operating data in Aug16 and the first week of September 2016. The Target started operating in Shanghai in Apr16 and in Beijing in middle of August 2016. The Target cannot separate the operating results in Shanghai or Beijing, but Table 1 reflects mostly the operating results of Shanghai.</p> <p>► The Target accelerated the expansion from May16 and the number of bikes reached ~25,000 in the first week of September and the number of retained users (users having deposits with the Target) reached 521,000.</p> <p>Revenue and GP</p> <p>► The Target charges users Yuan1 per 30 minutes; and had reached 4.4 trips per day per bike in Shanghai in August 2016.</p> <p>► The majority of the bike operating costs were fixed in nature. (Please see Unit Economics and payback analysis in the later parts of the Report)</p> <p>► Management represented that the intra-city transportation costs were approximately Yuan50 per bike. The Target would also incur recurring costs to move bikes in the city. However, the Target cannot provide details to separate the costs and management represented that ICP have not received all transportation costs invoices.</p>																																																																																																																																																																																
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Preliminary findings summary

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Preliminary findings summary

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Unit economics and payback analysis	Table 1: Unit Economics Analysis			<ul style="list-style-type: none"> ► Scenario 1 is mostly based on the actual operating results from May to Aug16 and incorporated management assumptions such as insurance, repair and maintenance costs. ► The majority of operating costs were fixed in nature; therefore, operating leverage is high. ► The Target did not record costs on an accrual basis and it is possible that costs reflected in the analysis might not be accurate and complete. ► We discussed with management about the scaling potential for number of trips per day, semi-fixed costs and production cost per bike and reflected these in the Scenario 2 and 3 analysis. 					
	<i>Currency: Yuan</i>	Notes	Scenario 1		Note to Scenario 1	Scaling	Scenario 2	Reduction of bike cost	Scenario 3
	No. of trips per bike per day	X	4.4		Actual average in Aug16	Management assumption	6		6
	Average income per trip	Y	1.2		Actual average for 8m16		1.2		1.2
	Total income/bike/day	X*Y	5.3				7.2		7.2
	- VAT cost		0.42				0.57		0.57
	- VAT effective rate		8.1%		Network service fee: 75%*6%=4.5%; Bike rental income: 25%*17%=4.3%		8.1%		8.1%
	Net income/bike/day		4.86				6.63		6.63
	Unlocking SMS	Variable	0.15		Rmb0.035 per trip		0.21		0.21
	Labour cost	Semi-fixed	0.57		July average cost	3 times	0.19		0.19
	Redistribution of bikes	Semi-fixed	0.15		Jul16 actual(assuming 50% recurring moving expenses)/average number of bike	2 times	0.08		0.08
	Insurance	Fixed	0.03		Management assumption at Yuan10/bike/year		0.03		0.03
	Network/broadband expenses	Semi-fixed	0.06		Monthly charge at Rmb42,000/Aug16 fleet size		0.06		0.06
	Regular maintenance	Fixed	0.14		Management assumption: Yuan50 per year		0.14		0.14
	Lock replacement	Fixed	0.17		Yuan 250 per bike		0.17		0.17
	Repair cost	Fixed	0.23		Yuan327 per bike		0.23		0.23
	D&A	Fixed	1.39		Yuan2,000/bike, 48 months	Yuan1,500/bike 48 months	1.04	Yuan1,000/bike 48 months	0.69
	Bike loss cost	Fixed	0.27		5% per annum	Reduce to 2%	0.11		0.11
	Total operating cost		3.16				2.25		1.90
	Break-even point								
	Number of trips/bike/day – average (Note1)		2.8				1.9		1.6
	Payback period								
EBITDA/day/bike (Note2)		3.10			5.43		5.43		
Cost per bike (Note 3)		2,000			1,500		1,000		
Payback period (months)		22			9		6		
	Source: Management Information								
	Note:								
	1. Number of trips/bike/day for breakeven point = (fixed cost + semi-fixed cost) / (average income per trip/(1+effective VAT rate) – unlocking SMS cost per trip)								
	2. EBITDA/day/bike = Net income – total operating cost + D&A								
	3. Payback period = Original cost per bike / EBITDA per day per bike								

Preliminary findings summary

Item	Description
Limitation	<p>Limitations</p> <ul style="list-style-type: none"> ▶ Our analysis in the Report is presented on a single entity basis of ICP. According to management, ICP has captured all transactions of the Target except for capital injections into various entities. ▶ We have encountered the following limitations in our analysis: <ul style="list-style-type: none"> – ProdCo has not yet set up its accounting book and system and has no costing information. Thus the cost per bike is estimated at Yuan2,000 each which might not reflect the actual production cost. – Expenses were recorded on an invoice basis instead of on an accrual basis, thus expenses are subject to cut-off errors. – Management did not prepare consolidated financial statements as a group. ▶ We were not provided the financial statements of ProdCo, WFOE, CaymanCo or HKCo and proof of capital injection (such as bank receipt, bank statements, capital verification report) into CaymanCo, ProdCo, WFOE and ICP.

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