

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

FORM 20-F

- (Mark One)
- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 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

Date of event requiring this shell company report _____

For the transition period from _____ to _____
Commission file number: 001-38649

Viomi Technology Co., Ltd

(Exact Name of Registrant as Specified in Its Charter)

N/A
(Translation of Registrant's Name Into English)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

**Wansheng Square, Rm 1302 Tower C, Xingang East Road, Haizhu District
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People's Republic of China

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

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

Title of Each Class	Trading Symbol	Name of Each Exchange On Which Registered
American depositary shares, each representing three Class A ordinary shares	VIOT	The Nasdaq Stock Market LLC (The Nasdaq Global Select Market)
Class A ordinary shares, par value US\$0.00001 per share*		The Nasdaq Stock Market LLC (The Nasdaq Global Select Market)

*Not for trading, but only in connection with the listing on the Nasdaq Stock Market of American depositary shares.

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

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

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

As of December 31, 2021, there were 208,731,326 ordinary shares issued and outstanding, being the sum of (i) 105,516,779 Class A ordinary shares, par value US\$0.00001 per share (excluding 13,813,185 Class A ordinary shares that were issued to our depositary bank and reserved for future grants under our share incentive plans), and (ii) 103,214,547 Class B ordinary shares, par value US\$0.00001 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically 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, a non-accelerated filer, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† 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. Yes No

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 Sections 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

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INTRODUCTION

Unless otherwise indicated and except where the context otherwise requires, references in this annual report on Form 20-F to:

- “ADRs” are to the American depositary receipts that evidence our ADSs;
- “ADSs” are to our American depositary shares, each of which represents three Class A ordinary shares of par value US\$0.00001 each;
- “China” or the “PRC” are to the People’s Republic of China, excluding, for the purposes of this annual report only, Hong Kong, Macau and Taiwan;
- “Class A ordinary shares” refers to our Class A ordinary shares of par value US\$0.00001 per share;
- “Class B ordinary shares” refers to our Class B ordinary shares of par value US\$0.00001 per share;
- “household users” as of a specified date are to households where at least one of our IoT products was connected to the internet;
- “IoT” are to the Internet of Things, an interconnected network of devices, or “things,” that can communicate with one another through the internet;
- our “IoT @ Home platform” are to our ecosystem of innovative IoT-enabled smart home products, together with a suite of complementary consumable products and value-added businesses, powered by advanced AI, proprietary software and data analytics systems;
- our “IoT-enabled smart home products” and our “IoT products” are to our portfolio of smart home products with internet or Bluetooth interconnectivity and communication capabilities, including our smart water purification systems, smart kitchen products and other smart products (such as smart water kettles);
- “ordinary shares” are to our Class A and Class B ordinary shares, par value US\$0.00001 per share;
- “our VIEs” are to Foshan Yunmi Electric Appliances Technology Co., Ltd., or Foshan Viomi, and Beijing Yunmi Technology Co., Ltd., or Beijing Viomi;
- “Viomi,” “we,” “us,” “our Company” and “our” are to Viomi Technology Co., Ltd, our Cayman Islands holding company and its subsidiaries, and, in the context of describing our operations and consolidated financial information, our VIEs and the subsidiaries of our VIEs in China;
- “our WFOE I” are to Lequan Technology (Beijing) Co., Ltd., or Lequan Technology;
- “our WFOE II” are to Yunmi Hulian Technology (Guangdong) Co., Ltd., or Yunmi Hulian, and together with our WFOE I, “our WFOEs”;
- “RMB” and “Renminbi” are to the legal currency of China;
- “US\$,” “U.S. dollars,” “\$,” and “dollars” are to the legal currency of the United States; and
- “Xiaomi” are to Xiaomi Corporation, an internet company and a principal shareholder of our Company as of the date of this annual report, and/or any of its affiliates.

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that relate to our current expectations and views of future events. 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. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigations Reform Act of 1995.

You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include statements relating to:

- our mission and strategies;
- our future business development, financial conditions and results of operations;
- the expected growth of the IoT-enabled smart home products market and the home appliances market in China;
- the expected development of our overseas business;
- the expected growing application of AI technology in smart home products;
- our expectations regarding our relationships with our ecosystem partners;
- our expectations regarding the success of our sales channel expansion and optimization;
- competition in our industry; and
- relevant government policies and regulations relating to our industry or any aspect of our operations.

You should read this annual report and the documents that we refer to in this annual report and have filed as exhibits to this annual report completely and with the understanding that our actual future results may be materially different from what we expect. Other sections of this annual report discuss factors that could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

You should not rely upon forward-looking statements as predictions of future events. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

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

Our Holding Company Structure and VIE Contractual Arrangements

Viomi Technology Co., Ltd is not a Chinese operating company but rather a Cayman Islands holding company that does not conduct business directly and has no equity ownership in our VIEs. We conduct our operations in China through (i) our WFOEs and (ii) our VIEs with which we have maintained contractual arrangements. PRC laws and regulations restrict and impose conditions on foreign investment in internet and other related businesses in China. According to the Special Administrative Measures (Negative List) for Foreign Investment Access, our provision of internet information services falls within the restricted category and the equity ratio of foreign investment in the enterprises operating the business under the restricted category is subject to the cap of 50%. In addition, although our provision of e-commerce services falls within the permitted category, foreign investments in this business are still restricted by other qualifications and requirements under related regulations in China. Accordingly, we operate this business in China through our VIEs, and rely on contractual arrangements among our WFOEs, our VIEs and the nominee shareholders of the VIEs to control the business operations of our VIEs. Our VIEs are consolidated for accounting purposes, but are not entities in which our Cayman Islands holding company, or our investors, own equity. Revenues contributed by our VIEs accounted for 100%, 99.4% and 91.6% of our total revenues for the years ended December 31, 2019, 2020 and 2021, respectively. As used in this annual report, “we,” “us,” “our company,” “our,” or “Viomi” refers to Viomi Technology Co., Ltd, its subsidiaries, and, in the context of describing our operations and consolidated financial information, our VIEs in China, Foshan Yunmi Electric Appliances Technology Co., Ltd., or Foshan Viomi and Beijing Yunmi Technology Co., Ltd., or Beijing Viomi. Investors in our ADSs are not purchasing equity interest in our VIEs in China but instead are purchasing equity interest in a holding company incorporated in the Cayman Islands.

A series of contractual agreements have been entered into by and among our WFOEs, our VIEs and their respective shareholders, including (i) shareholder voting proxy agreements and equity pledge agreements, which provide us with effective control over our VIEs in China, (ii) exclusive consultation and service agreements, which allow us to receive economic benefits from our VIEs in China, (iii) exclusive option agreements, which provide us with the option to purchase the equity interests in, and assets of, our VIEs, and (iv) equity pledge agreements, under which the shareholders of our VIEs have pledged 100% equity interests in our VIEs to our WFOEs to secure shareholders’ obligations under the exclusive option agreements, the shareholder voting proxy agreements and the equity pledge agreements. Terms contained in each set of contractual arrangements with our VIEs and their respective shareholders are substantially similar. For more details of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Our VIEs and Their Shareholders.”

However, the contractual arrangements may not be as effective as direct ownership in providing us with control over our VIEs and we may incur substantial costs to enforce the terms of the arrangements. All of the agreements under our contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes arising from these contracts would be resolved in accordance with PRC legal procedures. These arrangements have not been tested in arbitral tribunals or courts. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States, and the uncertainties involved in it could limit our ability to enforce these contractual arrangements. Further, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a VIE should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely on contractual arrangements with our VIEs and their respective shareholders for substantially all of our business operation, which may not be as effective as direct ownership in providing operation control” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—Any failure by our VIEs or their shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business, financial condition and results of operations.”

There are also substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules regarding the status of the rights of our Cayman Islands holding company with respect to its contractual arrangements with our VIEs and its nominee shareholders. It is uncertain whether any new PRC laws or regulations relating to VIE structures will be adopted or if adopted, what they would provide. If we or any of our VIEs is found to be in violation of any existing or future PRC 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 to take action in dealing with such violations or failures. If the PRC government deems that our contractual arrangements with our VIEs 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 or are interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. Our holding company, our WFOEs and VIEs, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with our VIEs and, consequently, significantly affect the financial performance of our VIEs and their subsidiaries and our company as a whole. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system and changes in laws and regulations in China could adversely affect us.”

We face various risks and uncertainties related to doing business in China. Our business operations are primarily conducted in China, and we are subject to complex and evolving PRC laws and regulations. For example, we face risks associated with regulatory approvals on offshore offerings, anti-monopoly regulatory actions, and oversight on cybersecurity and data privacy, as well as the lack of inspection by the Public Company Accounting Oversight Board, or the PCAOB, on our auditors, which may impact our ability to conduct certain businesses, accept foreign investments, or list on a United States or other foreign exchange. On December 16, 2021, the PCAOB issued a report to notify the SEC its determinations that it is unable to inspect or investigate completely registered public accounting firms headquartered in Mainland China, and identifies the registered public accounting firms in Mainland China that are subject to such determinations. Our auditor is identified by the PCAOB and is subject to the determination. Under the Holding Foreign Companies Accountable Act, 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 U.S. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. These risks could result in a material adverse change in our operations and the value of our ADSs, significantly limit or completely hinder our ability to continue to offer securities to investors, or cause the value of such securities to significantly decline or become worthless. For a detailed description of risks related to doing business in China, please refer to risks disclosed under “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China.”

PRC government’s significant authority in regulating our operations and its oversight and control over offerings conducted overseas by, and foreign investment in, China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors. Implementation of industry-wide regulations in this nature may cause the value of such securities to significantly decline or become worthless. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PRC government’s significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs.”

Risks and uncertainties arising from the legal system in China, including risks and uncertainties regarding the enforcement of laws and quickly evolving rules and regulations in China, could result in a material adverse change in our operations and the value of our ADSs. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system and changes in laws and regulations in China could adversely affect us.”

Cash Flows through Our Organization

Viomi Technology Co., Ltd is a holding company with no operations of its own. We conduct our operations in China primarily through our subsidiaries and VIEs in China. As a result, although other means are available for us to obtain financing at the holding company level, Viomi Technology Co., Ltd’s ability to pay dividends to the shareholders and to service any debt it may incur may depend upon dividends paid by our PRC subsidiaries and license and service fees paid by our VIEs.

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 Viomi Technology Co., Ltd. In addition, our PRC subsidiaries are permitted to pay dividends to Viomi Technology Co., Ltd only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Further, our PRC subsidiaries and VIEs and their subsidiaries are required to make appropriations to certain statutory reserve funds or may make appropriations to certain discretionary funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies. For more details, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Holding Company Structure.” For risks relating to the fund flows of our operations in China, see “Item 3. Key Information—Risk Factors—Risks Related to Our Corporate Structure—We may rely on dividends paid by our PRC subsidiaries to fund any cash and financing requirements we may have. Any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to holders of the ADSs and our ordinary shares.”

Under PRC laws and regulations, our PRC subsidiaries and our VIEs are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. Remittance of dividends by our PRC subsidiaries out of Mainland China is also subject to examination by the banks designated by the State Administration of Foreign Exchange, or SAFE, and declaration and payment of withholding tax. The amounts restricted include the paid-up capital and the statutory reserve funds of our PRC subsidiaries and the net assets of our consolidated variable interest entities in which we have no legal

ownership. Our PRC subsidiaries, our VIEs and their subsidiaries generate their revenue primarily in Renminbi, which is not freely convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of our PRC subsidiaries to pay dividends to us. In addition, under the Enterprise Income Tax Law of the PRC, or the EIT Law, and its implementation rules, undistributed profits earned by foreign-invested enterprises, or FIEs, prior to January 1, 2008 are exempted from any withholding tax, while profits of a FIE generated in or after 2008 that are distributed to its immediate holding company outside Mainland China are subject to withholding tax at a rate of 10%, unless the foreign holding company's jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding tax. For example, a holding company in Hong Kong, subject to approval of the PRC local tax authority, will be eligible to a 5% withholding tax rate under the Arrangement Between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital if such holding company is considered to be a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC FIE distributing the dividends. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend will remain subject to withholding tax at a rate of 10%. See also "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Governmental control of currency conversion may limit our ability to utilize our cash balance effectively and affect the value of your investment," and "Item 5. Operating And Financial Review And Prospects—B. Liquidity and Capital Resources—Holding Company Structure."

Under PRC law, Viomi Technology Co., Ltd and its offshore subsidiaries may provide funding to our PRC subsidiaries only through capital contributions or loans, and to our VIEs only through loans, subject to satisfaction of applicable government registration and approval requirements. In the years ended December 31, 2019, 2020 and 2021, Viomi Technology Co., Ltd and its offshore subsidiaries extended loans with outstanding principal amount of RMB383.7 million, RMB358.9 million and RMB350.7 million (US\$55.0 million), respectively, to our VIEs.

Our VIEs may transfer cash to our relevant WFOEs by paying service fees according to the exclusive consultation and service agreements. Our VIEs agree in the respective exclusive consultation and service agreements to pay our WFOEs an annual service fee at an amount that is equal to 100% of their respective annual net income or the amount which is adjusted in accordance with our relevant WFOE's sole discretion for the relevant year as well as the mutually agreed amount for certain other technical services, both of which should be paid within three months after the end of the relevant calendar year. Our WFOEs have the exclusive ownership of all the intellectual property rights created as a result of the performance of the exclusive consultation and service agreement, to the extent permitted by applicable PRC laws. In 2019, 2020 and 2021, our WFOE did not collect service fees from our VIEs in China under the exclusive consultation and service agreements.

For asset/cash flows other than the cash flows discussed above transferred through our organization in the years ended December 31, 2019, 2020 and 2021, please refer to "Item 3. Key Information—A. Selected Financial Data—Selected Financial Information Related to the VIEs—Selected Condensed Consolidated Cash Flows Data."

In the year ended December 31, 2019, 2020 and 2021, no dividends or distributions were made to U.S. investors other than the special cash dividend of US\$0.0333 per ordinary share (or US\$0.1 per ADS) on our outstanding ordinary shares declared by our board of directors on March 18, 2019. We do not intend to have any of its subsidiaries located in PRC distribute any undistributed earnings of such subsidiaries in the foreseeable future, but rather expects that such earnings will be reinvested by such subsidiaries in their operations or transferred by such subsidiaries to our VIEs and their subsidiaries for their operations.

For the years ended December 31, 2019, 2020 and 2021, no dividend or distribution was made to Viomi Technology Co., Ltd or its offshore subsidiaries by our PRC subsidiaries. Accordingly, no withholding tax was recorded in the corresponding period. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy." For PRC and United States federal income tax considerations of an investment in our ADSs, see "Item 10. Additional Information—E. Taxation."

For purposes of illustration, the following discussion reflects the hypothetical taxes that might be required to be paid within Mainland China, assuming that: (i) we have taxable earnings, and (ii) we determine to pay a dividend in the future:

	Taxation Scenario(1) (Statutory Tax and Standard Rates)
Hypothetical pre-tax earnings ⁽²⁾	100%
Tax on earnings at statutory rate of 25% ⁽³⁾	(25)%
Net earnings available for distribution	75%
Withholding tax at standard rate of 10% ⁽⁴⁾	(7.5)%
Net distribution to Parent/Shareholders	67.5%

Notes:

- (1) For purposes of this example, the tax calculation has been simplified. The hypothetical book pre-tax earnings amount, not considering timing differences, is assumed to equal taxable income in China.

- (2) Under the terms of the contractual arrangements between our PRC subsidiaries, our VIEs and shareholders of our VIEs, our PRC subsidiaries may charge our VIEs for services provided. These fees shall be recognized as expenses of our VIEs, with a corresponding amount as service income by our PRC subsidiaries and eliminate in consolidation. For income tax purposes, our PRC subsidiaries and VIEs file income tax returns on a separate company basis. The fees paid are recognized as a tax deduction by our VIEs and as income by our PRC subsidiaries and are tax neutral.
- (3) Certain of our subsidiaries and VIEs qualifies for a 15% preferential income tax rate in China. However, such rate is subject to qualification, is temporary in nature, and may not be available in a future period when distributions are paid. For purposes of this hypothetical example, the table above reflects a maximum tax scenario under which the full statutory rate would be effective.
- (4) The EIT Law imposes a withholding income tax of 10% on dividends distributed by a foreign invested enterprise, or FIE, to its immediate holding company outside of Mainland China. A lower withholding income tax rate of 5% is applied if the FIE's immediate holding company is registered in Hong Kong or other jurisdictions that have a tax treaty arrangement with Mainland China, subject to a qualification review at the time of the distribution. For purposes of this hypothetical example, the table above assumes a maximum tax scenario under which the full withholding tax would be applied.

The table above has been prepared under the assumption that all profits of our VIEs will be distributed as fees to our PRC subsidiaries under tax neutral contractual arrangements. If, in the future, the accumulated earnings of our VIEs exceed the fees paid to our PRC subsidiaries (or if the current and contemplated fee structure between the intercompany entities is determined to be non-substantive and disallowed by Chinese tax authorities), our VIEs could, as a matter of last resort, make a non-deductible transfer to our PRC subsidiaries for the amounts of the stranded cash in our VIEs. This would result in such transfer being non-deductible expenses for our VIEs but still taxable income for the PRC subsidiaries. Such a transfer and the related tax burdens would reduce our after-tax income to approximately 50.6% of the pre-tax income. Our management believes that there is only a remote possibility that this scenario would happen.

Permissions Required from the PRC Authorities for Our Operations

We conduct our business primarily through our subsidiaries and VIEs and their subsidiaries in China. Our operations in China are governed by PRC laws and regulations. As of the date of this annual report, our PRC subsidiaries and VIEs and their subsidiaries have obtained the requisite licenses and permits from the PRC government authorities that are material for the business operations of our holding company, our PRC subsidiaries and our VIEs in China, including, among others, the business licenses, the hygiene licenses and the VATS License. Given the uncertainties of interpretation and implementation of relevant laws and regulations and the enforcement practice by relevant government authorities, we may be required to obtain additional licenses, permits, filings or approvals for the functions and services of our platform in the future. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations.”

Furthermore, we and our VIEs may be required to obtain permissions from the China Securities Regulatory Commission, or the CSRC, and may be required to go through cybersecurity review by the Cyberspace Administration of China, or the CAC, in case of any future issuance of securities to foreign investors. Any failure to obtain or delay in obtaining such approval or completing such procedures would subject us to sanctions by the CSRC, CAC or other PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from our offshore offerings into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our ADSs. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PRC government’s significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs,” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The approval of and filing with the CSRC or other PRC government authorities may be required if we were to conduct offshore offerings in the future, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.”

A. Selected Financial Data

Our Selected Consolidated Financial Data

The following selected consolidated statements of operations and selected consolidated statements of cash flows data for the years ended December 31, 2019, 2020 and 2021 and selected consolidated balance sheets data as of December 31, 2020 and 2021 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. Our selected consolidated balance sheets data as of December 31, 2017, 2018 and 2019 and the selected consolidated statements of operations and selected consolidated statements of cash flows data for 2017 and 2018 have been derived from our audited consolidated financial statements not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate results expected for any future periods. You should read this Selected Consolidated Financial Data and Selected Operating Data section together with our

consolidated financial statements and the related notes in conjunction with “Item 5. Operating and Financial Review and Prospects” below.

The following table presents our selected consolidated statements of comprehensive income data for the years ended December 31, 2017, 2018, 2019, 2020 and 2021.

	For the Year Ended December 31,					
	2017	2018	2019	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except for share and per share data)					
Selected Consolidated Statements of Comprehensive Income Data:						
Net revenues⁽¹⁾	873,219	2,561,229	4,647,513	5,825,624	5,303,835	832,288
Cost of revenues	(598,036)	(1,843,432)	(3,565,109)	(4,742,668)	(4,105,767)	(644,285)
Gross profit	275,183	717,797	1,082,404	1,082,956	1,198,068	188,003
Operating expenses⁽²⁾:						
Research and development expenses ⁽²⁾	(60,749)	(124,230)	(204,942)	(265,680)	(311,786)	(48,926)
Selling and marketing expenses ⁽²⁾	(95,296)	(379,554)	(529,212)	(597,176)	(751,011)	(117,850)
General and administrative expenses ⁽²⁾	(15,818)	(135,532)	(73,061)	(68,914)	(97,730)	(15,336)
Total operating expenses	(171,863)	(639,316)	(807,215)	(931,770)	(1,160,527)	(182,112)
Other income	2,236	1,829	35,880	32,795	27,128	4,257
Income from operations	105,556	80,310	311,069	183,981	64,669	10,148
Interest income and short-term investment income	2,402	8,846	26,109	31,968	28,589	4,486
Income before income tax expenses	107,958	89,411	339,020	217,767	94,630	14,849
Income tax expenses	(14,718)	(24,061)	(45,190)	(43,321)	(5,739)	(901)
Net income	93,240	65,350	293,830	174,446	88,891	13,948
Net income attributable to the Company	93,240	65,358	292,170	173,324	88,605	13,903
Net income attributable to ordinary shareholders of the Company	8,033	50,544	292,170	173,324	88,605	13,903
Net income per share attributable to ordinary shareholders of the Company:						
Net income per ordinary share—basic	0.39	0.70	1.40	0.83	0.42	0.07
Net income per ordinary share—diluted	0.31	0.64	1.35	0.80	0.40	0.06
Weighted average number of ordinary shares used in computing net income per share:						
Ordinary shares—basic	20,684,681	71,771,033	208,156,507	208,812,049	209,551,821	209,551,821
Ordinary shares—diluted	25,579,806	79,590,780	215,855,577	215,623,773	220,735,997	220,735,997

Notes:

- (1) Included RMB739.5 million, RMB1,311.9 million, RMB2,112.2 million, RMB2,889.4 million and RMB2,295.6 million (US\$360.2 million) from sales to Xiaomi for the year ended December 31, 2017, 2018, 2019, 2020 and 2021, respectively.

(2) Share-based compensation expenses were allocated as follows:

	For the Year ended December 31,					
	2017	2018	2019	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
General and administrative expenses	3,303	93,718	7,282	11,303	9,130	1,433
Research and development expenses	1,903	14,476	23,564	49,996	32,609	5,117
Selling and marketing expenses	615	8,417	12,322	10,904	5,666	889
Total	5,821	116,611	43,168	72,203	47,405	7,439

The following table presents our selected consolidated balance sheet data as of December 31, 2017, 2018, 2019, 2020 and 2021.

	As of December 31,					
	2017	2018	2019	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Selected Consolidated Balance Sheet Data:						
Current assets:						
Cash and cash equivalents	279,952	940,298	972,438	504,108	586,955	92,106
Amounts receivable from a related party, net	249,548	260,984	707,947	609,094	320,939	50,362
Short-term investments	—	168,993	316,201	696,051	828,867	130,067
Total current assets	665,431	1,902,728	2,907,615	2,931,899	2,945,773	462,256
Total assets	671,565	1,923,068	3,022,473	3,179,519	3,276,714	514,188
Total current liabilities	432,385	851,685	1,632,840	1,634,107	1,594,528	250,216
Total liabilities	432,845	852,203	1,648,026	1,649,200	1,625,787	255,121
Total mezzanine equity	407,928	—	—	—	—	—
Pre-IPO Class A ordinary shares	2	—	—	—	—	—
Class A ordinary shares	—	5	6	6	6	1
Class B ordinary shares	—	7	6	6	6	1
Total shareholders' (deficit) equity	(169,208)	1,070,865	1,374,447	1,530,319	1,650,927	259,067

The following table presents our selected consolidated cash flow data for the years ended December 31, 2017, 2018, 2019, 2020 and 2021.

	For the Year Ended December 31,					
	2017	2018	2019	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Selected Consolidated Cash Flow Data:						
Net cash provided by operating activities	123,906	222,269	245,484	185,196	308,968	48,485
Net cash used in investing activities	(1,234)	(151,821)	(268,956)	(433,083)	(265,321)	(41,636)
Net cash provided by/(used in) financing activities	2,671	604,975	48,542	(146,375)	17,133	2,687
Effect of exchange rate changes on cash and cash equivalents	(2,321)	14,473	8,087	(34,034)	(12,703)	(1,993)
Net increase/(decrease) in cash and cash equivalents and restricted cash	123,022	689,896	33,157	(428,296)	48,077	7,543
Cash and cash equivalents and restricted cash at the beginning of the year	156,930	279,952	969,848	1,003,005	574,709	90,186
Cash and cash equivalents and restricted cash at the end of the year	279,952	969,848	1,003,005	574,709	622,786	97,729

We present our financial results in RMB. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. Unless otherwise noted, all translations from Renminbi to U.S. dollars and

from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.3726 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System as of December 30, 2021.

Selected Financial Information Related to the VIEs

Set forth below are the condensed consolidated schedule showing the financial position as of December 31, 2019, 2020 and 2021, and results of operations and cash flows for the years ended December 31, 2019, 2020 and 2021 for (i) Viomi Technology Co., Ltd, or the Company; (ii) our WFOEs (which are the primary beneficiary of the VIEs) and WFOEs' subsidiary; (iii) our other equity subsidiaries (excluding our WFOEs and their subsidiary); (iv) the VIEs and their subsidiaries; (v) eliminating adjustments; and (vi) consolidated totals.

Selected Condensed Consolidated Statements of Operations Data

	For the Year Ended December 31, 2021					
	The Company	Equity Subsidiaries	Primary Beneficiary of VIEs and its Subsidiary	VIEs and their Subsidiaries	Eliminations	Consolidated
	(RMB in thousands)					
Inter-company revenues (1)	—	1,217,576	241,923	131,379	(1,590,878)	—
Related-party and third-party revenues	—	444,421	—	4,859,414	—	5,303,835
Total revenues	—	1,661,997	241,923	4,990,793	(1,590,878)	5,303,835
Cost of revenues	—	(1,304,955)	(225,445)	(4,162,277)	1,586,910	(4,105,767)
Research and development expenses (2)	—	(66,340)	(26,497)	(222,065)	3,116	(311,786)
Selling and marketing expenses	—	(77,071)	(27,188)	(646,752)	—	(751,011)
General and administrative expenses	(6,306)	(10,645)	(2,900)	(77,879)	—	(97,730)
Total operating expenses	(6,306)	(154,056)	(56,585)	(946,696)	3,116	(1,160,527)
Other income	—	3,878	1,727	21,523	—	27,128
Equity in gain/(loss) of subsidiaries/VIEs (3)	78,366	(101,065)	(61,780)	—	84,479	—
Income from operations	72,060	105,799	(100,160)	(96,657)	83,627	64,669
Interest (expenses)/income and short-term investment income-net (4)	14,280	(3,782)	(640)	18,886	(155)	28,589
Other non-operating income/(loss)	2,421	—	—	(1,049)	—	1,372
Income before income tax expenses	88,761	102,017	(100,800)	(78,820)	83,472	94,630
Income tax expenses/(credit)	—	(23,651)	—	17,912	—	(5,739)
Net income	88,761	78,366	(100,800)	(60,908)	83,472	88,891
Less: Net income attributable to the non-controlling interest shareholders	—	—	—	286	—	286
Net income attributable to the Company	88,761	78,366	(100,800)	(61,194)	83,472	88,605

For the Year Ended December 31, 2020

	The Company	Equity Subsidiaries	Primary Beneficiary of VIEs and its Subsidiary	VIEs and their Subsidiaries	Eliminations	Consolidated
	(RMB in thousands)					
Inter-company revenues (1)	—	185,166	30,643	25,994	(241,803)	—
Related-party and third-party revenues	—	27,515	7,634	5,790,475	—	5,825,624
Total revenues	—	212,681	38,277	5,816,469	(241,803)	5,825,624
Cost of revenues	—	(178,054)	(34,020)	(4,770,877)	240,283	(4,742,668)
Research and development expenses (2)	—	(14,788)	(6,248)	(246,163)	1,519	(265,680)
Selling and marketing expenses	—	(1,376)	(3,544)	(592,256)	—	(597,176)
General and administrative expenses	(6,183)	(486)	(2,106)	(60,139)	—	(68,914)
Total operating expenses	(6,183)	(16,650)	(11,898)	(898,558)	1,519	(931,770)
Other income/(expenses)	—	188	(5)	32,612	—	32,795
Equity in gain of subsidiaries/VIEs (3)	156,823	142,630	151,786	—	(451,239)	—
Income from operations	150,640	160,795	144,140	179,646	(451,240)	183,981
Interest income/(expenses) and short-term investment income-net (4)	20,364	(3,665)	(1,501)	16,761	9	31,968
Other non-operating income/(loss)	2,312	—	—	(494)	—	1,818
Income before income tax expenses	173,316	157,130	142,639	195,913	(451,231)	217,767
Income tax expenses	—	(307)	(9)	(43,005)	—	(43,321)
Net income	173,316	156,823	142,630	152,908	(451,231)	174,446
Less: Net income attributable to the non-controlling interest shareholders	—	—	—	1,122	—	1,122
Net income attributable to the Company	173,316	156,823	142,630	151,786	(451,231)	173,324

For the Year Ended December 31, 2019

	The Company	Equity Subsidiaries	Primary Beneficiary of VIEs and its Subsidiary	VIEs and their Subsidiaries	Eliminations	Consolidated
	(RMB in thousands)					
Inter-company revenues (1)	—	—	—	—	—	—
Related-party and third-party revenues	—	—	—	4,647,513	—	4,647,513
Total revenues	—	—	—	4,647,513	—	4,647,513
Cost of revenues	—	—	—	(3,565,109)	—	(3,565,109)
Research and development expenses	—	—	—	(204,942)	—	(204,942)
Selling and marketing expenses	—	—	(8)	(529,204)	—	(529,212)
General and administrative expenses	(6,462)	(172)	(533)	(65,894)	—	(73,061)
Total operating expenses	(6,462)	(172)	(541)	(800,040)	—	(807,215)
Other income	—	—	—	35,880	—	35,880
Equity in gain of subsidiaries/VIEs (3)	274,326	274,231	274,766	—	(823,323)	—
Income from operations	267,864	274,059	274,225	318,244	(823,323)	311,069
Interest income and short-term investment income-net (4)	22,453	267	6	3,372	11	26,109
Other non-operating income	1,842	—	—	—	—	1,842
Income before income tax expenses	292,159	274,326	274,231	321,616	(823,312)	339,020
Income tax expenses	—	—	—	(45,190)	—	(45,190)
Net income	292,159	274,326	274,231	276,426	(823,312)	293,830
Less: Net income attributable to the non-controlling interest shareholders	—	—	—	1,660	—	1,660
Net income attributable to the Company	292,159	274,326	274,231	274,766	(823,312)	292,170

Notes:

- (1) It represents the elimination of inter-company transactions among the VIEs and our subsidiaries.

Inter-company revenues between VIEs and other subsidiaries.

VIEs sell certain products to other subsidiaries. For the years ended 31 December, 2019, 2020 and 2021, the inter-company sales recognized by VIEs to equity subsidiaries are nil, RMB12.6 million and RMB131.3 million, respectively. Additionally, the inter-company sales recognized by VIEs to primary beneficiary of VIEs and their subsidiaries for the year ended 31 December, 2019, 2020 and 2021 are nil, RMB13.4 million and RMB0.1 million, respectively.

In 2019, 2020 and 2021, primary beneficiary of VIEs and their subsidiary did not charge any service fee from our VIEs in China under the exclusive consultation and service agreements.

- (2) WFOE I collected research and development fees from our VIEs in China and recognized as revenue in amounts of nil, RMB1.5 million and RMB3.1 million (US\$486.5 thousand), respectively, under the research and development agreements. No amount of such transaction is unsettled.
- (3) It represents the elimination of the investment in VIEs and subsidiaries by the Company.
- (4) It represents the elimination of finance costs of loans among the Company, the VIEs and our subsidiaries charged at the consolidation level.

Selected Condensed Consolidated Balance Sheets Data

	For the Year Ended December 31, 2021					
	The Company	Equity Subsidiaries	Primary Beneficiary of VIEs and its Subsidiary	VIEs and their Subsidiaries	Eliminations	Consolidated
Assets						
Cash and cash equivalents	11,021	137,910	84,470	353,554	—	586,955
Short-term investments	—	8,158	365	820,344	—	828,867
Accounts receivable from third parties	—	97,522	45	204,769	—	302,336
Accounts receivable from a related party	—	—	—	320,939	—	320,939
Inventories	—	180,017	34,800	362,385	(851)	576,351
Amounts due from Group companies(1)	609,099	460,457	14,819	232,203	(1,316,578)	—
Investments in subsidiaries (2)	1,041,107	974,511	—	—	(2,015,618)	—
Investments in VIEs (2)	—	—	888,489	—	(888,489)	—
Other assets	1,433	72,391	203,873	383,569	—	661,266
Total assets	<u>1,662,660</u>	<u>1,930,966</u>	<u>1,226,861</u>	<u>2,677,763</u>	<u>(4,221,536)</u>	<u>3,276,714</u>
Liabilities						
Accounts and notes payable	—	522,015	1,127	545,966	—	1,069,108
Accrued expenses and other liabilities	10,501	34,252	36,135	292,388	—	365,249
Amounts due to Group companies (1)	4,754	289,188	198,332	824,304	(1,316,578)	—
Other liabilities	—	44,404	16,491	122,508	—	191,430
Total Liabilities	<u>15,255</u>	<u>889,859</u>	<u>252,085</u>	<u>1,785,166</u>	<u>(1,316,578)</u>	<u>1,625,787</u>
Total equity attributable to shareholders of the Company	<u>1,647,405</u>	<u>1,041,107</u>	<u>974,776</u>	<u>889,075</u>	<u>(2,904,958)</u>	<u>1,647,405</u>
Non-controlling interests	—	—	—	3,522	—	3,522
Total shareholders' equity	<u>1,647,405</u>	<u>1,041,107</u>	<u>974,776</u>	<u>892,597</u>	<u>(2,904,958)</u>	<u>1,650,927</u>
Total liabilities and shareholders' equity	<u>1,662,660</u>	<u>1,930,966</u>	<u>1,226,861</u>	<u>2,677,763</u>	<u>(4,221,536)</u>	<u>3,276,714</u>

For the Year Ended December 31, 2020

	The Company	Equity Subsidiaries	Primary Beneficiary of VIEs and its Subsidiary	VIEs and their Subsidiaries	Eliminations	Consolidated
	(RMB in thousands)					
Assets						
Current assets						
Cash and cash equivalents	9,126	129,489	26,745	338,748	—	504,108
Short-term investments	—	116,594	—	579,457	—	696,051
Accounts receivable from third parties	—	13,004	2,230	412,118	—	427,352
Accounts receivable from a related party	—	—	—	609,094	—	609,094
Inventories	—	43,316	3,485	392,574	—	439,375
Amounts due from Group companies (1)	626,421	103,071	18,317	106,956	(854,765)	—
Investments in subsidiaries (2)	905,250	956,099	—	—	(1,861,349)	—
Investments in VIEs (2)	—	—	895,471	—	(895,471)	—
Other assets	5,785	26,258	75,555	395,941	—	503,539
Total assets	1,546,582	1,387,831	1,021,803	2,834,888	(3,611,585)	3,179,519
Liabilities						
Accounts and notes payable	—	137,575	3,342	860,454	—	1,001,371
Accrued expenses and other liabilities	14,765	17,042	4,825	302,256	—	338,888
Amounts due to Group companies (1)	4,734	314,033	55,940	480,058	(854,765)	—
Other liabilities	—	13,931	1,597	293,413	—	308,941
Total Liabilities	19,499	482,581	65,704	1,936,181	(854,765)	1,649,200
Total equity attributable to shareholders of the Company	1,527,083	905,250	956,099	895,471	(2,756,820)	1,527,083
Non-controlling interests	—	—	—	3,236	—	3,236
Total shareholders' equity	1,527,083	905,250	956,099	898,707	(2,756,820)	1,530,319
Total liabilities and shareholders' equity	1,546,582	1,387,831	1,021,803	2,834,888	(3,611,585)	3,179,519

Notes:

- (1) It represents the elimination of inter-company balances among the Company, the VIEs and our subsidiaries.
(2) It represents the elimination of the investment in VIEs and subsidiaries by the Company.

Selected Condensed Consolidated Cash Flows Data

For the Year Ended December 31, 2021						
The Company	Equity Subsidiaries	Primary Beneficiary of VIEs and its Subsidiary	VIEs and their Subsidiaries	Eliminations	Consolidated	
(RMB in thousands)						
Sales of goods and services to Group companies (1)	—	741,070	106,501	52,188	(899,759)	—
Purchases of goods and services from Group companies (1)	—	(52,447)	(188)	(847,124)	899,759	—
Other operating activities	(8,419)	(775,024)	(156,449)	1,248,860	—	308,968
Net cash (used in)/provided by operating activities	(8,419)	(86,401)	(50,136)	453,924	—	308,968
Loans to Group companies	(16,131)	—	—	(83,348)	99,479	—
Repayment of loans from Group companies	25,807	—	—	23	(25,830)	—
Receipt of advances repayment from Group companies	—	156,406	—	—	(156,406)	—
Investment in subsidiaries	—	(64,678)	—	—	64,678	—
Other investing activities	—	24,682	(56,069)	(233,934)	—	(265,321)
Net cash provided by/(used in) investing activities	9,676	116,410	(56,069)	(317,259)	(18,079)	(265,321)
Capital contribution from Group companies	—	—	64,678	—	(64,678)	—
Repayment for advances from Group companies	—	—	—	(156,406)	156,406	—
Repayment for loans from Group companies	—	(25,807)	(23)	—	25,830	—
Borrowings under loans from Group companies	—	16,201	83,278	—	(99,479)	—
Other financing activities	852	175	16,106	—	—	17,133
Net cash provided by/(used in) financing activities	852	(9,431)	164,039	(156,406)	18,079	17,133
Effect of exchanges rates on cash and cash equivalents	(214)	(4,512)	(159)	(7,818)	—	(12,703)
Net increase/(decrease) in cash and cash equivalents	1,895	16,066	57,675	(27,559)	—	48,077
Cash and cash equivalents and restricted cash at beginning of year	9,126	129,489	26,795	409,299	—	574,709
Cash and cash equivalents and restricted cash at end of year	11,021	145,555	84,470	381,740	—	622,786

For the Year Ended December 31, 2020

	The Company	Equity Subsidiaries	Primary Beneficiary of VIEs and its Subsidiary	VIEs and their Subsidiaries	Eliminations	Consolidated
(RMB in thousands)						
Sales of goods and services to Group companies (1)	—	140,799	28,913	7,469	(177,181)	—
Purchases of goods and services from Group companies (1)	—	—	(7,469)	(169,712)	177,181	—
Other operating activities	(6,963)	72,215	(98,086)	218,030	—	185,196
Net cash (used in)/provided by operating activities	(6,963)	213,014	(76,642)	55,787	—	185,196
Loans to Group companies	(83,062)	—	—	(32,483)	115,545	—
Receipt of repayment of loans to Group companies	—	—	—	12,562	(12,562)	—
Capital contribution to Group companies	—	(70,555)	—	—	70,555	—
Payments for advances to Group companies	(70)	(154,557)	—	—	154,627	—
Restructuring of Guangdong Lizi Technology Co., Ltd., from VIE to an Equity Subsidiary	—	10,483	—	(10,483)	—	—
Other investing activities	—	57,269	(82)	(490,270)	—	(433,083)
Net cash provided by/(used in) investing activities	(83,132)	(157,360)	(82)	(520,674)	328,165	(433,083)
Capital contribution from Group companies	—	—	70,555	—	(70,555)	—
Borrowings under loans from Group companies	—	83,062	32,483	—	(115,545)	—
Repayment for loans from Group companies	—	(12,562)	—	—	12,562	—
Receipt of advances from Group companies	—	70	—	154,557	(154,627)	—
Other financing activities	(47,985)	—	—	(98,390)	—	(146,375)
Net cash (used in)/provided by financing activities	(47,985)	70,570	103,038	56,167	(328,165)	(146,375)
Effect of exchanges rates on cash and cash equivalents	(8,268)	(10,638)	—	(15,128)	—	(34,034)
Net (decrease)/increase in cash and cash equivalents	(146,348)	115,586	26,314	(423,848)	—	(428,296)
Cash and cash equivalents and restricted cash at beginning of year	155,474	13,902	482	833,147	—	1,003,005
Cash and cash equivalents and restricted cash at end of year	9,126	129,488	26,796	409,299	—	574,709

For the Year Ended December 31, 2019

	The Company	Equity Subsidiaries	Primary Beneficiary of VIEs and their Subsidiary	VIEs and their Subsidiaries	Eliminations	Consolidated
	(RMB in thousands)					
Net cash provided by operating activities (1)	4,887	805	(1,031)	240,823	—	245,484
Loans to Group companies	(344,498)	—	—	(1,482)	345,980	—
Repayment of loans from Group companies	6,754	—	—	—	(6,754)	—
Other investing activities	—	(171,254)	—	(97,702)	—	(268,956)
Net cash used in investing activities	(337,744)	(171,254)	—	(99,184)	339,226	(268,956)
Repayment for loans from Group companies	—	(6,754)	—	—	6,754	—
Borrowings under loans from Group companies	—	182,776	1,482	161,722	(345,980)	—
Other financing activities	(48,130)	739	—	95,933	—	48,542
Net cash (used in)/provided by financing activities	(48,130)	176,761	1,482	257,655	(339,226)	48,542
Effect of exchanges rates on cash and cash equivalents	4,468	740	—	2,879	—	8,087
Net (decrease)/increase in cash and cash equivalents	(376,519)	7,052	451	402,173	—	33,157
Cash and cash equivalents and restricted cash at beginning of year	531,993	6,850	31	430,974	—	969,848
Cash and cash equivalents and restricted cash at end of year	155,474	13,902	482	833,147	—	1,003,005

Notes:

(1) Cash flows within our group in operating activities

	For the Year Ended December 31,		
	2019	2020	2021
	(RMB in thousands)		
Cash paid by VIEs to equity subsidiaries for purchasing of goods and service	—	(140,799)	(740,939)
Cash paid by VIEs to primary beneficiary of VIEs and their subsidiaries for purchasing of goods and service	—	(28,913)	(106,185)
Cash received by VIEs from equity subsidiaries for rendering of goods and service	—	—	52,131
Cash received by VIEs from primary beneficiary of VIEs and their subsidiaries for rendering of goods and service	—	7,469	57

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Summary of Risk Factors

An investment in our ADSs involves risks. Below is a summary of material risks we may face, organized under relevant headings. These risks are discussed more fully below in this Item 3. Key Information—D. Risk Factors.

Risks Related to Our Business and Industry

Risks and uncertainties related to our business include, but not limited to, the following:

- We operate in highly competitive markets, and the scale and resources of some of our competitors may allow them to compete more effectively than we can, which could result in a loss of our market share and a decrease in our net revenues and profitability;
- As we continue to grow, we may not be able to effectively manage our growth and the increased complexity of our business, which could negatively impact our brand and financial performance;
- Xiaomi is our strategic partner and our most important customer. Changes in our relationship with Xiaomi could have a material adverse effect on our operating results;
- Our future success depends on our ability to promote our brand and protect our reputation. Our failure to establish and promote our brand and any damage to our reputation will hinder our growth;
- If we fail to successfully develop and commercialize new products, services and technologies that are well received by consumers in a timely manner, our operating results may be materially and adversely affected;
- Our expansion into new product categories and scenarios, and substantial increases in product lines may expose us to new challenges and more risks;
- We operate in the emerging and evolving IoT-enabled smart home products market in China, which may develop more slowly or differently than we expect. If the IoT-enabled smart home products market does not grow as we expect, or if we cannot expand our products and services to meet consumer demands, our results of operations may be materially and adversely affected;
- If our user engagement ceases to grow or declines, our business and operating results may be materially and adversely affected;
- Our business is subject to complex and evolving Chinese and international laws and regulations, including those regarding data privacy and cybersecurity, many of which are subject to change and uncertain interpretation. Any changes in these laws could cause changes to our business practices and increased cost of operations, and any security breaches and our actual or perceived failure to comply with such laws could result in claims, penalties, damages to our reputation and brand, declines in user growth or engagement or otherwise harm our business;
- We are susceptible to supply shortages and interruptions, long lead times, and price fluctuations for raw materials and components, any of which could disrupt our supply chain and have a material adverse impact on our results of operations;
- We rely on certain contract manufacturers to produce a majority of our products. If we encounter issues with them, our business and results of operations could be materially and adversely affected;
- Our business may be adversely impacted by product defects or other quality issues;
- We rely on a limited number of third-party e-commerce platforms to sell our products online. If our cooperation with such platforms terminates, deteriorates or becomes more costly, our business and results of operations may be materially and adversely affected; and
- We face risks associated with our network partners and their personnel for our network of Viomi offline experience stores.

Risks Related to Our Corporate Structure

Risks and uncertainties related to our corporate structure include, but not limited to, the following:

- We are a Cayman Islands holding company with no equity ownership in our VIEs and we conduct our operations in China through (i) our PRC subsidiaries and (ii) our VIEs, with which we have maintained contractual arrangements. Investors in our ADSs thus are not purchasing equity interest in our VIEs in China but instead are purchasing equity interest in a Cayman Islands holding company. If the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. Our holding company, our PRC subsidiaries, our VIEs, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with our VIEs and, consequently, significantly affect the financial performance of our VIEs and our company as a whole. The PRC regulatory authorities could disallow the VIEs structure, which would likely result in a material adverse change in our operations, and our Class A ordinary shares or our ADSs may decline significantly in value;
- We rely on contractual arrangements with our VIEs and their respective shareholders for substantially all of our business operation, which may not be as effective as direct ownership in providing operation control; and
- Any failure by our VIEs or their shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business, financial condition and results of operations.

Risks Related to Doing Business in China

We are also subject to risks and uncertainties relating to doing business in China in general, including, but not limited to, the following:

- 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 with the benefits of such inspections.
- Our ADSs will be prohibited from trading in the United States under the Holding Foreign Companies Accountable Act, or the HFCAA, in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment;
- The PRC government's significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs;
- 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 and changes in laws and regulations in China could adversely affect us; and
- The approval of and filing with the CSRC or other PRC government authorities may be required if we were to conduct offshore offerings in the future, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.

Risks Related to the ADSs

In addition to the risks described above, we are subject to general risks relating to our ADSs and Class A ordinary shares, including, but not limited to, the following:

- The trading price of the ADSs is likely to be volatile, which could result in substantial losses to investors; and
- Our dual-class share structure with different voting rights will limit your ability to influence corporate matters (and in certain situations, give certain holders of Class B ordinary shares control over the outcome of matters put to a vote of shareholders) and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

Risks Related to Our Business and Industry

We operate in highly competitive markets, and the scale and resources of some of our competitors may allow them to compete more effectively than we can, which could result in a loss of our market share and a decrease in our net revenues and profitability.

We have developed an IoT @ Home platform consisting of an ecosystem of IoT @ Home portfolio, home water solutions, consumables and small appliances and others. We face intense competition from other smart home solution providers, internet companies, and traditional home appliances companies. We also face regional competition from local brands in the various geographies where our products are sold. We compete in various aspects, including brand recognition, value for money, user experience, breadth of product and service offerings, product functionality and quality, sales and distribution, supply chain management, customer loyalty, and talents, among others. Intensified competition may result in pricing pressures and reduced profitability and may impede our ability to achieve sustainable growth in our revenues or cause us to lose market share. Our competitors may also engage in aggressive and negative marketing or public relations strategies which may harm our reputation and increase our marketing expenses. Any of these results could substantially harm our results of operations.

Some of our existing and potential competitors enjoy substantial competitive advantages, including: longer operating history, the capability to leverage their sales efforts and marketing expenditures across a broader portfolio of products, more established relationships with a larger number of suppliers, contract manufacturers and channel partners, access to larger and broader user bases, greater brand recognition, greater financial, research and development, marketing, distribution and other resources, more resources to make investments and acquisitions, larger intellectual property portfolios, and the ability to bundle competitive offerings with other products and services. We cannot assure you that we will compete with them successfully.

As we continue to grow, we may not be able to effectively manage our growth and the increased complexity of our business, which could negatively impact our brand and financial performance.

Since our founding in May 2014, we have experienced rapid growth. Continued growth of our business and household user base requires us to expand our product portfolio, strengthen our brand recognition, expand our sales channels, enhance our aftersales services capabilities, better manage our supply chain, upgrade our information systems and technologies, secure more space for our expanding workforce, and devote other resources to our business expansions, among others. In addition, we have been gradually expanding our business overseas primarily through international franchises and agents, as well as our self-operated online stores. As we continue to grow, managing our business will become more complicated as we develop a wider product, and

service, sales channel and customer mix, among others, some of which we may have less experience in. In addition, as we increase our product and service offerings, further diversify our sales channels and extend our global footprint, we will need to work with a larger number of partners and maintain, expand mutually beneficial relationships with our existing and new partners, adapt our business management to the local corporate cultures and customs, and train, manage and motivate our growing employee base or network of cooperating partners, especially in case of our newly launched overseas business.

We cannot assure you that we will be able to effectively manage our growth, that our current personnel, infrastructure, systems, procedures and controls or any measures to enhance them will be adequate and successful to support our expanding operations or that our strategies and new business initiatives will be executed successfully. If we are not able to manage our growth or execute our strategies effectively, our expansion may not be successful and our business and prospects may be materially and adversely affected. In addition, our business operations and growth may be affected by many factors beyond our control. For example, any failure by our contractual manufacturers or international franchisers to comply with ethical, social, product, labor and environmental laws, regulations or standards, any of their engagement in politically or socially controversial conduct, any of their misconduct in product manufacturing or sales or after-sale services, or any negative publicity about them, may negatively affect the public image of and demands for our products, which could adversely affect our business and results of operations.

We have experienced certain operating difficulties in the past in ramping up certain of our contract manufacturers' production in a timely manner to meet the increasing demand and purchase orders from our customers. As we continue to expand, we may experience similar difficulties if we are unable to manage our growth, which may adversely affect our reputation and results of operations.

Xiaomi is our strategic partner and our most important customer. Changes in our relationship with Xiaomi could have a material adverse effect on our operating results.

Xiaomi is our strategic partner and our most important customer. Historically, we recorded RMB2,112.2 million, RMB2,889.4 million and RMB2,295.6 million (US\$360.2 million) in net revenues from sales to Xiaomi in the years ended December 31, 2019, 2020 and 2021, respectively, which represented 45.4%, 49.6% and 43.3% of our total net revenues during such periods, respectively. In addition, many of our Viomi-branded products are also sold through Xiaomi's e-commerce platform, www.xiaomiyoupin.com, or Youpin, one of our most important online sales channels.

We sell a wide range of products to Xiaomi, including Xiaomi-branded water purification systems, water purifier filters, range hoods and gas stoves, dishwashers, as well as other complementary products such as sweeper robots and kettles, among others. Since the third quarter of 2021, we started to largely scale back the supply of Xiaomi-branded sweeper robots to Xiaomi, while continuing our cooperation with Xiaomi on other products. We may discuss with Xiaomi to expand the product categories on which we collaborate with Xiaomi, which may lead to increase of revenues from Xiaomi, but there is no assurance that such discussion and expansion of cooperation will materialize.

Our cooperation with Xiaomi is provided in a series of contracts. All these agreements are subject to early termination by Xiaomi under certain circumstances. We cannot assure you that no such circumstance will surface leading to Xiaomi's early termination of any of our cooperation. We will initiate good faith negotiations with Xiaomi to renew the agreements whenever they are near the end of the term. However, we cannot assure you that we will be able to renew all such agreements, or on the same or more favorable terms.

In addition, we can recover our production costs when we deliver to Xiaomi for certain categories of products, and are entitled to share in the gross profit when Xiaomi sells them to end-customers. However, various reasons may lead to Xiaomi's failure to sell these products, many of which are not within our control, including those related to Xiaomi but unrelated to the products we produced and risks that we could not preempt or prevent with commercially reasonable efforts.

Furthermore, Xiaomi sells a broad spectrum of products, including our Xiaomi-branded and our self-branded products, as well as products unrelated to us through its various sales channels. We cannot assure you that our products can always receive the same level of attention and promotion efforts from Xiaomi thus far. If Xiaomi dedicates less resources to promoting and selling our products or introduces products that compete with ours, our net revenues may decrease as well. Negative publicity related to Xiaomi, including products offered by Xiaomi and unrelated to us, the celebrities Xiaomi are associated with, or even the labor policies or environmental issues of any of Xiaomi's suppliers or manufacturers, may also have a material adverse effect on the sales of our products and public recognition of our brand. Xiaomi is also a shareholder of our Company. Xiaomi is a public company listed on the Stock Exchange of Hong Kong. When exercising its rights as our shareholder, Xiaomi may take into account not only the interests of our Company and our other shareholders but also its own interests, the interests of its public shareholders and the interests of its other affiliates. Our interests and those of our other shareholders may at times conflict with the interests of Xiaomi and its public shareholders and other affiliates. Such conflicts may result in losing business opportunities for us, including opportunities to enter into lines of business that may overlap with those pursued by Xiaomi or companies within its ecosystem. Currently, we do not have any formal processes to address such conflicts.

Our future success depends on our ability to promote our brand and protect our reputation. Our failure to establish and promote our brand and any damage to our reputation will hinder our growth.

We utilize a number of marketing initiatives to promote our brand. We also actively participate in a variety of online and offline marketing events, such as the “618,” “Double Eleven” and “Double Twelve” shopping festivals, as well as advertising on multiple channels, including elevators, TV, print and social media. We believe our strategy to enhance our brand recognition is crucial to our future success. We have invested, and will need to continue to dedicate, significant time, efforts and resources to advertising and market promotion initiatives. Our selling and marketing expenses were RMB751.0 million (US\$117.9 million) for the year ended December 31, 2021, representing 14.2% of our net revenues. We may need to devote an even greater portion of our resources to continue to strengthen our brand recognition and build our user base, which may impact our profitability. We cannot guarantee that our marketing efforts will ultimately be successful, as it is affected by numerous factors, including the effectiveness of our marketing campaigns, our ability to provide consistent, high quality products and services, consumers’ satisfaction with our products, as well as supports and services we provide, among others.

In addition, any negative publicity related to our brand, products, contract manufacturers, suppliers, distribution partners, strategic partners, such as Xiaomi, third-party ecosystem partners, or celebrities we are associated with could have an adverse impact on our brand, which may negatively affect our business and results of operations. For example, in March 2022 we terminated the cooperation with a celebrity that we engaged in the third quarter of 2021 in accordance with the terms of the cooperation agreement, due to the celebrity’s negative publicity. We have since taken measures to minimize our loss. However, this incident materially impacted our marketing plan and its expected effect, though we believe our brand and business operation were not materially and adversely affected.

If we fail to successfully develop and commercialize new products, services and technologies that are well received by consumers in a timely manner, our operating results may be materially and adversely affected.

Our ability to compete successfully and grow our business depends in a large part on our ability to continue to introduce new and innovative products, services and technologies that are well received by consumers and in a timely manner, and in turn, grow our household user base.

Our ability to roll out new and innovative products and services depends on a number of factors, including significant investments in research and development, quality control of our products and services and effective management of our supply chain. The execution of such initiatives can be complex and costly. As such, we could experience delays in completing the development and introduction of new products, services and technologies in the future. We may need to devote an even greater portion of our resources to the research and development of new or enhanced products, services and technologies, which may adversely affect our profitability. In addition, our research and development efforts may not yield the benefits we expect to achieve in a timely manner, or at all. To the extent we are unable to execute our strategy of continuously introducing new and innovative products, diversifying our product portfolio and satisfying consumers’ changing preferences, we may not be able to grow our household user base and our competitive position and results of operations may be adversely affected.

Our expansion into new product categories and scenarios, and substantial increases in product lines may expose us to new challenges and more risks.

We strive to continue to expand and diversify our product offerings to cover additional scenarios in the home environment. Expanding into new product categories and scenarios and substantially increasing our product lines involve new risks and challenges. Our potential lack of familiarity with new products and scenarios and the lack of relevant customer data relating to these products may make it more difficult for us to anticipate user demand and preferences. We may misjudge market demand, resulting in inventory buildup and possible inventory write-downs. We may not be able to effectively control our costs and expenses in rolling out these new product categories and scenarios. We may have certain quality issues and experience higher return rates on new products, receive more customer complaints and face costly product liability claims, such as injury allegedly or actually caused by our products, which would harm our brand and reputation as well as our financial performance.

Furthermore, we may need to price our new products more aggressively to penetrate new markets, and gain market share or remain competitive. It may be difficult for us to achieve profitability in the new product categories and our profit margin, if any, may be lower than we anticipate, which would adversely affect our overall profitability and results of operations.

We operate in the emerging and evolving IoT-enabled smart home products market in China, which may develop more slowly or differently than we expect. If the IoT-enabled smart home products market does not grow as we expect, or if we cannot expand our products and services to meet consumer demands, our results of operations may be materially and adversely affected.

The IoT-enabled smart home products market in China has experienced rapid growth in recent years. However, the growth rate may decrease due to uncertainties with respect to China’s macro-economy, disposable income growth, the acceptance of IoT technology and products, and pace of development of technologies and other factors, including the growth of the broader home appliances market. Furthermore, the IoT-enabled smart home products market is constantly evolving, and it is uncertain whether our products and services will achieve and sustain high levels of demand and market acceptance. Our ability to expand the sales of

our IoT products to a broader consumer base depends on several factors, including Chinese consumers' receptiveness towards and adoption of smart home AI and IoT technology, the market awareness of our brand, the timely introduction and market acceptance of our products and services, the network effects of our products and services, our ability to attract, retain and effectively train sales and marketing personnel, the effectiveness of our marketing programs, our ability to develop effective relationships with distribution partners and expand our network of offline experience stores, the cost and functionality of our products and services and the success of our competitors. If we are unsuccessful in developing and marketing our IoT products to consumers, or if these consumers do not perceive or value the benefits of our holistic IoT @ Home approach, the market for our products and services may not continue to develop or may develop more slowly than we expect, either of which would adversely affect our profitability and growth prospects.

If our user engagement ceases to grow or declines, our business and operating results may be materially and adversely affected.

User engagement is important to our business model. Our value-added businesses ecosystem and the virtuous cycle that we anticipate it to create depend heavily on the level of user engagement with the products and services provided by us.

Many factors may prevent users from continually engaging and habitually using our products, including:

- technical glitches may occur, which may prevent our products and services from operating in a smooth and reliable manner, and hence adversely affect user experience;
- we may be unable to identify and meet evolving user demands and preferences;
- we may not successfully develop functionalities that could further enhance user engagement and generate recurring revenues, or the new or updated products and services we introduce may not be favorably received by users;
- we may not be able to continue to successfully drive organic growth of users through word-of-mouth referrals, which may cause the growth of our user base to slow down or stall or require us to increase our promotion and advertising spending or devote additional resources to acquire users;
- we may be unable to prevent or combat inappropriate use of our products and services, which may lead to negative public perception of us and damage our brand or reputation;
- our competitors may launch or develop similar or disruptive products and services with better user experience, which may result in a loss of existing users or declines in new user growth;
- we may fail to address user concerns related to privacy and communication, data safety or security, and as a result, users may be deferred from using our products and services in scenarios that we hope to capture; and
- we may be compelled to modify our products and services to address requirements imposed by legislation, regulations, government policies or requests from government authorities in manners that may compromise user experience or make our products less affordable.

Our business is subject to complex and evolving Chinese and international laws and regulations, including those regarding data privacy and cybersecurity, many of which are subject to change and uncertain interpretation. Any changes in these laws could cause changes to our business practices and increased cost of operations, and any security breaches and our actual or perceived failure to comply with such laws could result in claims, penalties, damages to our reputation and brand, declines in user growth or engagement or otherwise harm our business.

We collect basic user information that is necessary to provide the corresponding services, such as phone number and location. We update our privacy policies from time to time to meet the latest regulatory requirements of Cyberspace Administration of China and other authorities and adopt technical measures to protect data and ensure cybersecurity in a systematic way. We have also adopted a series of security policies and measures, including encryption technology, enhanced firewall policy, virtual private cloud and host-based intrusion detection system, to ensure that we comply with relevant laws and regulations in the collection, use, disclosure, sharing, storage and security of user information and other data, and to protect the security features of our website, Viomi mobile app (formerly named Yunmi Shangcheng or Viomi Store), e-commerce platform, IoT @ Home platform and information systems. However, we face risks inherent in handling and protecting personal data. In particular, we face a number of challenges relating to data from transactions and other activities on our platform, including:

- protecting the data in and hosted on our system, including against attacks on our system by outside parties or fraudulent behavior or improper use 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, storage, transfer, disclosure and security of personal information, which are subject to change and new interpretations, including any requests from regulatory and government authorities relating to such data.

In general, we expect that data security and data protection compliance will receive greater attention and focus from regulators, both domestically and globally, as well as continued or greater public scrutiny and attention going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and protection. If we are unable to manage these risks, or if we are accused of failing to comply with such laws and regulations, we could become

subject to penalties, including fines, suspension of business, websites, or applications, and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected.

Recently, regulatory authorities in China have enhanced data protection and cybersecurity regulatory requirements, many of which are subject to change and uncertain interpretation. These laws continue to develop, and the PRC government may adopt further rules, restrictions and clarifications in the future. Moreover, different PRC regulatory bodies, including the Standing Committee of the National People's Congress, or the NPC, the Ministry of Industry and Information Technology, or the MIIT, the CAC, the Ministry of Public Security and the State Administration for Market Regulation, have enforced data privacy and protections laws and regulations with varying standards and applications. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Information Security and Privacy Protection." The following are non-exhaustive examples of certain recent PRC regulatory activities in this area:

Cybersecurity

- The PRC Cybersecurity Law, which became effective in June 2017, created China's first national-level data protection framework for "network operators." It is a relatively new law and subject to interpretations and clarifications by the regulator. It requires, among other things, that network operators take security measures to protect the network from unauthorized interference, damage and unauthorized access and to prevent data from being divulged, stolen or tampered with. Network operators are also required to collect and use personal information in compliance with the principles of legitimacy, properness and necessity, and strictly collect and use personal information within the scope of authorization by the subject of such personal information unless otherwise prescribed by laws or regulations. Significant financial, managerial and human resources are required to comply with such legal requirements, enhance information security and address any issues caused by security failures. Even if our security measures are in compliance, we nonetheless face the risk of security breaches or similar disruptions. Our website, Viomi mobile app, e-commerce platform, IoT @ Home platform and information systems may be targets of attacks, such as viruses, malware or phishing attempts by cyber criminals or other wrongdoers seeking to steal our user data for financial gain or to harm our business operations or reputation. Because techniques used to sabotage or obtain unauthorized access to systems evolve continuously and frequently and generally are not recognized until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative counter-measures. In addition to advances in technology, an increased level of sophistication and diversity of our products and services, an increased level of expertise of hackers, new discoveries in the field of cryptography or others can result in a compromise or breach of our websites or our apps. In addition, according to our business cooperation agreement with Xiaomi, we shall share with Xiaomi all the user data collected in relation to the respective Xiaomi-branded products. Consequently, any leak or abuse of user data by Xiaomi may be perceived by consumers as a result of the compromise of our information security system. Any failure or perceived failure by us to prevent information security breaches or to comply with privacy policies or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of sensitive information or other customer data, could cause our users to lose trust in us and could expose us to legal claims. If our security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if any of our business partners violates the laws and regulations relating to the protection of personal information and data security or fails to fully comply with the agreements with us, user data or personal information could be stolen or misused, which could also expose us to penalties or other administrative actions, time-consuming and expensive litigation and negative publicity, materially and adversely affect our business and reputation and deter potential customers from using our products, each of which would have a material adverse impact on our results of operations, financial condition and business prospect.

Data Security

- In June 2021, the Standing Committee of the NPC promulgated the Data Security Law, which took effect in September 2021. The Data Security Law, among other things, provides for security review procedure for data-related activities that may affect national security. A series of regulations, guidelines and other measures have been and are expected to be adopted to implement the requirements created by the PRC Data Security Law. For example, in July 2021, the State Council promulgated the Regulations on Protection of Critical Information Infrastructure, which became effective on September 1, 2021. Pursuant to this regulation, a "critical information infrastructure" is defined as key network facilities or information systems of critical industries or sectors, such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, the damage, malfunction or data leakage of which may endanger national security, people's livelihoods and the public interest. In December 2021, the CAC, together with other authorities, jointly promulgated the Cybersecurity Review Measures, which became effective on February 15, 2022 and replaces its predecessor regulation. Pursuant to the Cybersecurity Review Measures, critical information infrastructure operators that procure internet products and services must be subject to a cybersecurity review if their activities affect or may affect national security. The Cybersecurity Review Measures further stipulate that critical information infrastructure operators or network platform operators that hold personal information of over one million users shall apply with the Cybersecurity Review Office for a cybersecurity review before any public offering at a foreign stock exchange. As of the date of this annual report, no

detailed rules or implementation rules have been issued by any authority and we have not been informed that we are a “critical information infrastructure operator” by any government authority. However, the exact scope of “critical information infrastructure operators” under the current regulatory regime remains unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of the applicable laws. Therefore, it is uncertain whether we would be deemed to be a “critical information infrastructure operator” under PRC law. If we are deemed a “critical information infrastructure operator” under the PRC cybersecurity laws and regulations, we may be subject to obligations in addition to those with which we are currently obligated to comply.

- On October 29, 2021, the CAC published the Outbound Data Transfer Security Assessment Measures (Draft for Comments) (the “Draft Outbound Data Transfer Security Assessment Measures”), which specify the potential circumstances in which data processors shall apply for outbound data transfer security assessment with the Cyberspace Administration. For example, under the current Draft Outbound Data Transfer Security Assessment Measures, an entity must apply for a CAC security assessment if it processes personal information of over one million individuals and outbound transfers personal information, or if it has cumulatively outbound transferred personal information of more than 100,000 individuals or sensitive personal information of more than 10,000 individuals. However, it remains uncertain how the PRC government authorities will regulate companies under such circumstances if the Draft Outbound Data Transfer Security Assessment Measures are fully implemented as-is. It is also unclear what constitutes “outbound data transfer”. These bring more uncertainties with respect to the application and enforcement of the draft measures, and we may be subject to such outbound data security assessment with the CAC. We will closely monitor and assess any relevant legislative and regulatory development and prepare for a security assessment when necessary.
- In November 2021, the CAC released the Regulations on the Network Data Security (Draft for Comments), or the Draft Regulations on Network Data Security. The Draft Regulations on Network Data Security define “data processors” as individuals or organizations that can make autonomous decisions regarding the purpose and the manner of their data processing activities such as data collection, storage, utilization, transmission, publication and deletion. In accordance with the Draft Regulations on Network Data Security, data processors shall apply for a cybersecurity review for certain activities, including, among other things, (i) the listing abroad of data processors that process the personal information of more than one million users and (ii) any data processing activity that affects or may affect national security. However, there have been no clarifications from the relevant authorities as of the date of this annual report as to the standards for determining whether an activity is one that “affects or may affect national security.” In addition, the Draft Regulations on Network Data Security requires that data processors that process “important data” or are listed overseas must conduct an annual data security assessment by itself or authorize a data security service provider to do so, and submit the assessment report of the preceding year to the municipal cybersecurity department by the end of January each year. As of the date of this annual report, the Draft Regulations on Network Data Security were released for public comment only, and their respective provisions and anticipated adoption or effective date may be subject to change with substantial uncertainty.

Personal Information and Privacy

- The Anti-monopoly Guidelines for the Platform Economy Sector published by the Anti-monopoly Committee of the State Council, effective on February 7, 2021, prohibits collection of user information through coercive means by online platform operators.
- In August 2021, the Standing Committee of the NPC promulgated the Personal Information Protection Law, which took effect on November 1, 2021. The Personal Information Protection Law further strengthened requirements on personal information protection, enhanced the punishment for illegal processing of personal information and consolidated various previously promulgated rules with respect to personal information rights and privacy protection. We update our privacy policies from time to time to meet the latest regulatory requirements of PRC government authorities and adopt technical measures to protect data and ensure cybersecurity in a systematic way. Nonetheless, the Personal Information Protection Law elevates the protection requirements for personal information processing, and many specific requirements of this law remain to be clarified by the CAC, other regulatory authorities, and courts in practice. We may be required to make adjustments to our business practices to comply with the personal information protection laws and regulations and any changes in the enforcement or interpretation of such laws and regulations.

Many of the data- and data privacy-related laws and regulations are relatively new and certain concepts thereunder remain subject to interpretation by the regulators. If any data that we possess belongs to data categories that are or may become subject to heightened scrutiny, we may be required to adopt stricter measures for protection and management of such data. The Cybersecurity Review Measures and the Draft Regulations on Network Data Security remain unclear on whether the relevant requirements will be applicable to companies that, like us, are already listed in the United States. We cannot predict the impact of the Cybersecurity Review Measures and the Draft Regulations on Network Data Security, if any, at this stage, and we will closely monitor and assess any developments in the rule-making process. If the Cybersecurity Review Measures and the enacted version of the Draft Regulations on Network Data Security mandate clearance of cybersecurity review and other specific actions to be taken by issuers like us, we face uncertainties as to whether these additional procedures can be completed by us timely, or at all, which may subject us to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, or removal of our app from the relevant application stores, and materially and adversely affect our business and results

of operations. As of the date of this annual report, we have not been involved in any formal investigations on cybersecurity review made by the CAC on such basis.

In general, compliance with the existing PRC laws and regulations, as well as additional laws and regulations that PRC legislative and regulatory bodies may enact in the future, related to cybersecurity, data security and personal information protection, may be costly and result in additional expenses to us, and subject us to negative publicity, which could harm our reputation and business operations. There are also uncertainties with respect to how such laws and regulations will be implemented and interpreted in practice. In light of the fact that laws and regulations on cybersecurity, data privacy and personal information protection are evolving and uncertainty remains with respect to their interpretation and implementation, we cannot guarantee that we will be able to maintain full compliance at all times, or that our existing user information protection system and technical measures will be considered sufficient. Any non-compliance or perceived non-compliance with these laws, regulations or policies may lead to warnings, fines, investigations, lawsuits, confiscation of illegal gains, revocation of licenses, cancellation of filings or listings, closedown of websites, removal of apps and suspension of downloads, price drops in our securities or even criminal liabilities against us by government agencies or other individuals. In addition, our launch of new products or services or other actions that we take in the future may subject us to additional laws, regulations, or other government scrutiny. Further, as we gradually spread our footprints in overseas markets, we may also be subject to laws and regulations of other countries regarding cybersecurity, information security, privacy and data protection. For example, there are a number of legislative proposals in the European Union and the United States, at both the federal and state level, as well as other jurisdictions that could impose new obligations in areas affecting our business. For another instance, a growing number of legislative and regulatory bodies have adopted consumer notification requirements in the event of unauthorized access to or acquisition of certain types of data. Those breach notification laws continue to evolve and may be inconsistent from one jurisdiction to another, which might become a particular concern especially if we accelerate our international expansion.

We are susceptible to supply shortages and interruptions, long lead times, and price fluctuations for raw materials and components, any of which could disrupt our supply chain and have a material adverse impact on our results of operations.

Our product portfolio includes various product categories and product lines. Mass production of our products requires timely and adequate supply of various types of raw materials and components. A substantial majority of the components and raw materials used to produce our products are sourced from third-party suppliers, and some of these components and raw materials are sourced from a limited number of suppliers or a single supplier. Therefore, we are subject to risks of shortages or discontinuation in supply, long lead times, cost increases and quality control issues with our suppliers. In addition, some of our suppliers may have more established relationships with our competitors, and as a result of these relationships, such suppliers may choose to limit or terminate their relationships with us or prioritize our competitors' orders in the case of supply shortages.

In the event of a component or raw material shortage or supply interruption from suppliers, we will need to identify alternative sources of supply, which can be time-consuming, difficult to locate, and costly. We may not be able to source these components or raw materials on terms that are acceptable to us, or at all, which may undermine our ability to meet our production requirements or to fill customer orders in a timely manner. This could cause delays in shipment of our products, harm our relationships with our customers, network partners and other business partners, and adversely affect our results of operations.

Moreover, the market prices for certain raw materials have been volatile. For example, we experienced significant increases in the market prices for certain important raw materials used in manufacturing refrigerators and air conditioners, and may experience the same in the future. If we experience price hike for raw materials, we may not be able to recover these costs through product price increase without comprising customer experience, which would have a negative effect on our financial results.

We rely on certain contract manufacturers to produce a majority of our products. If we encounter issues with them, our business and results of operations could be materially and adversely affected.

We rely on certain contract manufacturers to produce a majority of our products. We may experience operational difficulties with our contract manufacturers, including reductions in the availability of production capacity, failure to comply with product specifications, insufficient quality control, failure to meet production deadlines, increases in manufacturing costs and longer lead time. Our contract manufacturers may experience disruptions in their manufacturing operations due to equipment breakdowns, labor strikes or shortages, natural disasters, component or material shortages, cost increases, violation of environmental, health or safety laws and regulations, health epidemics, or other problems. For example, the outbreak of coronavirus disease, or the COVID-19 outbreak, widely and negatively impacted supply chains in China, especially in the early months of 2020. Our contract manufacturers' operations were disrupted during this period, which in turn to some degree adversely affected our business and results of operations. We may be unable to pass potential cost increases resulting from disruptions experienced by us or our contract manufacturers to our customers. We may have disputes with our contract manufacturers, which may result in litigation expenses, divert our management's attention and cause supply shortages to us. In addition, we may not be able to renew contracts with our contract manufacturers for our existing products or identify contract manufacturers who are capable of producing new products we target to launch in the future.

Any failure of such partners to perform with regards to quantity, quality or timely supply of products may have a material negative impact on our business and results of operations. In addition, if such failure affects our supplies to Xiaomi or other major customers, our relationship with Xiaomi or other such customers may be adversely affected.

Furthermore, although our agreements with our contract manufacturers contain provisions imposing confidentiality obligations on them, and we have adopted security protocols to ensure knowhow and technologies for manufacturing our products could not be easily leaked or plagiarized, we cannot guarantee the effectiveness of these efforts and, any leakage or plagiarism of our knowhow and technologies could be detrimental to our business prospects and results of operations.

Our business may be adversely impacted by product defects or other quality issues.

Product defects or other quality issues can occur throughout the product development, design and manufacturing processes or as a result of our reliance on third parties for components, raw materials, and manufacturing. Any product defects or any other failure of our products or substandard product quality could harm our reputation and result in adverse publicity, lost revenues, delivery delays, product recalls, relationships with our network partners and other business partners, product liability claims, administrative penalties, harm to our brand and reputation, and significant warranty and other expenses, and could have a material adverse impact on our business, financial condition, operating results and prospects. While we maintain a reserve for product warranty costs based on certain estimates and our knowledge of current events and actions, our actual warranty costs may exceed our reserve, resulting in current period expenses and a need to increase our reserve for warranty costs.

Moreover, since our products combine hardware and software, any glitches in the software may intervene and disrupt our efforts to integrate our products in consumers' lifestyles. We rely on the connectivity and network effects of our products and services to attract consumers to expand their collection of our products, which we believe will reinforce a positive smart home experience. Any failure or defects that a consumer experiences in one product, however, may prevent this connectivity or network effect from being realized. As a result, we may be prevented from providing solutions to our customers and our business prospectus, results of operations and financial condition could be adversely affected.

We rely on a limited number of third-party e-commerce platforms to sell our products online. If our cooperation with such platforms terminates, deteriorates or becomes more costly, our business and results of operations may be materially and adversely affected.

Currently, we rely on third-party e-commerce platforms such as Youpin, JD.com, Tmall, Pinduoduo and Suning, among others, for online sales and order fulfillment of our products and derive a material portion of our online sales revenue therefrom. If our cooperation with such third-party e-commerce platforms terminates, deteriorates or becomes more costly, or we fail to incentivize such platforms to drive traffic to our online stores or promote the sale of our products, our business and results of operations may be materially and adversely affected. We cannot guarantee that we will be able to find alternative channels on terms and conditions commercially acceptable to us in a timely manner, or at all, especially given their leading position and significant influence in China's e-commerce industry. In addition, any internal operation or corporate restructuring and adjustments, negative publicities and operating conditions about such third-party e-commerce platforms, any public perception or claims that non-authentic, counterfeit or defective goods are sold on such platforms, be it with merit or proven or not, most of which are beyond our control, may deter visits to the platforms and result in less user traffics to our flagship stores, which may negatively impact our business and results of operations.

We face risks associated with our network partners and their personnel for our network of Viomi offline experience stores.

We rely on third-party network partners to operate our network of Viomi offline experience stores. We rely on these network partners to directly interact with and serve end customers, but the interest of a network partner may not be entirely aligned with ours. We set standards of practice of our network partners and provide incentives and periodic evaluation. However, our control over the network partners may not be as effective as if we directly owned and operated these offline experience stores.

Our network partners carry out a significant amount of direct interactions with end users of our products, and their performance directly affects our brand image. However, we do not directly supervise their interactions or services provided. Although we have established and distributed service standards across our network and provide extensive ongoing training to our third-party network partners, we may not be able to successfully monitor, maintain and improve the services they provide. We may experience service disruptions, customer complaints and reduced sales, and our reputation may be materially and adversely affected if end users of our products are unsatisfied with our network partners' performance.

Our offline experience stores may not be successful due to factors beyond our control, such as underperformance of the stores or adverse market conditions. Our network partners may also not have the necessary experience or resources to successfully operate the stores over time. We may also have disputes with our network partners. Suspension or termination of a network partner's services in a particular area may cause interruption to or failure in our services in the corresponding area. We may not be able to promptly replace our network partners or find alternative ways to provide services in a timely, reliable and cost-effective

manner, or at all. Any service disruptions associated with our network partners could result in our customer satisfaction, reputation, operations and financial performance being materially and adversely affected.

If we are unable to adapt to technological changes and implement technological enhancements to our products and services, our ability to remain competitive could be adversely affected.

The IoT-enabled smart home products market, together with the broader consumer products and home appliances market, is characterized by rapid technological changes, frequent introductions of new products and evolving industry standards, such as the rollout of 5G technology and related ecosystems. We have implemented an AI + IoT + 5G strategy and further strengthened AI application and technology innovation, and have launched a number of innovative and exciting products to strengthen our extensive product portfolio, including EyeBot 2 AI-enabled range hood, EyeBot washing machine, Alpha 2 Pro sweeper robot and other new AI products with technology upgrades unveiled in 2021, among others. Although we are acting proactively to keep pace with the AI and 5G trend as well as other technological developments in the industry, product development often requires significant lead-time and upfront investment. Our ability to attract new consumers and increase revenues from existing consumers will depend significantly on our ability to accurately anticipate changes in industry standards and to continue to appropriately fund development efforts to enhance our existing products and services or introduce new products and services in a timely manner to keep pace with technological developments. For example, voice- and gesture-control and facial- and image-recognition are important features of our IoT @ Home platform, and the technologies supporting them have been rapidly developing. If any of our competitors implement new technologies before us, those competitors may be able to provide products that are more effective or with more user-friendly features than ours, possibly at lower prices, which could adversely impact our sales and impact our market share. In addition, any delay or failure in our introduction of new or enhanced products and services could harm our business, results of operations and financial condition.

We cannot guarantee that we will be able to successfully manage product manufacturing in-house or implement our strategic value chain investments effectively.

We have established Guangdong Lizi Technology Co., Ltd., or Guangdong Lizi, as a smart water purification system and sweeper robot facility focusing on the research, design, production and supply of smart water purifiers, water purifier filters, and sweeper robots, alongside the supply of some small appliances. We also established Guangdong AI Touch Technology Co., Ltd., or Guangdong AI Touch, for the development, production and supply of touch screen components for our smart products. The two facilities have integrated into the Viomi platform and begun commercial manufacturing since the first half of 2019, which has provided us greater control over our supply chain and has already started to generate incremental cost savings. In addition, we have acquired land use rights to a parcel of land of approximately 36,000 square meters in Shunde, Guangdong Province, for the development of Viomi IoT Technology Park, a comprehensive high-tech industrial campus, which is expected to be completed in two phases over an up to five-year period. The first phase is expected to include the Company's multi-functional headquarters, including a product experience center, research and development center, smart manufacturing center, and centralized hub for sales and customer service functions. The second is expected to focus on and accommodate additional facilities for the Company's IoT products, serving as a focal point of Viomi's expanded supply chain capabilities. Accordingly, we face risks inherent to maintaining product development and manufacturing facilities or associated with expansion of production capacity and such other risks common in the product development and manufacturing industry.

Our personnel expenses and other costs may increase as a result of the additional manpower retained for our manufacturing lines and the additional cost in terms of quality control. In addition, we may fail to attract and retain sufficient skilled manufacturing and mechanic workers. Furthermore, our facilities may experience disruptions due to equipment breakdowns, labor strikes or shortages, natural disasters, health epidemics, component or material shortages, cost increases or other similar issues. Meanwhile, manufacturing in-house subjects us to various PRC environmental laws and regulations that are evolving and not as clear as those of the developed economies such as the United States, which may result in higher compliance costs incurred by us. We are also required to maintain all environmental permits, filings and registrations related to our business, including pollution discharge certificate, fire protection certificate, and the environmental protection examination and approval, which are subject to periodic renewal. Although we have obtained and completed for our two facilities all such permits, approval and registrations as of the date of this annual report, we cannot assure you that we will be able to obtain their respective renewal in a timely manner, or at all. If we fail to comply in full respect with environmental laws and regulations, we may face fines, orders to suspend our manufacturing and civil or criminal litigations.

We have limited experience in in-house product manufacturing. If we are unable to effectively manage the risks we face and produce high-quality products cost-efficiently to meet the market demand and implement effective cost and expense control, our business, financial condition and results of operations may be materially and negatively affected and we may not be able to recoup the investments we have made.

We may from time to time enter into contracts with some customers that provide certain favorable terms to such customers, which may, in certain situations, adversely affect our results of operations or profitability.

We may from time to time enter into contracts with some customers that provide certain favorable terms to such customers to expand our sales channels and increase our market penetration, which may, in certain situations, adversely affect our results of

operations or profitability. For example, our contract with a leading e-commerce platform provides, among others, return or discount clearance of certain slow-moving products and potential payment of various consideration to the platform including payment for gross margin guarantee on certain products, monthly compensation for promotion and marketing activities, and fees for advertising through such platform. For more details on the contract, please see “Item 5. Operating and Financial Review and Prospects—E. Critical Accounting Estimate —Critical Accounting Policies, Judgments and Estimates.”

We are exposed to potential liabilities arising from the products we sell, and costs related to defective products could have a material adverse impact on us.

Disputes over warranties of our products can arise in the ordinary course of our business. In extreme situations, we may be exposed to various liabilities relating to potential personal injuries as a result of misuse or quality defects of the products we sell. We may experience material product liability losses, and we may be unable to defend these claims at a contained level of cost or at all. Although we have product liability insurance, we cannot assure you that our insurance coverage will be sufficient or that we will be able to obtain sufficient coverage at an acceptable cost in the future. A successful claim brought against us in excess of our available insurance coverage may have a material adverse effect on our business, results of operations and financial condition. Although we historically had insignificant volumes of product replacements or product returns, the cost of product replacements or product returns in the future may be substantial, particularly given our increasing product categories and models, and we could incur substantial costs to implement modifications to fix defects in our products.

Our consumers may experience service failures or interruptions due to defects in the software, infrastructure, components or processes that compromise our products and services, or due to errors in product installation, any of which could harm our business.

Our products and services may contain undetected defects in the software, infrastructure, components or processes. Sophisticated software and applications, such as those offered by us, often contain “bugs” that can unexpectedly interfere with the software and applications’ intended operations. Our internet services may from time to time experience outages, service slowdowns or errors. Defects may also occur in components or processes used in our products or for our services. There can be no assurance that we will be able to detect and fix all defects in the hardware, software and services we offer. Failure to do so could result in decreases in sales of our products and services, lost revenues, significant warranty and other expenses, decreases in customer confidence and loyalty, lost market share to our competitors, and harm to our reputation.

Our delivery, return and exchange policies may adversely affect our results of operations.

We have adopted shipping policies that do not necessarily pass the full cost of shipping onto our customers. We also have adopted customer-friendly return and exchange policies that make it convenient and easy for customers to change their minds within seven days after completing direct online purchases from us. We may also be required by law to adopt new or amend existing return and exchange policies from time to time. These policies improve users’ shopping experience and promote customer loyalty, which in turn help us acquire and retain users. However, these policies also subject us to additional costs and expenses which we may not recoup through increased revenues. If our delivery, return and exchange policies are misused by a significant number of customers, our costs may increase significantly and our results of operations may be materially and adversely affected. If we revise these policies to reduce our costs and expenses, our users may be dissatisfied, which may result in loss of existing users or failure to acquire new users at a desirable pace, which may materially and adversely affect our results of operations.

Our operating results could be materially harmed if we are unable to accurately forecast consumer demand for our products or manage our inventory.

To ensure adequate supply for our products, we must forecast consumer demand for our products, including Xiaomi’s demand. Our ability to accurately forecast demand for our products could be affected by many factors, including changes in consumer perception of our products or our competitors’, sales promotions by us or our competitors, our sales channel inventory levels, and unanticipated changes in general market and economic conditions, among others.

We manage our inventory by constantly monitoring and tracking our current inventory levels, while keeping a portion of reserve stock, based on our forecast customer demand. If we fail to accurately forecast customer demand, we may experience excess inventory levels or a shortage of products available for sale. For example, our inventory level could increase on a seasonal basis as we prepare for large online sales promotion events, and it would be difficult for us to forecast the sales that we may achieve in those events. Inventory levels in excess of customer demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which may cause our gross margin to suffer and could impair the strength of our brand. On the other hand, in the case we experience shortage of products, we may be unable to meet the demand for our products, and our business and operating results could be adversely affected. We have experienced inventory shortage of popular products in the past. Such arrangement may lead to loss of consumer confidence and further uncertainty with respect to our inventory level.

As market competition for products similar to ours intensifies, we expect that it will become more difficult to forecast demand. In addition, as we continue to introduce new product and services and expand our products portfolio, we may face increasing challenges managing the production plan and appropriate inventory levels for our product portfolio.

Our efforts to manage, expand and diversify our customer base and sales channels may not be successful.

Our key sales channels consist of a network of online e-commerce platforms, Viomi offline experience stores, third-party offline channels, through which we predominantly sell Viomi-branded products, as well as Xiaomi, to which we predominantly sell Xiaomi-branded products. Historically, Xiaomi has been our largest and most important customer. Sales to Xiaomi accounted for 45.4%, 49.6% and 43.3% of our net revenues in 2019, 2020 and 2021, respectively.

Although we have devoted significant resources to maintaining, expanding and diversifying our customer base and sales channels, we cannot assure you that such efforts would succeed. Our current agreements with Xiaomi and third-party sales channels generally do not prohibit them from working with our competitors or from selling competing products. Our competitors may be more effective in providing incentives to our third-party online sales to favor our competitors' products and promote their sales. Pursuing, establishing and maintaining relationships with our online sales partners requires significant time and resources. We cannot assure you that we will be able to renew those agreements upon their expiry on commercially acceptable terms, or at all. Any such occurrences may negatively impact our business, results of operations and growth prospect.

In addition, we have been optimizing offline experience stores and cooperating with more and additional new network partners. With the increased scale of operations, we will be required to invest additional resources in managing our network partners, and hence we may not be able to expand as fast or as successfully as we expect. In addition, our sales network management systems may not be effective.

We rely on third-party service providers for logistics and aftersales services. If these service providers fail to provide reliable services, our business and reputation may be adversely affected.

We rely on third-party couriers and logistics providers for order fulfillment and delivery services, including shipping products to Xiaomi, our other customers as well as end-consumers. We also outsource a majority of our installation and after-sale services for our products to third-party service providers.

While these arrangements allow us to focus on our main business, they reduce our direct control over the logistics and aftersales services provided to our customers. Logistics in our primary locations or transit to final destinations may be disrupted for a variety of reasons, including events that are beyond our control or the control of these service providers, such as inclement weather, natural and man-made disasters, health epidemics, information technology system failures, transportation disruptions, labor unrest, commercial disputes, military actions or economic, business, labor, environmental, public health, or political issues. If any of our service providers' operations or services are disrupted or terminated, we may not be able to find alternative service providers with quality and on commercial terms to our satisfaction in a timely and reliable manner, or at all. Additionally, if our products are not delivered in proper condition or in a timely manner or if errors occur in product installation or product maintenance processes, our products and services may be compromised, customer experience may be impacted adversely and, as a result, our business and reputation could suffer. Further, if our logistics and after-sale service providers raise their fee rate, we may incur additional costs and may not be able to pass such costs to our customers.

We may not be successful in monetizing our household user base.

It is an important growth strategy for us to continue to grow our user base and enrich our value-added businesses ecosystem, key components of our IoT @ Home platform, which enable us to differentiate our offerings and create additional monetization opportunities for us, including the sale of complementary products and provision of value-added services. While we have successfully grown our household user base from approximately 113 thousand as of December 31, 2016 to approximately 6.6 million as of December 31, 2021, there is no assurance that we will be successful in monetizing this user base through such offerings, for example, if:

- we are not able to increase or maintain the amount of time our household users spend interacting with our IoT products;
- we are not able to incentivize our household users to engage in relevant consumption activities related to our IoT @ Home platform; or
- we are not able to maintain or attract ecosystem partners to supply products or services on our IoT @ Home platform that are attractive to our household users.

If we fail to expand or maintain the pool of our ecosystem partners, our net revenues growth may be adversely affected and the number of application scenarios of our products may not grow as quickly as we expect, or at all, which may reduce the attractiveness of our products. Any underperformance of or negative publicity about our ecosystem partners may also adversely affect our operating results.

Various of our IoT products allow users to directly access various media and entertainment content, as well as purchase and order products from us and our ecosystem partners. We have been actively seeking ecosystem partners on this front to expand our offerings and potentially create additional revenues streams for us. If we fail to expand and maintain the pool of our ecosystem partners, the ecosystem that we strive to establish may not succeed, which in turn may affect the willingness of consumers to purchase our products, and in turn increase the difficulty for us to attract suitable ecosystem partners.

In addition, as we associate ourselves with these ecosystem partners in providing services, any negative publicity on them may also have adverse impact on our own reputation and results of operations. Furthermore, although products that these ecosystem partners offer are not our products, customers may still associate us with any dissatisfaction with the products and services offered by our ecosystem partners. Moreover, we may be subject to litigation or potential sanctions under PRC law if we were to negligently participate or assist in infringement activities associated with counterfeit or defective goods.

An economic downturn may adversely affect consumer discretionary spending and demand for our products and services.

Our products and services may be considered discretionary items for consumers. Factors affecting the level of consumer spending for such discretionary items include general economic conditions and other factors, such as consumer confidence in future economic conditions, consumer sentiment, the availability and cost of consumer credit, levels of unemployment, and tax rates. Unfavorable economic conditions may lead consumers to delay or reduce purchases of our products and services and consumer demand for our products and services may not grow as we expect. Our sensitivity to economic cycles and any related fluctuation in consumer demand for our products and services may have an adverse effect on our operating results and financial condition.

Any significant cybersecurity incident or disruption of our information technology systems or those of third-party partners could materially damage our user relationships and subject us to significant reputational, financial, legal and operational consequences.

We depend on our information technology systems, as well as those of third parties, to develop new products and services, operate our platform, host and manage our services, store data, process transactions, respond to user inquiries, and manage inventory and our supply chain. Any material disruption or slowdown of our systems or those of third parties whom we depend upon, including a disruption or slowdown caused by our failure to successfully manage significant increases in user volume, could cause outages or delays in our services, which could harm our brand and adversely affect our operating results.

We rely on cloud servers maintained by KSYUN, Xiaomi, Alibaba and Tencent Cloud services to store our data. Problems with our cloud service providers or the telecommunications network providers with whom they contract could adversely affect the experience of our users. Our cloud service providers could decide to cease providing us with services without adequate prior notice. Any change in service levels at our cloud servers or any errors, defects, disruptions, or other performance problems with our platform could harm our brand and may damage the data of our users. If changes in technology cause our information systems, or those of third parties whom we depend upon, to become obsolete, or if our or their information systems are inadequate to handle our growth, we could lose users and our business and operating results could be adversely affected.

Due to the ever-changing cyber threat landscape, our products may be subject to potential vulnerabilities, and our services may be subject to certain risks, including hacking or other unauthorized access to control or view systems and obtain private information.

Companies that collect and retain sensitive and confidential information are under increasing attack by cyber-criminals around the world. IoT products, being connected to the internet, are particularly vulnerable to cyberattack. While we implement security measures within our products, services, operations and systems, those measures may not prevent cybersecurity breaches, the access, capture or alteration of information by criminals, the exposure or exploitation of potential security vulnerabilities, distributed denial of service attacks, the installation of malware or ransomware, acts of vandalism, computer viruses, misplaced data or data loss that could disrupt the function of our products or services, and be detrimental to our reputation, business, financial condition, and results of operations.

Third parties, including distribution network partners, ecosystem partners and our other business partners, could also be a source of security risk to us in the event of a failure of their own products, components, networks, security systems, and infrastructure. In addition, we cannot be certain that advances in criminal capabilities, new discoveries in the field of cryptography, or other developments will not compromise or breach the technology protecting the networks that access our products and services. A significant actual or perceived (whether or not valid) theft, loss, fraudulent use or misuse of customer, employee, or other data, whether by us, our business partners, or other third parties, or as a result of employee error or negligence or otherwise, non-compliance with applicable industry standards or our contractual or other legal obligations regarding such data,

or a violation of our privacy and information security policies with respect to such data, could result in costs, fines, litigation, or regulatory actions against us. Such an event could additionally result in unfavorable publicity and therefore materially and adversely affect the market's perception of the security and reliability of our services and our credibility and reputation with our customers, which may lead to customer dissatisfaction and could result in lost sales and increased customer revenues attrition.

Our intellectual property and proprietary rights may not adequately protect our products, and our business may suffer if third parties infringe our intellectual property and proprietary rights.

We may not have sufficient intellectual property rights in all countries and regions where unauthorized third-party copying or use of our proprietary technology may occur and the scope of our intellectual property might be more limited in certain countries and regions. Our existing and future patents may not be sufficient to protect our products, services, technologies or designs and/or may not prevent others from developing competing products, services, technologies or designs. We cannot predict the validity and enforceability of our patents and other intellectual property with certainty. Litigation may be necessary to enforce our intellectual property rights. Initiating infringement proceedings against third parties can be expensive and time-consuming, and divert management's attention from other business concerns. We may not prevail in litigation to enforce our intellectual property against unauthorized use.

According to our business cooperation agreement with Xiaomi, Xiaomi and we have joint ownership over all technology properties (other than industrial designs) and related intellectual properties generated from the process of design, development, manufacturing and sales of Xiaomi customized products and certain of our self-branded products we supply to Xiaomi. Xiaomi may use these intellectual properties and user data to develop and manufacture competing products on its own and although the business cooperation agreement forbids the parties to license any third party to use the jointly owned intellectual properties without prior consent of the other party, we cannot ensure the compliance of Xiaomi with such agreement.

Under a license agreement effective from June 24, 2018, we have obtained an exclusive and royalty-free right to use 11 patents owned by our founder and chief executive officer Mr. Xiaoping Chen. If, for any reason, we are no longer able to use such patents or are charged significant fees for the use, our business and results of operations could be adversely affected.

We may encounter claims alleging our infringement of third-party intellectual properties from time to time.

Our commercial success depends in part on our ability to operate without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights, trade secrets and other proprietary rights of others. We have adopted and implemented internal procedures and licensing practices to prevent unauthorized use of such intellectual properties or the infringement by us of other rights of third parties. However, we cannot be certain that these measures can be effective in completely preventing all possible infringement, misappropriation and other violations of third-party's intellectual property rights or other rights during the course of our business. As we face increasing competition and as litigation becomes a more common way to resolve disputes in China, we face a higher risk of being the subject of intellectual property infringement claims.

We cannot rule out the possibility that our operations or our business may infringe upon or otherwise violate patents, copyrights or other intellectual property rights held by third parties. In particular, we may enter into license agreements with third party proprietary right holders for our use of their intellectual properties in our operations. However, we cannot rule out the possibility that some uses of such licensed rights might exceed the authorized scope or permitted license time period specified in such license agreements. There could also be existing intellectual property of which we are not aware that our operations and business may inadvertently infringe upon. We license and use software and other technologies from third parties in our ordinary course of business. These third-party software or technology licenses may not continue to be available to us on acceptable terms or at all, and may expose us to potential infringement liability. Any such liability, or our inability to use any of these third-party software or technologies on acceptable terms or at all, could harm our reputation, result in increased operating costs, and/or disruptions to our business that may materially and adversely affect our operating and financial results.

We may from time to time in the future be subject to legal proceedings and claims relating to the intellectual property rights of others. Also, although we have not been subject to claims or lawsuits outside China, we cannot assure you that we will not become subject to intellectual property laws in other jurisdictions, such as the United States. If a claim of infringement brought against us in China, the United States or another jurisdiction is successful, we may be required to pay substantial penalties or other damages and fines, enter into license agreements which may not be available on commercially reasonable terms or at all or be subject to injunctions or court orders. Even if allegations or claims lack merit, defending against them could be both costly and time consuming and could significantly divert the efforts and resources of our management and other personnel. Competitors and other third parties may claim as well that our officers or employees or our contractual manufacturers have infringed, misappropriated or otherwise violated their patent, confidential information, trade secrets or technology in the course of their employment with us or in their course of manufacturing products for us, as the case may be. Although we take steps to prevent the unauthorized use or disclosure of such third-party information, intellectual property or technology by our officers, employees or contract manufacturers, we cannot guarantee that our internal intellectual property policy, any other policies or contractual provisions that we have implemented or may implement will be effective. If a claim of infringement was upheld by courts, we may suffer reputational harm and may be required to pay substantial damages, subject to injunction or court orders or be required

to suspend sales of our products or to remit to the plaintiff the revenues we derive from the sales, any of which could adversely affect our business, financial condition and results of operations.

We rely on technology that we license from third parties, including artificial intelligence, that is integrated with our internally developed algorithms, software, or products.

We rely on technology that we license from third parties. For example, for our voice recognition technologies, we have incorporated speech synthesis engine and Q&A components provided by AISpeech and iFLYTEK. We cannot be certain that our licensors are not infringing the intellectual property rights of third parties or that our licensors have sufficient rights to the licensed intellectual property in all jurisdictions in which we may sell our products, neither can we guarantee that these licensors were, are or will be in full compliance with laws and regulations in the relevant jurisdictions. All of these occurrences are beyond our control, and could result in our inability to continue to use the relevant technologies and our incurrences of potential liabilities for our cooperation with such licensors. It recently came of our knowledge that certain of our technology service suppliers are included in the Entity List under the Export Administration Regulations (EAR) administered by The Bureau of Industry and Security (BIS) of the U.S. Department of Commerce. As a result, exports or reexports from the U.S. and in-country transfers in the U.S. to such suppliers will face additional license requirements, and the availability of most license exceptions is limited. Currently, the inclusion of such suppliers into the Entity List has not had a material adverse effect on our use of their services or resulted in liabilities to us. However, we cannot rule out the possibility that additional restrictions of different nature could be imposed on such suppliers or other licensors or business partners of ours, especially in light of the changes in international trade policies and heightened political tensions between the U.S. and China. See also “Risk Related to Doing Business in China—Changes in international trade policies and rising political tensions, particularly between the U.S. and China, may adversely impact our business and operating results.” In addition, we cannot assure you that our cooperation with such suppliers would not negatively impact our branding and marketing activities in the U.S. or other countries or regions. If we are unable to continue to license those technologies on commercially reasonable terms, we will face delays in releases of new products or functions or we will be required to delete this functionality from our products until equivalent, non-infringing technology can be licensed or developed and integrated into our current products. This effort could take significant time (during which we would be unable to continue to offer our affected products or services) and expenses and may ultimately not be successful. If we are unable to timely locate substitute technologies on commercially reasonable terms or at all in the event that our ability to continue to license technologies from any existing licensor is hindered, or if our branding or sales activities in the U.S. or other countries or regions or access to capital are negatively impacted or we are imposed with any restrictions or liabilities due to our suppliers’ being included in any of the entity list maintained by the U.S. or governmental actions taken by any other jurisdiction in which our products are sold, our business, results of operation, financial conditions and prospect may be negatively impacted.

Our use of open source software could negatively affect our ability to sell our products and subject us to possible litigation.

A portion of the technologies we use incorporates open source software, and we may incorporate open source software in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses. These licenses may subject us to certain unfavorable conditions, including requirements that we offer our products and services that incorporate the open source software for no cost, that we make publicly available source code for modifications or derivative works we create based upon, incorporating, or using the open source software, or that we license such modifications or derivative works under the terms of the particular open source license.

Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose or provide at no cost any of our source code that incorporates or is a modification of such licensed software. If an author or any third party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we may need to incur significant legal expenses defending against such allegations and could be subject to significant damages and enjoined from the sale of our products and services that contained the open source software. Any of the foregoing could disrupt the distribution and sale of our products and services and harm our business.

We may need additional capital, and financing may not be available on terms acceptable to us, or at all.

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the next 12 months. We may, however, require additional cash resources due to changed business conditions or other future developments, including any changes in our pricing policy, marketing initiatives or investments we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to obtain a credit facility or sell additional equity or debt securities. The sale of additional equity securities could result in dilution of our existing shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all.

We may engage in acquisition and investment activities, which could require significant management attention, disrupt our business, dilute shareholder value, and adversely affect our operating results.

As part of our business strategy, we may acquire or make investments in other companies, products, or technologies along our product value chain to complement our business, enhance the features and functionality of our products, and accelerate the expansion of our platform and network of strategic partners. We may not be able to find suitable acquisition or investment candidates and we may not be able to complete acquisition and investment on favorable terms, if at all. If we do complete acquisition and investment as we expect, we may not ultimately strengthen our competitive position or achieve our goals; and any acquisition and investment we complete could be viewed negatively by users or investors. In addition, if we fail to successfully integrate such acquisitions, or the technologies associated with such acquisitions, into our company, the revenues and operating results of the combined company could be adversely affected. Acquisitions and investments are inherently risky and may not be successful, and they may disrupt our ongoing operations, divert management from their primary responsibilities, subject us to greater-than-expected liabilities and our expenses, and adversely impact our business, financial condition, operating results, and cash flows.

Our results of operations may be subject to seasonality.

Our operating results may vary significantly from period to period due to many factors, including seasonal factors that may have an effect on the demand for our products. While seasonality has not been particularly prevalent in our historical results of operations due to the rapid growth of our business, we generally expect to experience higher sales in the second and fourth quarters, primarily attributable to the major shopping festivals across online e-commerce platforms such as “618,” “Double Eleven” and “Double Twelve,” which are highly popular among Chinese consumers. Given the impact of this seasonality, our quarterly results of operation and financial position at the end of a particular quarter may not necessarily be representative of the results we expect at year end or in other quarters of a year. Our operating results could also suffer if we do not achieve revenues consistent with our expectations for this seasonal demand because many of our expenses are based on anticipated levels of annual revenues.

Higher labor costs and increasing raw material prices may adversely affect our business and our profitability.

Labor costs in China have risen in recent years as a result of the enactment of new labor laws and social development. Given that substantially all of our contract manufacturers are currently located in China, rising labor costs in China will increase our personnel expenses. In addition, we have witnessed growing inflation rates in many areas of the world, and particularly in China, where we procure most of our raw materials, which adversely affects our costs of raw materials. We may not be able to pass on rising costs as a result of higher labor costs and increasing raw material prices to end consumers in the form of higher retail sale prices. Accordingly, our profitability may be adversely affected if labor costs and raw material prices continue to rise in the future.

Certain of our directors may have conflicts of interest.

One of our directors, Mr. De Liu, is also a director of Xiaomi. This association may give rise to potential conflicts of interest, especially with regard to our business cooperation with Xiaomi. Directors of our Company are required by law to act honestly and in good faith with a view to the best of our interests and to disclose any interest that they may have in any of our projects or opportunities. In addition, we have adopted a code of ethics and an audit committee charter. Our code of ethics provides that an interested director needs to refrain from participating in any discussion among senior officers of our company relating to an interested business and may not be involved in any proposed transaction with such interested business. Furthermore, our audit committee charter provides that most related party transactions must be pre-approved by the audit committee, a majority of which consist of independent directors. Our audit committee charter, however, exempts the pre-approval requirement for related party transactions that are immaterial to us or not unusual by nature. In the event of such transactions with Xiaomi, Mr. Liu will still be entitled to vote in our board meeting, and we cannot assure you that Mr. Liu’s decision will not be impacted by any potential conflict of interest arising from his relationship with Xiaomi.

In connection with the audit of our consolidated financial statements included in this annual report, we and our independent registered public accounting firm identified two material weaknesses in our internal control over financial reporting. If we fail to develop and maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud.

In connection with the audit of our consolidated financial statements included in this annual report, we and our independent registered public accounting firm identified two material weaknesses in our internal control over financial reporting as well as other control deficiencies. As defined in the standards established by the U.S. Public Company Accounting Oversight Board, or the PCAOB, a “material weakness” is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The material weaknesses identified related to (i) our lack of sufficient resources regarding financial reporting and accounting personnel with understanding of U.S. GAAP, in particular, to address complex U.S. GAAP technical accounting issues, related disclosures in accordance with U.S. GAAP and financial reporting requirements set forth by the SEC, and (ii) the lack of comprehensive U.S. GAAP accounting policies and financial reporting procedures.

We have taken measures and plan to continue to take measures to remediate the material weaknesses. See “Item 15. Controls and Procedures—Changes in Internal Control.” However, the implementation of these measures may not fully address the material weaknesses in our internal control over financial reporting, and we cannot conclude that they have been fully remediated. Our failure to correct the material weaknesses or our failure to discover and address any other control deficiencies could result in inaccuracies in our financial statements and impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. Moreover, ineffective internal control over financial reporting could significantly hinder our ability to prevent fraud.

We are subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act, or 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 beginning with our annual report for the fiscal year ended December 31, 2019. In addition, once we cease to be an “emerging growth company” as such term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Based on its evaluation, our management concludes that our internal control over financial reporting as of December 31, 2021 was not effective. See “Item 15. Controls and Procedures—Management’s Report on Internal Control over Financial Reporting.” For future fiscal years, our management may conclude that our internal control over financial reporting was not effective either. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. 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.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404, we may identify other weaknesses and deficiencies in our internal control over financial reporting. In addition, 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. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements for prior periods.

We have granted, and may continue to grant, options and other types of awards under our share incentive plan, which may result in increased share-based compensation expense and have dilutive impact to you.

Our shareholders and board of directors have adopted two share incentive plans. Pursuant to these two plans, a total of 38,735,443 ordinary shares underlying all awards may be issued. As of December 31, 2021, there were 22,226,338 ordinary shares issuable upon exercise of outstanding share options under these two plans at a weighted average price of \$0.80 per share. Competition for highly skilled personnel is often intense, and we may incur significant costs or be not successful in attracting, integrating, or retaining qualified personnel to fulfil our current or future needs. 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 will continue 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. In addition, the granting, vesting and exercise of the awards under these share incentive plans will have dilutive effect on your shareholding in our Company.

Our future success depends, in part, on our ability to continue to attract, motivate and retain highly skilled personnel. In particular, the growth of our ecosystem may require us to hire experienced personnel with a wide range of skills.

We have, from time to time, experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. The loss of any key personnel, especially our founder, chairman, and chief executive officer Mr. Xiaoping Chen, could be disruptive to our operations and research and development activities, reduce our employee retention and revenues, and impair our ability to compete. In addition, if any of our senior management or key personnel joins a competitor or forms a competing company, we may lose know-how, trade secrets, business partners and key personnel. Furthermore, perspective candidates and existing employees often consider the value of the equity awards they receive

in connection with their employment. Thus, our ability to attract or retain highly skilled employees may be adversely affected by declines in the perceived value of our equity or equity awards. Furthermore, there is no assurance that the number of shares reserved for issuance under our share incentive plans will be sufficient to grant equity awards adequate to recruit new employees and to compensate existing employees.

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

Although we maintain property insurance, product liability insurance and public liability insurance, we cannot assure you that our insurance coverage is sufficient. In addition, we do not have business disruption insurance or insurance policies covering damages to our IT infrastructure or information technology systems. Any disruptions to our IT infrastructures or systems or other business disruption event could result in substantial cost to us and diversion of our resources.

We face risks related to natural disasters, health epidemics and other outbreaks or conflicts, which could materially and adversely affect our business and results of operations.

Our business could be adversely affected by natural disasters or other acts of god. Fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, military conflicts, riots, terrorist attacks or similar events that negatively impact the Chinese economy could also severely and adversely affect our business and operating performance.

Our business could also be adversely affected by health epidemics. In recent years, there have been outbreaks of epidemics in China and globally, such as Ebola virus disease, H1N1 flu, H7N9 flu, avian flu, coronavirus diseases such as COVID-19 and Severe Acute Respiratory Syndrome, or SARS, or other epidemics. Any such occurrences could cause severe disruption to our daily operations and our contract manufacturers and other partners, subject employees of ours, our contract manufactures or our partners to quarantine and may even require a temporary closure and disinfection of our office and facilities. In addition, our business, results of operations and financial condition could be adversely affected to the extent that any of these epidemics negatively impacts the Chinese economy in general.

The COVID-19 outbreak has created unique global and industry-wide challenges, including challenges to our business, impacting supply chains, logistics, sales channels, as well as overall consumer sentiment and purchasing behavior. In early-2020, the COVID-19 outbreak resulted in the temporary closure of many corporate offices, retail stores, and manufacturing facilities across China. Given the strict quarantine measures put in place during this period, normal economic activity throughout China was sharply curtailed and opportunities for discretionary consumption, especially in offline sales channels, were extremely limited during the period. Many of the quarantine measures within China were gradually relaxed, and we, together with our suppliers and customers, gradually resumed normal operations as of mid-February 2020.

We have since seen noticeable improvements both from a supply and demand perspective, yet our financial results, including our revenue growth and profit margins, were negatively impacted by COVID-19 in 2020 and 2021 as a result of the ongoing challenging industry conditions, supply chain bottlenecks and operational disruptions. While spread of COVID-19 has been substantially controlled in China in late 2020, there has been a resurgence of COVID-19 cases since 2021 caused by new variants such as Delta and Omicron in multiple cities in China, as well as across the world. Restrictions have been re-imposed in certain cities to combat such outbreaks and emerging variants of the virus, which have and may continue to impact our business, especially sales through offline channels. In particular, our offline channels and logistics operation, from time to time, were adversely affected by local quarantine and control measures in some parts of China in 2021 and the first half of 2022. The long-term trajectory of COVID-19, both in terms of scope and intensity of the pandemic, in China as well as globally, together with its impact on the industry and the broader economy are still difficult to assess or predict at this time and face uncertainties that will be difficult to quantify. If there is not a material recovery in the COVID-19 situation, or it further deteriorates in China or globally, our business, results of operations and financial condition could be materially and adversely affected.

Increasing focus with respect to environmental, social and governance matters may impose additional costs on us or expose us to additional risks. Failure to adapt to or comply with the evolving expectations and standards on environmental, social and governance matters from investors and the government may adversely affect our business, financial condition and results of operation.

Governments of China and other regions and public advocacy groups have been increasingly focused on environment, social and governance, or ESG, issues in recent years, making our business more sensitive to ESG issues and changes in governmental policies and laws and regulations associated with environment protection and other ESG-related matters. Investor advocacy groups, certain institutional investors, investment funds, and other influential investors are also increasingly focused on ESG practices and in recent years have placed increasing importance on the implications and social cost of their investments. Regardless of the industry, increased focus from investors and the PRC government on ESG and similar matters may hinder access to capital, as investors may decide to reallocate capital or to not commit capital as a result of their assessment of a company's ESG practices. Any ESG concern or issue could increase our regulatory compliance costs. If we do not adapt to or comply with the evolving expectations and standards on ESG matters from investors and the PRC government or are perceived to

have not responded appropriately to the growing concern for ESG issues, regardless of whether there is a legal requirement to do so, we may suffer from reputational damage and the business, financial condition, and the price of our ADSs could be materially and adversely effected.

Risks Related to Our Corporate Structure

If the PRC government finds that the agreements that establish the structure for operating some of our business operations in China do not comply with PRC regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties, or be forced to relinquish our interest in those operations.

Due to PRC restrictions or prohibitions on foreign ownership of internet and other related business in China, we operate our business in China through our VIEs and their subsidiaries, in which we have no ownership interest. According to the Special Administrative Measures (Negative List) for Foreign Investment Access, our provision of internet information services falls within the restricted category and the equity ratio of foreign investment in the enterprises operating the business under the restricted category is subject to the cap of 50%. In addition, although our provision of e-commerce services falls within the permitted category, foreign investments in this business are still restricted by other qualifications and requirements under related regulations in China. Our WFOEs have each entered into a series of contractual arrangements with one of our VIEs, and their respective shareholders, which enable us to (i) exercise effective control over our VIEs, (ii) receive substantially all of the economic benefits of our VIEs, and (iii) have an exclusive option to purchase all or part of the equity interests and assets in our VIEs 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 our VIEs and hence consolidate their financial results into our consolidated financial statements under U.S. GAAP. See “Item 4. Information on the Company—C. Organizational Structure” for further details.

Investors in our ADSs thus are not purchasing equity interest in our VIEs in China but instead are purchasing equity interest in a Cayman Islands holding company. Our holding company in the Cayman Islands, our VIEs and their subsidiaries, and investments in our Company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with our VIEs and, consequently, the business, financial condition, and results of operations of our VIEs and their subsidiaries and our Company as a group. In addition, our ADSs may decline in value or become worthless if we are unable to assert our contractual control rights over the assets of our VIEs, which contributed 100.0%, 99.4% and 91.6% of our revenues in 2019, 2020 and 2021, respectively.

In the opinion of our PRC legal counsel, Han Kun Law Offices, (i) the ownership structure of our VIEs in China and our WFOEs, are not in violation of applicable PRC laws and regulations currently in effect; and (ii) the contractual arrangements between our WFOEs, our VIEs and their shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of 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. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or our VIEs are found to be in violation of any existing or future PRC 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 to take action in dealing with such violations or failures, including:

- levying fines or confiscating our income or the income of our WFOEs or our VIEs, or imposing other requirements with which we or our VIEs may not be able to comply;
- revoking or suspending the business licenses or operating licenses of our WFOEs or our VIEs;
- discontinuing or placing restrictions or onerous conditions on our operations through any transactions between our WFOEs and our VIEs;
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with our VIEs and deregistering the equity pledges of our VIEs, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our VIEs;
- restricting or prohibiting our use of the proceeds of our initial public offering to finance our business and operations in China; and
- taking other regulatory or enforcement actions that could be harmful to our business.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of our VIEs in our consolidated financial statements, if the PRC government authorities were to find our legal structure and contractual arrangements to be in violation of PRC laws and regulations. If the imposition of any of these government actions causes us to lose our right to direct the activities of our VIEs or our right to receive substantially all the economic benefits and residual returns from our VIEs and we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of our VIEs in our consolidated financial statements. Either of

these occurrences, or any other significant penalties that might be imposed on us in this event, would have a material adverse effect on our financial condition and results of operations and could cause the value of our ADSs to decline or become worthless.

We rely on contractual arrangements with our VIEs and their respective shareholders for substantially all of our business operation, which may not be as effective as direct ownership in providing operational control.

We have relied and expect to continue to rely on contractual arrangements with our VIEs and their shareholders to conduct our business in China. These contractual arrangements may not be as effective as direct ownership in providing us with control over our VIEs. For example, our VIEs and their 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.

If we had direct ownership of our VIEs, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of our VIEs, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the current contractual arrangements, we rely on the performance by our VIEs and their shareholders of their obligations under the contracts to exercise control over our VIEs. However, the shareholders of our consolidated VIEs may not act in the best interests of our company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate certain portions of our business through the contractual arrangements with our VIEs. If any disputes relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and arbitration, litigation and other legal proceedings and therefore will be subject to uncertainties in the PRC legal system. See “—Any failure by our VIEs or their shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business, financial condition and results of operations.” Therefore, our contractual arrangements with our VIEs and their shareholders may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

Any failure by our VIEs or their shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business, financial condition and results of operations.

We refer to the shareholders of our VIEs as their nominee shareholders because although they remain the holders of equity interests on record in our VIEs, pursuant to the terms of the relevant shareholder voting proxy agreements, each such shareholder has irrevocably authorized any person designated by our WFOE to exercise the rights as a shareholder of the VIEs. However, if our VIEs or their 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. For example, if the shareholders of our VIEs were to refuse to transfer their equity interest in our VIEs to us or our designee if we exercise the purchase option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal actions to compel them to perform their contractual obligations.

All of the agreements under our contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China (the arbitration provisions relate to the claims arising out of the contractual relationship created by the VIE agreements, rather than claims under the United States federal securities laws and do not prevent shareholders of our Company from pursuing claims under the United States federal securities laws). Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes arising from these contracts 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. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. See “—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system and changes in laws and regulations in China could adversely affect us.”

Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a VIE should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC law, rulings by arbitrators are final, which means parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event we are unable to enforce these contractual arrangements, or if we suffer significant delays or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our VIEs, and our ability to conduct our business may be negatively affected.

Contractual arrangements in relation to our VIEs may be subject to scrutiny by the PRC tax authorities and they may determine that we or our VIEs 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. 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 our VIEs 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 our VIEs for PRC tax purposes, which could in turn increase its tax liabilities without reducing our WFOE's tax expenses. In addition, the PRC tax authorities may impose late payment fees and other penalties on our VIEs for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if our VIEs' tax liabilities increase or if it is required to pay late payment fees and other penalties.

The shareholders of our VIEs may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Shareholders of our VIEs may have potential conflicts of interest with us. For instance, Mr. Xiaoping Chen, our founder, chairman of our board of directors, and chief executive officer, holds 100% of equity interests in one of our VIEs and 60% in the other. The remaining 40% in the latter is held by affiliates or employees of certain of our principal shareholders, Red Better Limited and Shunwei Talent Limited. Conflicts of interests may arise between their roles in our Company or in our principal shareholders and their positions as nominal shareholders of our VIEs. These shareholders of our VIEs may breach, or cause our VIEs to breach, or refuse to renew, the existing contractual arrangements we have with them and our VIEs, which would have a material and adverse effect on our ability to effectively control our VIEs and receive economic benefits from them. For example, the shareholders may be able to cause our agreements with our VIEs to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise the shareholder will act in the best interests of our company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company, except that we could exercise our purchase option under the exclusive option agreements with these shareholders to request them to transfer all of their equity interests in the VIE to a PRC entity or individual designated by us, to the extent permitted by PRC law. Two nominee shareholders of our VIEs, namely Mr. Xiaoping Chen and Mr. De Liu, are also our directors. We rely on them to abide by the laws of the Cayman Islands, which provide that directors owe a fiduciary duty to the company that requires them to act in good faith and in what they believe to be the best interests of the company and not to use their position for personal gains. If we cannot resolve any conflict of interest or dispute between us and the shareholders of our VIEs, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

The shareholders of our VIEs may be involved in personal disputes with third parties or other incidents that may have an adverse effect on their respective equity interests in our VIEs and the validity or enforceability of our contractual arrangements with our VIEs and their shareholders. For example, in the event that any of the shareholders of our VIEs divorces his or her spouse, the spouse may claim that the equity interest of our VIEs held by such shareholder is part of their community property and should be divided between such shareholder and his or her spouse. If such claim is supported by the court, the relevant equity interest may be obtained by the shareholder's spouse or any third party who is not subject to obligations under our contractual arrangements, which could result in a loss of our effective control over the VIEs. Similarly, if any of the equity interests of our VIEs is inherited by a third party on whom the current contractual arrangements are not binding, we could lose our control over the VIEs or have to maintain such control by incurring unpredictable costs, which could cause significant disruption to our business and operations and harm our financial condition and results of operations.

Although under our current contractual arrangements, the spouse of Mr. Chen has executed spousal consent letters, under which she agrees that she will not take any actions or raise any claims to interfere with the performance by her spouse of the obligations under these contractual arrangements, including claiming community property ownership on the equity interest, and renounce any and all right and interest related to the equity interest that she may be entitled to under applicable laws. We cannot assure you that these undertakings and arrangements will be complied with or effectively enforced. In the event that any of them is breached or becomes unenforceable and leads to legal proceedings, it could disrupt our business, distract our management's attention and subject us to substantial uncertainties as to the outcome of any such legal proceedings.

We may rely on dividends paid by our PRC subsidiaries to fund any cash and financing requirements we may have. Any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to holders of the ADSs and our ordinary shares.

We are a holding company, and we may rely on dividends to be paid by our wholly-owned PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to the holders of the ADSs and our ordinary shares and service any debt we may incur. If our wholly owned 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 distributions to us.

Under PRC laws and regulations, wholly foreign-owned enterprises in the PRC, such as our WFOEs, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a

wholly foreign-owned enterprise 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. In addition, it may allocate a portion of its after-tax profits based on PRC accounting standards to discretionary reserve funds at its discretion. These reserve funds are not distributable as cash dividends. Any limitation on the ability of our wholly-owned PRC subsidiaries to pay dividends or make other distributions to us 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.

We may lose the ability to use and enjoy assets held by our VIEs that are material to the operation of certain portion of our business if the VIEs go bankrupt or becomes subject to a dissolution or liquidation proceeding.

Our VIEs and their subsidiaries hold substantially all of our assets, some of which are material to the operation of our business. If our VIEs go bankrupt and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. Under the contractual arrangements, our VIEs may not, in any manner, sell, transfer, mortgage or dispose of any of their material assets outside the ordinary course of operation or equity interests in the business operation without our prior consent. If our VIEs undergo voluntary or involuntary liquidation proceedings, independent third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

If the chops of our PRC subsidiaries and our VIEs are not kept safely, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised.

In China, a company chop or seal serves as the legal representation of the company towards third parties even when unaccompanied by a signature. Each legally registered company in China is required to maintain a company chop, which must be registered with the local Public Security Bureau. In addition to this mandatory company chop, companies may have several other chops which can be used for specific purposes. The chops of our PRC subsidiaries and VIEs are generally held securely by personnel designated or approved by us in accordance with our internal control procedures. To the extent those chops are not kept safely, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised and those corporate entities may be bound to abide by the terms of any documents so chopped, even if they were chopped by an individual who lacked the requisite power and authority to do so. In addition, if the chops are misused by unauthorized persons, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve while distracting management from our operations.

Risks Related to Doing Business in China

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 with the benefits of 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. Since our auditor is located in China, 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. As a result, we and investors in our ADSs are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China 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 outside of China that are subject to the PCAOB inspections, which could cause investors and potential investors in our ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Our ADSs will be prohibited from trading in the United States under the Holding Foreign Companies Accountable Act, or the HFCAA, in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.

The Holding Foreign Companies Accountable Act, or the HFCAA, was signed into law on December 18, 2020. The HFCAA 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 for 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 2, 2021, the SEC adopted final amendments implementing the disclosure and submission requirements of the HFCAA, pursuant to which the SEC will identify an issuer as a "Commission Identified Issuer" if the issuer has filed an annual report containing an audit report issued by a registered public accounting firm that the PCAOB has determined it is unable to inspect or

investigate completely, and will then impose a trading prohibition on an issuer after it is identified as a Commission-Identified Issuer for three consecutive years. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong. The PCAOB identified our auditor as one of the registered public accounting firms that the PCAOB is unable to inspect or investigate completely. Therefore, we expect to be identified as a “Commission Identified Issuer” shortly after the filing of this annual report on Form 20-F.

Whether the PCAOB will be able to conduct inspections of our auditor before the issuance of our financial statements on Form 20-F for the year ending December 31, 2023 which is due by April 30, 2024, or at all, is subject to substantial uncertainty and depends on a number of factors out of our, and our auditor’s, control. If our shares and ADSs are prohibited from trading in the United States, there is no certainty that we will be able to list on a non-U.S. exchange or that a market for our shares will develop outside of the United States. Such a 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 delisting would have a negative impact on the price of our ADSs. Also, 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.

On June 22, 2021, the U.S. Senate passed a bill which would reduce the number of consecutive non-inspection years required for triggering the prohibitions under the HFCAA from three years to two. On February 4, 2022, the U.S. House of Representatives passed a bill which contained, among other things, an identical provision. If this provision is enacted into law and the number of consecutive non-inspection years required for triggering the prohibitions under the HFCAA is reduced from three years to two, then our shares and ADSs could be prohibited from trading in the United States in 2023.

The PRC government’s significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs.

We conduct our business primarily in China. The PRC government has significant oversight and discretion over the conduct of our business, and may intervene or influence our operations, as the government deems appropriate to advance regulatory and societal goals and policy positions. The PRC government has recently published new policies that significantly affected certain industries and we cannot rule out the possibility that it will in the future release regulations or policies that directly or indirectly affect our industry or require us to seek additional permission to continue our operations, which could result in a material adverse change in our operation and/or the value of our ADSs. Therefore, investors of our company and our business face potential uncertainty from actions taken by the PRC government affecting our business.

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 our operations are located in China. The PRC government has significant authority to regulate or intervene in the China operations of an offshore holding company, such as us, at any time. 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 PRC 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 PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also has significant authority to exert influence on the ability of a China-based company, such as us, to conduct its business. Therefore, investors of our company and our business face potential uncertainty from China. The PRC 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.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing since 2012. In addition, the impact of COVID-19 on the Chinese and global economies is likely to continue. If economic conditions, particularly in China, as well as globally do not improve, our business and operating results may be adversely affected. Separately, any other or further adverse changes in economic conditions in China, in government policies or in the laws and regulations in China could have a material adverse effect on the overall economic growth. Such developments could adversely affect our business and operating results, lead to reduction in demand for our products and services and adversely affect our competitive position. The PRC 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 policies that encourage increased competition in our industry, or additional control over capital investments or changes in tax regulations. In addition, in the past the PRC 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 and changes in laws and regulations in China could adversely affect us

We conduct our business primarily through our PRC subsidiaries and consolidated VIEs in China. Our operations in China are governed by PRC laws and regulations. Our PRC subsidiaries are subject to laws and regulations applicable to foreign investment in China. The PRC legal system is based on written statutes, and court decisions have limited precedential value. The PRC legal system is evolving rapidly and PRC laws, regulations, and rules may change quickly with little advance notice. The interpretations of many PRC laws, regulations, and rules may contain inconsistencies, the enforcement of which involves uncertainties. For example, the PRC Foreign Investment Law, which took effect on January 1, 2020, replaces the trio of existing laws regulating foreign investment in China, together with their implementation rules and ancillary regulations. This PRC Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, substantial uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law, its implementation rules and ancillary regulations, which may materially impact the viability of our current corporate structure, corporate governance and business operations. We cannot assure you that we will remain fully compliant with all new regulatory requirements or any future implementation rules on a timely basis, or at all. Any failure of us to fully comply with new regulatory requirements may significantly limit or completely hinder our ability to offer or continue to offer the ADSs, cause significant disruption to our business operations, and severely damage our reputation, which would materially and adversely affect our financial condition and results of operations and cause the ADSs to significantly decline in value or become worthless.

From time to time, we may have to resort to court and administrative proceedings to enforce our legal rights. However, since PRC judicial and administrative authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of a judicial or administrative proceeding than in more developed legal systems. Furthermore, the PRC legal system is based, in part, on government policies and internal rules, some of which are not published in a timely manner, or at all, but which may have retroactive effect. As a result, we may not always be aware of any potential violation of these policies and rules. Such unpredictability towards our contractual, property (including intellectual property), and procedural rights could adversely affect our business and impede our ability to continue our operations.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related businesses and companies, and any lack of requisite approvals, licenses or permits applicable to our business may have a material adverse effect on our business and results of operations.

The PRC government extensively regulates the internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations.

In addition, the licenses, permits or registrations we may hold in the future are subject to periodic renewal. If we fail to maintain or renew one or more of our licenses and certificates when their term expires, or obtain such renewals on a timely manner, our operations could be disrupted. In addition, under relevant PRC laws and regulations, our VIEs as license holders are required to update certain licenses if any change to their respective name, registered capital or legal representative during the validity period of such license. If we fail to properly renew and maintain all such requisite licenses on time, we may face penalties and in extreme circumstances, order to suspend or terminate our website and online business.

Further, the interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business. We cannot assure you that we have obtained all the permits or licenses required for conducting our business in China or will be able to maintain our existing licenses or obtain new ones. Neither can we rule out the possibility that the licenses, permits, registrations or filings we hold may be deemed insufficient by PRC governments, which may restrain our ability to expand our business scope and may subject us to fines or other regulatory actions. Additionally, as we develop and expand our business scope, we may need to obtain additional permits and licenses and we cannot assure that we will be able to obtain such permits on time or at all. If the PRC government considers that we were operating without the proper approvals, licenses or permits or promulgates new laws and regulations that require additional approvals or licenses or imposes additional restrictions on the operation of any part of our business, it has the power, among other things, to levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material adverse effect on our business and results of operations.

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 an exempted company incorporated under the laws of the Cayman Islands, we conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, most of our senior executive officers reside within China for a significant portion of the time and are PRC nationals. As a result, it may be difficult for you to effect service of process upon us or those persons inside mainland China. It may also be difficult for you to enforce in U.S. courts judgments

obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, none of whom currently reside in the United States and whose assets are located outside the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedure Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedure Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of reciprocity with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedure Law, the PRC courts will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

It may be difficult for overseas regulators to conduct investigation or collect evidence within China.

Shareholder claims or regulatory investigation that are common in the United States, including securities law class actions and fraud claims, generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC and no entities or individuals may provide documents or materials in connection with its securities activities to the overseas without proper authorization. While detailed interpretation of or implementation rules under Article 177 of the PRC Securities Law have yet to be available, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase difficulties faced by investors in protecting your interests. See also “—Risks Related to the ADSs—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.”

Changes in international trade policies and rising political tensions, particularly between the U.S. and China, may adversely impact our business and operating results.

There have been changes in international trade policies and rising political tensions, particularly between the U.S. and China, but also as a result of the conflict in Ukraine and sanctions on Russia. The U.S. government has made statements and taken certain actions that may lead to potential changes to U.S. and international trade policies towards China. For example, export controls, economic and trade sanctions have been threatened and/or imposed by the U.S. government on a number of Chinese technology companies. The United States has also threatened to impose further export controls, sanctions, trade embargoes, and other heightened regulatory requirements on China and Chinese companies for alleged activities both inside and outside of China. Against this backdrop, China has implemented, and may further implement, measures in response to the changing trade policies, treaties, tariffs and sanctions and restrictions against Chinese companies initiated by the U.S. government. For example, the Ministry of Commerce of China published new rules in January 2021 to counter restrictions imposed by foreign countries on Chinese citizens and companies. It remains unclear what additional actions, if any, will be taken by the U.S. or other governments with respect to international trade, tax policy related to international commerce, or other trade matters. Rising trade and political tensions could reduce levels of trades, investments, technological exchanges and other economic activities between China and other countries, which would have an adverse effect on global economic conditions, the stability of global financial markets, and international trade policies. It could also adversely affect the financial and economic conditions in the jurisdictions in which we operate, as well as our overseas expansion, our financial condition, and results of operations.

While cross-border business currently may not be an area of our focus, if we plan to continue expanding our business internationally in the future, any unfavorable government policies on international trade or any restriction on Chinese companies may affect the consumer demands for our products and service, impact our competitive position, or prevent us from being able to conduct business in certain countries. In addition, our results of operations could be adversely affected if any such tensions or unfavorable government trade policies harm the Chinese economy or the global economy in general.

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

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a “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 over and overall and substantial management of the business, productions, personnel, accounts and properties of an enterprise. In 2009, the State Administration of Taxation, or 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 only applies 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” test 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 where senior management personnel and departments that are responsible for 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 that we are not a PRC resident enterprise for PRC tax purposes. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on Tax—PRC Enterprise Income Tax.” 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 we are a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax, unless a reduced rate is available under an applicable tax treaty, from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to our non-PRC individual shareholders (including our 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% unless a reduced rate is available under an applicable tax treaty. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in the ADSs 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 a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or SAT Public Notice 7. SAT Public Notice 7 has introduced a new tax regime that is significantly different from the previous one under former SAT Circular 698 (which was repealed by the Announcement of the State Administration of Taxation on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source by the SAT). SAT Public Notice 7 extends its tax jurisdiction to not only Indirect Transfers set forth under former SAT Circular 698 but also transactions involving transfer of other taxable assets through offshore transfer of a foreign intermediate holding company. In addition, SAT Public Notice 7 provides clearer criteria than former SAT Circular 698 for assessment of reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity of a same listed foreign enterprise by a non-resident enterprise through a public securities market. SAT Public Notice 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. 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, being the transferor, or the 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 is obligated to pay 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. However, according to the aforesaid safe harbor rule, the PRC tax would not be applicable to the transfer by any non-resident enterprise of ADSs of the Company acquired and sold on public securities markets.

On October 17, 2017, the SAT issued a Public Notice of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Public Notice 37, which, among others, repealed the Circular 698 on December 1, 2017. SAT Public Notice 37 further details and clarifies the tax withholding methods in respect of income of non-resident enterprises under Circular 698. And certain rules stipulated in SAT Public Notice 7 are replaced by SAT Public Notice 37. Where the non-resident enterprise fails to declare the tax payable pursuant to Article 39 of the PRC Enterprise Income Tax Law, the tax authority may order it to pay the tax due within required time limits, and the non-resident enterprise shall declare and pay the tax payable within such time limits specified by the tax authority; however, if the non-resident enterprise

voluntarily declares and pays the tax payable before the tax authority orders it to do so within required time limits, it shall be deemed that such enterprise has paid the tax in time.

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 Public Notice 7 and SAT Public Notice 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 Public Notice 7 and SAT Public Notice 37. As a result, we may be required to expend valuable resources to comply with SAT Public Notice 7 and SAT Public Notice 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.

If our preferential tax treatments are revoked, become unavailable or if the calculation of our tax liability is successfully challenged by the PRC tax authorities, we may be required to pay tax, interest and penalties in excess of our tax provisions, and our results of operations could be materially and adversely affected.

The PRC government has provided various tax incentives to our WFOE II, our VIE entity—Foshan Viomi—and certain subsidiary of our VIE entity in China. These incentives include reduced enterprise income tax rates. For example, under the PRC Enterprise Income Tax Law and its implementation rules, the statutory enterprise income tax rate is 25%. However, enterprises which obtained a new software enterprise certification were entitled to an exemption of enterprise income tax for the first two years and a 50% reduction of enterprise income tax for the subsequent three years, commencing from the first profit-making year. In addition, the income tax of an enterprise that has been determined to be a high and new technology enterprise can be reduced to a preferential rate of 15%. Foshan Viomi has obtained High and New Technology Enterprise status since November 31, 2016, Guangdong Lizi has obtained High and New Technology Enterprise status since December 1, 2020, and WFOE II has obtained High and New Technology Enterprise status since December 31, 2021. Each of these three entities is thus eligible to enjoy a preferential tax rate of 15% for the periods presented and the following three years, to the extent it has taxable income under the PRC Enterprise Income Tax Law. Any increase in the enterprise income tax rate applicable to our PRC subsidiaries or VIEs in China, or any discontinuation or retroactive or future reduction of any of the preferential tax treatments currently enjoyed by our PRC subsidiaries or VIEs in China, could adversely affect our business, financial condition and results of operations. In addition, in the ordinary course of our business, we are subject to complex income tax and other tax regulations and significant judgment is required in the determination of a provision for income taxes. Although we believe our tax provisions are reasonable, if the PRC tax authorities successfully challenge our position and we are required to pay tax, interest and penalties in excess of our tax provisions, our financial condition and results of operations would be materially and adversely affected.

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

Among other things, the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended by Ministry of Commerce 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 Ministry of Commerce 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, were triggered. Moreover, the PRC 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 Ministry of Commerce before they can be completed. In addition, PRC national security review rules which became effective in September 2011 and the Measures for the Security Review of Foreign Investment became effective in January 2021 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 Ministry of Commerce, 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, the 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, or 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, or 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 as well as foreign individuals that are deemed as PRC residents for foreign exchange administration purposes) to register with the 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, or SPVs, are required to register such investments with the 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 the 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 the 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, or 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, are required to be filed with qualified banks instead of the SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of the SAFE.

We have requested PRC residents who we know hold direct or indirect interest in our company to make the necessary applications, filings and registrations as required under SAFE Circular 37. However, we may not be informed of the identities of all the PRC residents holding direct or indirect interest in our company, and we cannot provide any assurance that all these PRC residents have complied or will comply with SAFE Circular No. 37 or the subsequent implementation rules to complete the applicable registrations. The failure or inability of our PRC resident shareholders to comply with the registration procedures set forth in these regulations may subject us to fines and legal sanctions, restrict our cross-border investment activities, limit the ability of our wholly foreign-owned subsidiary in China to distribute to us dividends and the proceeds from any reduction in capital, share transfer or liquidation, and we may also be prohibited from injecting additional capital into the subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC law for circumventing applicable foreign exchange restrictions. As a result, our business operations and our ability to distribute profits to you could be materially and adversely affected.

Furthermore, as these foreign exchange regulations are still relatively new and their interpretation and implementation has 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, the 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 have resided in China for a continuous period of not less than one year are required to register with the SAFE through a domestic qualified agent, which could be the PRC subsidiary of such overseas-listed company, and complete certain other procedures if they participate in any stock incentive plan of an overseas publicly listed company, unless certain exceptions are available. 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 non-PRC citizens living in the PRC for a continuous period of not less than one year and have been granted options are subject to these regulations. Failure to complete the SAFE registrations may result in fines of up to RMB300,000 for entities, or up to RMB50,000 for individuals, 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. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on Employee Share Incentive Plan of Overseas Publicly Listed Company."

Failure to make adequate contributions to various government-sponsored employee benefits plans as required by PRC regulations may subject us to penalties.

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 employees up to a maximum amount specified by the local government from time to time at locations where our employees are based. The requirements of employee benefit plans have not been implemented consistently by the local governments in China given the different levels of economic development in different locations. We did not pay, or were not able to pay, certain social insurance or housing fund contributions for all of our employees and the amount we paid was lower than the requirements of relevant PRC regulations. If local authorities determine that we failed to make adequate contributions to any employee benefits as required by relevant PRC regulations, we may face late fees or fines in relation to the underpaid employee benefits. In addition, our provision for these liabilities may not be adequate, particularly in light of the recent tightening regulations. As a result, our financial condition and results of operations may be materially and adversely affected.

We face certain risks relating to the real properties that we lease.

We lease real properties from third parties primarily for our office use in China, and none of our lease agreements for these properties has been registered with the PRC governmental authorities as required by PRC law. Although the failure to do so does not in itself invalidate the leases, we may be ordered by the PRC government authorities to rectify such noncompliance and, if such noncompliance were not rectified within a given period of time, we may be subject to fines imposed by PRC government authorities ranging from RMB1,000 and RMB10,000 for each lease agreement that has not been registered with the relevant PRC governmental authorities.

The ownership certificate or other similar proof of one of our leased properties has not been provided to us by the lessor. Therefore, we cannot assure you that such lessor is entitled to lease the relevant real properties to us. If the lessor is not entitled to lease the real properties to us and the owner of such real properties decline to ratify the lease agreements between us and the respective lessor, we may not be able to enforce our rights to lease such properties under the lease agreement against the owner. As of December 31, 2021, we are not aware of any claim or challenge brought by any third parties concerning our use of leased properties. If our lease agreements are claimed as null and void by third parties who are the real owners of such leased real properties, we could be required to vacate the properties, in which event we could only initiate claims against the lessors under relevant lease agreements for losses resulting from indemnities for their breach of the relevant leasing agreements. We cannot assure you that suitable alternative locations are readily available on commercially reasonable terms, or at all, and if we are unable to relocate our officers in a timely manner, our operations may be interrupted.

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of our securities offering 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 are an offshore holding company conducting our operations in China through our PRC subsidiaries and VIEs. We may make loans to our PRC subsidiaries and VIEs subject to the approval from or registration with governmental authorities and limitation on amount, or we may make additional capital contributions to our wholly foreign-owned subsidiary in China. Any loans to our wholly foreign-owned subsidiary in China, which are treated as foreign-invested enterprises, or FIEs, under PRC law, are subject to foreign exchange loan registrations. In addition, an FIE shall use its capital pursuant to the principle of authenticity and self-use within its business scope. The capital of an FIE shall not be used for the following purposes: (i) directly or indirectly used for payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities or investments other than banks' principal-secured products unless otherwise provided by relevant laws and regulations; (iii) the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license; and (iv) paying the expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or VIEs or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds from our securities offering and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

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

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. The value of Renminbi

against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. We cannot assure you that Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

Any significant appreciation or depreciation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, to the extent that we need to convert U.S. dollars we receive from our securities offering 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 from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

Governmental control of currency conversion may limit our ability to utilize our cash balance 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 net 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 the SAFE by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of the 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 the SAFE approval to use cash generated from the operations of our PRC subsidiaries and VIEs 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 our ADSs.

The approval of and filing with the CSRC or other PRC government authorities may be required if we were to conduct offshore offerings in the future, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.

The M&A Rules requires an overseas special purpose vehicle formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC persons or entities to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear, and our offshore offerings may ultimately require approval of the CSRC. If the CSRC approval is required, it is uncertain whether we can or how long it will take us to obtain the approval and, even if we obtain such CSRC approval, the approval could be rescinded. Any failure to obtain or delay in obtaining the CSRC approval for any of our offshore offerings, or a rescission of such approval if obtained by us, would subject us to sanctions imposed by the CSRC or other PRC regulatory authorities, which could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of China, and other forms of sanctions that may materially and adversely affect our business, financial condition, and results of operations. On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions 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. As a follow-up, on December 24, 2021, the State Council issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Provisions, and the CSRC issued a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Administration Measures, for public comments.

The Draft Provisions and the Draft Administration Measures propose to establish a new filing-based regime to regulate overseas offerings and listings by domestic companies. According to the Draft Provisions and the Draft Administration Measures,

an overseas offering and listing by a domestic company, whether directly or indirectly, shall be filed with the CSRC. Specifically, the examination and determination of an indirect offering and listing will be conducted on a substance-over-form basis, and an offering and listing shall be considered as an indirect overseas offering and listing by a domestic company if the issuer meets the following conditions: (i) the operating income, gross profit, total assets, or net assets of the domestic enterprise in the most recent fiscal year was more than 50% of the relevant line item in the issuer's audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, and the main place of business is in the PRC or carried out in the PRC. According to the Draft Administration Measures, the issuer or its affiliated domestic company, as the case may be, shall file with the CSRC for its initial public offering, follow-on offering and other equivalent offering activities. Particularly, the issuer shall submit the filing with respect to its initial public offering and listing within three business days after its initial filing of the listing application, and submit the filing with respect to its follow-on offering within three business days after completion of the follow-on offering. Failure to comply with the filing requirements may result in fines to the relevant domestic companies, suspension of their businesses, revocation of their business licenses and operation permits and fines on the controlling shareholder and other responsible persons. The Draft Administration Measures also sets forth certain regulatory red lines for overseas offerings and listings by domestic enterprises.

As of the date of this annual report, the Draft Provisions and the Draft Administration Measures were released for public comment only. There are uncertainties as to whether the Draft Provisions and the Draft Administration Measures would be further amended, revised or updated. Substantial uncertainties exist with respect to the enactment timetable and final content of the Draft Provisions and the Draft Administration Measures. As the CSRC may formulate and publish guidelines for filings in the future, the Draft Administration Measures does not provide for detailed requirements of the substance and form of the filing documents. In a Q&A released on its official website, the respondent CSRC official indicated that the proposed new filing requirement will start with new companies and the existing companies seeking to carry out activities like follow-on financing. As for the filings for the existing companies, the regulator will grant adequate transition period and apply separate arrangements. The Q&A also addressed the contractual arrangements and pointed out that if relevant domestic laws and regulations have been observed, companies with compliant VIE structure may seek overseas listing after completion of the CSRC filings. Nevertheless, it does not specify what qualify as compliant VIE structures and what relevant domestic laws and regulations are required to be complied with. Given the substantial uncertainties surrounding the latest CSRC filing requirements at this stage, we cannot assure you that we will be able to complete the filings and fully comply with the relevant new rules on a timely basis, if at all, if we ever conduct any overseas offering.

Relatedly, on December 27, 2021, the NDRC and the Ministry of Commerce, jointly issued the 2021 Negative List, which became effective on January 1, 2022. Pursuant to such Special Administrative Measures, if a domestic company engaging in the prohibited business stipulated in the 2021 Negative List seeks an overseas offering and listing, it shall obtain the approval from the competent governmental authorities. Besides, the foreign investors of the company shall not be involved in the company's operation and management, and their shareholding percentage shall be subject, *mutatis mutandis*, to the relevant regulations on the domestic securities investments by foreign investors. As the 2021 Negative List is relatively new, there remain substantial uncertainties as to the interpretation and implementation of these new requirements, and it is unclear as to whether and to what extent listed companies like us will be subject to these new requirements. If we are required to comply with these requirements and fail to do so on a timely basis, if at all, our business operation, financial conditions and business prospect may be adversely and materially affected.

In addition, we cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us. If it is determined in the future that approval from and filing with the CSRC or other regulatory authorities or other procedures, including the cybersecurity review under the Cybersecurity Review Measures and the draft of Regulations on the Network Data Security, are required if we were to conduct offshore offerings, it is uncertain whether we can or how long it will take us to obtain such approval or complete such filing procedures. If we were to conduct offshore offerings and fail to obtain such approval or filing procedures, or such approval or filing, if obtained by us, were to be rescinded, we would be subject to sanctions by the CSRC or other PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from our offshore offerings into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our listed securities. The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt our offshore offerings before settlement and delivery of the shares offered. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for our prior offshore offerings, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of our listed securities.

Risks Related to the ADSs

The trading price of the ADSs is likely to be volatile, which could result in substantial losses to investors.

The trading price of our ADSs is likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, including overall market volatility and 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 our ADSs may be highly volatile for factors specific to our own operations, including the following:

- variations in our net revenues, earnings and cash flow;
- announcements of new investments, acquisitions, strategic partnerships, or joint ventures by us or our competitors;
- announcements of new products and services and expansions by us or our competitors;
- changes in financial estimates by securities analysts;
- failure on our part to realize monetization opportunities as expected;
- changes in revenues generated from our significant business partners;
- 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;
- detrimental negative publicity about us, our management, our competitors or our industry;
- regulatory developments affecting us or our industry; and
- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the trading volume and price of the ADSs.

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. If we were involved in a class action suit, it 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.

Our dual-class share structure with different voting rights will limit your ability to influence corporate matters (and in certain situations, give certain holders of Class B ordinary shares control over the outcome of matters put to a vote of shareholders) and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

We have a dual-class share structure such that our ordinary shares consist of Class A ordinary shares and Class B ordinary shares. One of our key strengths is our visionary and professional management team led by the founder and chief executive officer Mr. Xiaoping Chen and supported by our strategic partner Xiaomi. The dual-class share structure ensures that the vision of the management team and the proven strategies can be consistently implemented, especially during the phase of our rapid growth. Furthermore, the dual-class structure enables us to better focus on long-term strategies by serving as effective defense against corporate actions which might not be in our long-term interest. Each Class A ordinary share shall entitle the holder thereof to one vote on all matters subject to vote at general meetings of the Company, and each Class B ordinary share shall entitle the holder thereof to ten votes on all matters subject to vote at general meetings of the Company based on our dual-class share structure. Each Class B ordinary share is convertible into one Class A ordinary share at any time at the option of the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of any Class B ordinary share by Mr. Xiaoping Chen or Viomi Limited to any person who is not Mr. Chen Xiaoping or his affiliate(s), or upon a change of ultimate beneficial ownership of any Class B ordinary share to any person who is not Mr. Xiaoping Chen or his affiliate(s), such Class B ordinary share shall be automatically and immediately converted into one Class A ordinary share. Upon any sale, transfer, assignment or disposition of any Class B ordinary share by a shareholder other than Mr. Xiaoping Chen or his affiliate(s) to any person, such Class B ordinary share shall be automatically and immediately converted into one Class A ordinary share. Conversion of Class B ordinary shares to Class A ordinary shares will increase the voting power of holders of Class A ordinary shares and ADSs, while at the same time increasing the relative voting power of individual Class B ordinary shareholders who retain their shares.

As a result of the dual-class share structure and the concentration of ownership, Mr. Xiaoping Chen, certain of our employees and Xiaomi beneficially own all of our issued Class B ordinary shares, and they have considerable influence (and in

certain situations, complete control) over matters such as decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Such holders may take actions that are not in the best interest of us or our other shareholders. Due to the disproportionate voting powers associated with our two classes of ordinary shares, the holders of our Class B ordinary shares and our founder, Mr. Xiaoping Chen, beneficially own 90.7% and 60.7%, respectively, of the aggregate voting power of our Company as of February 28, 2022. Assuming that the Class B shareholders hold Class B ordinary shares only, the Class B shareholders only need to keep 9.1% of the outstanding shares to continue to control the outcome of matters submitted to shareholders for approval through ordinary resolutions. The 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 price of our ADSs. This concentrated control will limit 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.

The dual-class structure of our ordinary shares may adversely affect the trading market for our ADSs.

S&P Dow Jones and FTSE Russell have announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500, to exclude companies with multiple classes of shares and companies whose public shareholders hold no more than 5% of total voting power from being added to such indices. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual class structure of our ordinary shares may prevent the inclusion of our ADSs representing Class A ordinary shares in such indices and may cause shareholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices could result in a less active trading market for our ADSs. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our ADSs.

We are an emerging growth company within the meaning of the Securities Act and may take advantage of certain reduced reporting requirements.

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 for so long as we remain an emerging growth company. As a result, if we elect not to comply with such auditor attestation requirements, our investors may not have access to certain information they may deem important.

The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. However, we have elected to “opt out” of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

If securities or industry analysts cease to publish research or reports about our business, or if they adversely change their recommendations regarding the ADSs, the market price for the ADSs and trading volume could decline.

The trading market for the ADSs will be influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade the ADSs, the market price for the ADSs would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for the ADSs to decline.

The sale or availability for sale, or perceived sale or availability for sale, of substantial amounts of our ADSs could adversely affect their market price.

Sales of substantial amounts of our ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our ability to raise capital through equity offerings in the future. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs.

Our memorandum and articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our ordinary shares and ADSs.

Our memorandum and articles of association contain provisions to limit the ability of others to acquire control of our Company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. Our proposed dual-class voting structure gives

disproportionate voting power to the holders of our Class A and Class B ordinary shares. Our board of directors has the authority, without further action by our shareholders, 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, in the form of ADS or otherwise. 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 of directors decides to issue preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected.

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

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of our 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 are carried by the underlying Class A ordinary shares represented by your ADSs indirectly by giving voting instructions to the depository in accordance with the provisions of the deposit agreement. Upon receipt of your voting instructions, the depository will try, as far as is practicable, to vote the underlying Class A ordinary shares represented by your ADSs in accordance with your instructions. If we ask for your instructions, then upon receipt of your voting instructions, the depository will try to vote the underlying Class A ordinary shares in accordance with these instructions. If we do not instruct the depository to ask for your instructions, the depository may still vote in accordance with instructions you give, but it is not required to do so. You will not be able to directly exercise your right to vote with respect to the underlying Class A ordinary shares represented by your ADSs unless you withdraw such 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 withdraw the underlying Class A ordinary shares represented by your ADSs and become the registered holder of such shares 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 memorandum and 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 underlying Class A ordinary shares represented by your 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. If we ask for your instructions, the depository will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We have agreed to give the depository at least 30 days' prior notice of shareholder meetings. Nevertheless, we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote the underlying Class A ordinary shares represented by your ADSs. In addition, the depository 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 underlying Class A ordinary shares represented by your ADSs are voted and you may have no legal remedy if the underlying Class A ordinary shares represented by your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

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

On March 18, 2019, our board of directors declared a special cash dividend of US\$0.0333 per ordinary share (or US\$0.1 per ADS) on our issued and outstanding ordinary shares. Going forward, we intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. We do not have any present plan to pay regular cash dividends on our ordinary shares in the foreseeable future. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

Pursuant to our memorandum and articles of association, our board of directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend either out of profits or 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 it falls due in the ordinary course of business. In addition, our shareholders may declare dividends by ordinary resolution, but no dividend declared shall exceed the amount recommended by our directors. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

You may not receive dividends or other distributions on our ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.

The depositary of the ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities underlying the ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act of 1933 but that are not properly registered or distributed under an applicable exemption from registration. The depositary may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of the ADSs.

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 depositary will not distribute rights to holders of 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 ADSs, or are registered under the provisions of the Securities Act. The depositary 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 ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems it expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our share register or the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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

As a public company, we incur significant accounting, legal and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, including Section 404 therein relating to internal control over financial reporting, as well as rules subsequently implemented by the SEC and Nasdaq, have detailed requirements concerning corporate governance practices of public companies. We expect these rules and regulations applicable to public companies to increase our accounting, legal and financial compliance costs and to make certain corporate activities more time-consuming and costly. Our management is required to devote substantial time and attention to our public company reporting obligations and other compliance matters. We evaluate and monitor developments with respect to these rules and regulations, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. Our reporting and other compliance obligations as a public company may place a significant strain on our management, operational and financial resources and systems for the foreseeable future.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company's securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. 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.

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 limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Act of the Cayman Islands and the common law of

the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary duties owed to us by our directors 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 owed to us by 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 has 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, 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 (other than the memorandum and articles of association, the register of mortgages and charges and special resolutions of our shareholders) or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our memorandum and 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 our shareholders to obtain the information needed to establish any facts necessary for them to motion or to solicit proxies from other shareholders in connection with a proxy contest.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of our board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States.

Your rights to pursue claims against the depositary as a holder of ADSs are limited by the terms of the deposit agreement.

The deposit agreement governing the ADSs representing our ordinary shares provides that, subject to the depositary's right to require a claim to be submitted to arbitration, the federal or state courts in the City of New York have exclusive jurisdiction to hear and determine claims arising under the deposit agreement and in that regard, 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 depositary 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 depositary 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 U.S. state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the U.S. 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. 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 investing in the ADSs.

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 U.S. 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 enforced, to the extent a court action proceeds, it would 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.

In addition, the depositary may, in its sole discretion, require that any dispute or difference arising from the relationship created by the deposit agreement be referred to and finally settled by an arbitration conducted under the terms described in the deposit agreement, although the arbitration provisions do not preclude you from pursuing claims under U.S. federal securities laws in federal courts.

Certain judgments obtained against us by our shareholders may not be enforceable.

We are a Cayman Islands exempted company and substantially all of our assets are located outside of the United States. Substantially all of our current operations are conducted in China. In addition, all of our current 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 an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq corporate governance listing standards.

As a Cayman Islands company listed on the Nasdaq Stock Market, we are subject to the 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. Currently, we rely on home country practice with respect to certain aspects of our corporate governance. See “Item 16G. Corporate Governance.” As a result, our shareholders may be afforded less protection than they would otherwise enjoy under the Nasdaq governance listing standards applicable to U.S. domestic issuers.

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

Depending on the value of our assets, which is determined based, in part, on the market value of our ADSs, and the nature of our assets and income over time, we could be classified as a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes. A non-U.S. corporation, such as our company, will be classified as a PFIC for U.S. federal income tax purposes for any taxable year if either (i) at least 75% of its gross income for such year consists of certain types of “passive” income; or (ii) at least 50% of the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce passive income or are held for the production of passive income (the “asset test”). Although the law in this regard is not entirely clear, we treat our consolidated VIEs as being owned by us for U.S. federal income tax purposes because we control their management decisions and are entitled to substantially all of the economic benefits associated with it, and, as a result, we consolidate their results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of the consolidated VIEs for U.S. federal income tax purposes, we may be treated as a PFIC for the current taxable year and any subsequent taxable year. Assuming that we are the owner of our VIEs for U.S. federal income tax purposes, and based on our income and assets and the market value of our ADSs, we do not believe we were a PFIC for the taxable year ended December 31, 2021.

There can be no assurance regarding our PFIC status for the current taxable year or foreseeable future taxable years, however, because our PFIC status is a factual determination made annually that will depend, in part, upon the composition of our income and assets. The value of our assets for purposes of the asset test, including the value of our goodwill and unbooked intangibles, may be determined in part by reference to the market price of our ADSs or ordinary shares from time to time (which may be volatile). Because we will generally take into account our current market capitalization in estimating the value of our goodwill and other unbooked intangibles, our PFIC status for the current taxable year and foreseeable future taxable years may be affected by our market capitalization. Recent fluctuations in our market capitalization create a material risk that we may be classified as a PFIC for the current taxable year and foreseeable future taxable years. In addition, the composition of our income and our assets will be affected by how, and how quickly, we spend our liquid assets. Under circumstances where our revenue from activities that produce passive income significantly increases relative to our revenue from activities that produce non-passive income, or where we determine not to deploy significant amounts of cash for active purposes, our risk of becoming a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules, it is possible that the Internal Revenue Service may challenge our classification of certain income or assets as non-passive, or our valuation of our goodwill and other unbooked intangibles, each of which could cause us to become classified as a PFIC for the current or subsequent taxable years.

If we are a PFIC for any taxable year during which a U.S. Holder (as defined in “Item 10. Additional Information—E. Taxation—U.S. Federal Income Tax Considerations”) holds our ADSs or ordinary shares, the U.S. Holder may be subject to certain adverse U.S. federal income tax consequences. Additionally, if we are a PFIC for any taxable year during which U.S. Holders hold our ADSs or ordinary shares, we would generally continue to be treated as a PFIC with respect to such U.S. Holders even if we do not satisfy either of the above tests to be classified as a PFIC in a subsequent taxable year. See “Item 10. Additional Information—E. Taxation—U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Considerations.”

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We commenced our operation in May 2014 through Foshan Yunmi Electric Appliances Technology Co., Ltd, or Foshan Viomi, a PRC domestic company, to develop, manufacture and sell IoT products, including smart water purification systems.

Foshan Viomi was established by Mr. Xiaoping Chen and Tianjin Jinxing Investment Co., Ltd., or Tianjin Jinxing, a subsidiary of Xiaomi. Certain equity interests in Foshan Viomi under Mr. Chen's name were held by Mr. Chen on behalf of our management.

In January 2015, we incorporated Viomi Technology Co., Ltd as our offshore holding company in order to facilitate foreign investment in our company. Subsequently, we established Viomi HK Technology Co., Limited, or Viomi HK, as our intermediate holding company, which in turn established a wholly owned PRC subsidiary, Lequan Technology (Beijing) Co., Ltd., or Lequan Technology or our WFOE, in April 2015.

In January 2015, we formed a PRC domestic company, Beijing Yunmi Technology Co., Ltd, or Beijing Viomi, to develop and manage our big data, software and product design. In July 2015, we issued class A ordinary shares of Viomi Technology Co., Ltd. in exchange for the equity interests in Foshan Viomi held by Mr. Chen on behalf of the management, class B ordinary shares in exchange for the equity interests in Foshan Viomi owned by Mr. Chen, and class B ordinary shares to Red Better Limited and Shunwei Talent Limited in exchange for the equity interests in Foshan Viomi held by Tianjin Jinxing. Concurrently, we obtained control over Foshan Viomi and Beijing Viomi by entering into a series of contractual arrangements with them and their respective shareholders. In September 2018, Foshan Viomi reduced its registered capital and changed its shareholders from Mr. Xiaoping Chen and Tianjin Jinxing, an affiliate of our principal shareholder, Red Better Limited, to Mr. Xiaoping Chen alone. Concurrently, we entered into a series of contractual arrangements in substantially the same forms with Foshan Viomi and Mr. Xiaoping Chen. We collectively refer to Foshan Viomi and Beijing Viomi as our VIEs in this annual report. We use contractual arrangements with VIEs due to PRC restrictions or prohibitions on foreign ownership of internet and other related businesses in China.

As a result of our direct ownership in our WFOE and the contractual arrangements with the VIEs, we are regarded as the primary beneficiary of our VIEs, and we treat them as our VIEs under U.S. GAAP. We have consolidated the financial results of our VIEs in our consolidated financial statements in accordance with U.S. GAAP.

In July 2018, we established Guangdong Lizi, a subsidiary of Foshan Viomi, as a smart water purification system facility focusing on the research, design, production and supply of smart water purifiers and water purifier filters. Guangdong Lizi began commercial manufacturing operations in January 2019.

On September 25, 2018, our ADSs commenced trading on the Nasdaq Stock Market under the symbol "VIOT." We raised from our initial public offering approximately US\$91.4 million in net proceeds, after deducting underwriting discounts and commissions and offering expenses payable by us.

In January 2019, we established Guangdong AI Touch, a subsidiary of Foshan Viomi, for the development, production and supply of touch screen components for our smart products. Guangdong AI Touch has begun commercial manufacturing operations in the first half of 2019.

In December 2019, we established Yunmi Hulian Technology (Guangdong) Co., Ltd. as a wholly-owned subsidiary of Viomi HK to act as a holding company for potential future business and investment opportunities.

In October 2020, we established Zhumeng Hulian Technology (Guangdong) Co. Ltd. as a wholly-owned subsidiary of Codream HK Co., Limited, a subsidiary of ours. In November 2020, Foshan Viomi transferred all of its equity interests of Guangdong Lizi to Zhumeng Hulian Technology (Guangdong) Co. Ltd. Meanwhile, Guangdong Lizi expanded its production of smart water purification system, and expanded its business scope to include research, design, production and supply of smart sweeper robots, as well as supply of some small appliances.

Our principal executive offices are located at Wansheng Square, Rm 1302 Tower C, Xingang East Road, Haizhu District, Guangzhou, Guangdong, 510220, People's Republic of China. Our telephone number at this address is +86 20 8930 9496. Our registered office in the Cayman Islands is located at offices of Maples Corporate Services Limited at PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands.

The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC on www.sec.gov. You can also find information on our website <http://ir.viomi.com/>

B. Business Overview

We have developed a unique IoT @ Home platform, consisting of an ecosystem of innovative IoT @ Home portfolio, home water solutions, together with a suite of complementary consumable products and small appliances and others. This platform provides an attractive entry point into the consumer home, enabling consumers to intelligently interact with a broad portfolio of IoT products in an intuitive and human-like manner to make daily life more convenient, efficient and enjoyable, while allowing us to grow our household user base and capture various additional scenario-driven consumption events in the home environment. As of December 31, 2021, our IoT @ Home platform had approximately 6.6 million household users.

Our IoT @ Home platform comprises of two key pillars, our Viomi business, predominantly comprising our Viomi-branded products, and our Xiaomi business, comprising our strategic partnership with Xiaomi. Sales through our own and third-party channels, which constitute the vast majority of our Viomi-branded products business, accounted for 54.6%, 50.4% and 56.7% of our net revenues in 2019, 2020 and 2021, respectively. Xiaomi is our strategic partner, shareholder and customer. Our strategic partnership with Xiaomi provides us with access to Xiaomi's ecosystem users, sales platforms and data resources and related support. Sales to Xiaomi, predominantly comprising Xiaomi-branded products, accounted for 45.4%, 49.6% and 43.3% of our net revenues in 2019, 2020 and 2021, respectively. Our strong research and development capabilities, supply chain resources and innovative products and services are able to enrich Xiaomi's suite of offerings, resulting in a mutually beneficial relationship between Xiaomi and us.

We have developed a 5G IoT home structure, which integrates a technology framework, AI algorithms, 5G IoT chip modules, sensors, smart hardware and cloud storage. This structure encourages further implementation of our one-stop IoT home solutions, providing our users with smart home appliances, smart home devices and software services across home scenarios. Following the introduction of new smart products in 2020, such as 21Face Interactive Smart Screen (TV), a series of premium water purifiers, HomePad screen-based control interface, CPE products and the new launch of our Viomi-branded sweeper robots, among others, we continued to roll out additional new products across multiple categories with a focus of AI application. In 2021, we introduced the EROx mineral water purifier, the Super Pro 1200G water purifier, the Space all-direction AI air conditioner, the Alpha 2 Plus premium sweeper robot, the EyeBot smart toilet, as well as EyeBot AI range hood, EyeBot AI washing machine and other new AI products with technology upgrades. We also expanded our cleanliness product category by introducing the Cyber series of our smart wet/dry vacuum cleaner and mop in the second half of 2021. Furthermore, we introduced new SKUs in the smart home category, such as EyeLink 2T smart lock with AI face recognition technology. At the strategic new product launch event in March, 2022, we introduced a series of premium smart home products with more advanced AI application and technology innovation, including the upgraded AI air conditioner Space Pro, the business refrigerator Boss, our 2000-gallon large-flux water purifier Super 2 and AI screen-based control interface HomePad Plus, among others, together with several new products under our premium brand coKing, such as the Royal Pro series of double-screen refrigerators and AI twin-tub washing machines, as well as the Royal series of AI dishwashers featuring ionic sterilization and AI laser interactive smart screens.

Our IoT @ Home platform

Our unique IoT @ Home platform consists of an ecosystem of innovative IoT @ Home portfolio, home water solutions, consumables, and small appliances and others.

Beginning in the third quarter of 2020, we recategorized our various products, after which our products are grouped under the following four business lines: "IoT @ Home portfolio," which comprises our smart kitchen and other smart products, "home water solutions," which are composed of our smart water purification systems, "consumables," which consist of our consumable products, and "small appliances and others," which refer to our value-added businesses. We believe this product regrouping presents our core businesses in a clearer manner and can help investors better understand our unique IoT @ Home platform. There is no revenue reclassification associated with this product recategorization. Financial results by product category, if broken down to the components of each product category, are directly comparable to those prior to the product recategorization.

The table below sets forth the revenue contribution of our key business lines after the product recategorization:

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Net revenues:							
IoT @ Home portfolio	2,522,189	54.3	3,671,717	63.0	3,400,966	533,687	64.1
Home water solutions	1,065,166	22.9	883,325	15.2	742,912	116,579	14.0
Consumables	265,844	5.7	382,896	6.6	367,021	57,593	6.9
Small appliances and others ⁽¹⁾	794,314	17.1	887,686	15.2	792,936	124,429	15.0
Total	4,647,513	100.0	5,825,624	100.0	5,303,835	832,288	100.0

Note:

(1) Including sales of small appliances and rendering of services. See footnote 13 to the Consolidated Financial Statements for more details.

Our IoT @ Home portfolio

We generate a significant portion of our revenues through sales of products under our IoT @ Home portfolio. Aimed at China's young, modern, "new middle-class" consumers, our innovative IoT products form the core of our IoT @ Home portfolio. We have successfully brought to market an extensive range of IoT @ Home products, which engage users across a wide spectrum of essential daily activities and create new consumption scenarios for the home environment. We think of customers' initial

purchases of our products as the start of our relationship with them rather than the end, as that first purchase drives broad home-wide adoption of our products and long-term customer loyalty. The inherent connected nature, synergies, and network effects within our IoT @ Home portfolio are demonstrated by the fact that the percentage of our household users possessing at least two of our IoT products increased from 3.5% as of March 31, 2016 to 21.5% as of December 31, 2021.

Our IoT @ Home portfolio can be divided into smart kitchen products and other smart products.

Smart kitchen products

Our smart kitchen products include refrigerators, oven steamers, dishwashers, range hoods and gas stoves. In particular, our flagship 21Face large-screen smart refrigerator helps users manage their home and life with food management, connected living, and information and entertainment capabilities—all controlled through voice recognition, hands-free AI technology from anywhere in the kitchen. 21Face large-screen refrigerator is seamlessly embedded with an interface through which users can access our value-added businesses, such as various media and entertainment content, including short-form video recommendations, music and audio content, gourmet recipes, and parenting workshops, as well as the ability to purchase various household fast-moving consumer goods, including fresh produce and daily necessities.

Other smart products

In addition to our smart kitchen products lineup, we also offer a diverse array of IoT products that complements our IoT @ Home portfolio and addresses users' needs across different home scenarios, such as air conditioning systems, washing machines, water heaters, smart water kettles, interactive smart screens (TVs), sweeper robots, smart locks, smart screen-based control interface and other smart devices, among others. In addition, we expedited the development of our own Viomi-branded cleanliness product business by launching our own branded sweeper robot products in late 2020 and subsequently introduced a series of new products including Alpha 2 Plus Alpha 2 Pro and Alpha 3 premium sweeper robots, alongside the Cyber series of our smart wet/dry vacuum cleaner and mop in 2021.

Home water solutions

The core of our home water solutions is our self-branded and Xiaomi-branded smart water purifiers, which are complemented by our easy-to-install replaceable water filter consumable products. Our smart water purifiers generally feature precision sensors that enable them to monitor in real time the water purification process and analyze the data collected using AI technology and automatically adjusts various aspects of its operation, innovative water purification technologies such as high-flow reverse osmosis membrane, and mobile application connectivity that enables users to monitor the status of the water purifier and reminds the users to replace the filters. We also introduced a series of large-flux water purifier products and our high-end water purifier sub-brand, Quanxian, and its series of premium water purifier products in 2020 as well as our 800 to 2000 gallons Super series of large-flux water purifiers in 2021 and 2022. In addition, in April 2021 we introduced the high-end EROx mineral water purifier with the application of electro dialysis technique which is able to retain the minerals beneficial for human health to further meet the diverse demands of our users.

Consumables

We offer a range of consumable products complementary, and often essential, to our IoT products, which provide us with additional, recurring and ongoing revenue streams across the life cycle of our IoT products. Consumers can purchase such products either through our sales channels or through the e-commerce platforms embedded within various of our IoT products. Consumables predominantly include water filters for our smart water purifiers, water pitcher filters, and air filters for our refrigerators. They feature easy installation mechanisms so that consumers can effortlessly install the products themselves.

Small appliances and others

Another key component of our IoT @ Home platform is our small appliances and others.

Small appliances

We offer a variety of other household products to supplement our IoT products and promote regular impulse purchases by consumers. These small appliances include portable fans, rice cookers, water quality meters, water filter pitchers, stainless-steel insulated water bottles, smart toilet and food waste disposals, among others.

Others

Together with our vibrant partner ecosystem, we offer other services that can capture various scenario-driven consumption events in the home environment, such as enabling users to easily and directly access media and entertainment content, as well as purchase various household fast-moving consumer goods as and when the need arises within the comfort of their home. We

achieve this through e-commerce platforms and interfaces embedded within and integrated with various of our IoT products and close collaboration with ecosystem partners. We work closely with our ecosystem partners to deliver these services to our users.

A consumption scenario is a combination of specific location, timing and user that leads to a user's ultimate decision to make a purchase. A user's willingness to purchase and the considerations related to the purchase vary depending on the scenario. When there is a household need in a specific scenario, our products can address that need the moment it arises. Moreover, because our products can collect a vast amount of household behavior data, analyze that data utilizing AI technology and deep learning, and create accurate household profiles, the consumption need can be addressed before the user realizes that it exists. After the need is identified, the user can interact with our IoT products operating in that exact scenario and place the order for the product or service.

For example, when the laundry detergent is running low, our washing machine can remind the user or automatically place the order for refill. Similarly, our water purifier can detect when the water filter needs to be replaced and alert the user or automatically order replacements.

We also offer certain installation services for our products.

Sales Channels

Our key sales channels consist of a network of online e-commerce platforms, Viomi offline experience stores, third-party offline channels, through which we predominantly sell Viomi-branded products, as well as Xiaomi, to which we predominantly sell Xiaomi-branded products.

Online

Our products are sold across a number of leading e-commerce channels in China, including Youpin, JD.com, Tmall, Pinduoduo and Suning, among others. We believe that cooperation with these leading e-commerce platforms enables us to leverage their established customer base and brand recognition, and helps us reach a wide group of customers across a variety of markets. We also sell products via our proprietary Viomi mobile app and WeChat program.

Offline

Our offline sales channels comprise of our Viomi offline experience stores, together with online-to-offline or O2O outlets of major e-commerce retailers, offline sales channels such as Gome and through strategic partnership with retail leaders such as Hunan Friendship & Apollo Commercial Co. Ltd., which supplement our online channels and further broaden our market access and increase brand awareness.

Viomi offline experience stores

As an integral part of our sales channel and go-to-market strategy, we have established a large network of Viomi offline experience stores operated by our third-party network partners. We conduct our offline sales mostly through the network of Viomi offline experience stores, giving us control of the presentation of our brand. This strategy allows us to present our brand in a consistent manner, including marketing, pricing and product presentation. It also enables us to reduce logistical complexities and costs as we are not subject to timing, delivery and quantity requirements set by third-party retailers, allowing our employees to instead concentrate on product development and customer service.

We provide consistent training to educate the salespersons of our network of offline experience stores as we believe that the sales of our products can be enhanced by knowledgeable salespersons who can convey the value of hardware and software integration and demonstrate the benefits of our IoT @ Home platform. Also, we believe that having direct interaction with our targeted customers is an effective way to demonstrate the advantages of our products over those of our competitors, and that providing a high-quality sales and after-sales customer support is critical to attracting new users and retaining existing ones.

Since 2021, we have adopted and implemented a "larger store, better merchant" channel strategy nationwide, whereby we collaborate with quality merchants with strong store operation experience to open larger experience stores, aiming to enhance store image and provide users with more comprehensive, scenario-based experiences and services. Most of our new large experience stores encompass over 200 square meters or 300 square meters each, some of which provide installation and after-sale services, as a supplement of our unified national after-sale service system.

Third-party offline channels

To further diversify and strengthen our overall channel penetration and presence, we have been expanding our relationship with and sales to well-established specialty offline home appliance malls such as Gome. In addition, we have increased our overall points of sales, particularly through cooperation with various O2O outlets of major e-commerce retailers such as JD, as well as

established strategic partnership with retail leaders such as Hunan Friendship & Apollo Commercial Co. Ltd., all of which are expected to increase our end-points of sales and overall consumer awareness of our brand, products and concept.

We are also developing our overseas business by upgrading channels, diversifying our operation model and expanding product categories. Since the second half of 2021, we have cooperated with renowned agents in Germany, Singapore and Northern Europe to transform part of our overseas channels from small distributors into high-quality international sales agents. We plan to optimize our overseas business operation by leveraging their local resources, channel development, online and offline marketing and after sale service. Following the successful opening of our first self-operated store on U.S. Amazon in August 2021, we launched our self-operated Amazon stores in Italy, Germany and France in the first half of 2022, and are to launch more online stores on European Amazon and will introduce additional sweeper robot products in the near future.

Xiaomi

Under our cooperation agreement with Xiaomi, we are responsible for the design, research, development, production and delivery of various Xiaomi-branded products to Xiaomi. Xiaomi is then responsible for commercial distribution and sales of these respective products. We also sell some Viomi-branded products to Xiaomi.

Research and Development

We are committed to developing new and innovative products and services through research and development. As of December 31, 2021, our total research and development staff consisted of approximately 583 employees across multiple R&D centers and product groups teams, representing 39.7% of our total number of employees. Many of our team members are global and cross-industry experts in technical product hardware development, software and AI, including experts with previous experience working at Dyson, Siemens, and Bosch. We incurred RMB204.9 million, RMB265.7 million and RMB311.8 million (US\$48.9 million) in research and development expenses in 2019, 2020 and 2021, respectively.

Software, Artificial Intelligence and Data Analytics Systems

We rely on our advanced software, innovative AI technology and powerful data analytics capability to develop, operate, and continuously enhance our IoT @ Home platform.

Advanced software

We have developed advanced software to enable interconnectivity among our IoT products and to support and expand their functionalities. Our software is equipped with public API (application programming interface) through which other parties' software and products can be connected to and integrated with ours.

Some of our IoT products that are equipped with interactive screens that run the Android operating system, which can operate software applications with advanced and diverse functions and serve as the platform on which our IoT products connect. The rest of our products have embedded systems that operate both locally and on the cloud. Our Viomi mobile app allows customers to quickly and efficiently discover, review, select and purchase our products. In addition, the Viomi app serves as the control app for our IoT products, and enables our users to manage, monitor and interact with our IoT products. Using our cloud-based software system, our products receive automatic updates, often on an overnight basis, to incorporate new functionalities and grow smarter over time based on our data analysis.

Artificial Intelligence

We intend to leverage ongoing advancements in artificial intelligence by incorporating them into our products and services. Our AI technology team develops and refines our proprietary, artificial intelligence-based algorithms, and leverages third-party AI components to build a more effective system. Artificial intelligence technology is widely implemented through our services, for example in voice and gesture control, as well as in water quality analysis.

Data analytics

Through users' interaction with many of our products, advanced sensors embedded in our products can capture, accumulate and upload user and household usage data, only with the consent of users and will be used within the authorized scope. Our users' behavior and sequential data is stored strictly in compliance with stringent data privacy standards and data security requirements.

Our big data analysis team has developed our own data analytics platform. We use this platform to extract intelligence from large amounts of data. Analyzing this data enhances our understanding of user behavior, and we are thus able to further develop our IoT @ Home platform to better serve our customers. By providing better solutions, we believe we will attract more household users over time. More household users on our platform can then generate more data for our software analytics, enhance our

software and algorithms, and lead to a better user experience, which in turn can attract more household users to our platform, a powerful virtuous cycle.

We consider the protection of the personal privacy of each of our users to be of paramount importance. We collect only anonymous data and only with users' consent, and all sensitive data is encrypted. We use such data only for the improvement of our products and services. Furthermore, our employees' access to our internal information management system is limited to verified IP address and we restrict the scope of such access based on the duty of the employee. Our data is stored securely in KSYUN, Xiaomi, Alibaba and Tencent Cloud services.

Intellectual Property

Intellectual property rights are fundamental to our business, and we devote significant time and resources to their development and protection. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements, to establish and protect our proprietary rights. We generally do not rely on third-party licenses of intellectual property for use in our business.

As of December 31, 2021, we had 2,930 patents registered with the State Intellectual Property Office of China, or the SIPO.

Globally, as of December 31, 2021, we had 56 patents registered and 31 pending patent applications in various overseas countries and jurisdictions, including the United States, Europe, India, Korea and certain Southeast Asia countries.

As of December 31, 2021, we had registered 611 trademarks in China.

Relationship with Xiaomi

Xiaomi is our strategic partner, shareholder and customer. Our strategic partnership with Xiaomi provides us access to Xiaomi's ecosystem users, sales platforms and data resources and related support. Meanwhile, our strong research and development capabilities, supply chain resources and innovative products and services are able to enrich Xiaomi's suite of offerings, resulting in a mutually beneficial relationship between Xiaomi and us.

Our cooperation with and sales to Xiaomi extends to a diversified range of products, which, as of the end of 2021, include Xiaomi-branded water purification systems, water purifier filters, range-hoods and gas stoves, dishwashers, sweeper robots, blenders as well as other complimentary products such as kettles and water quality meters. Since the third quarter of 2021, we have largely scaled back the supply of Xiaomi-branded sweeper robots, while maintaining cooperation in other categories.

Under our cooperation agreement with Xiaomi, we are responsible for the design, research, development, production and delivery of various Xiaomi-branded products to Xiaomi. Xiaomi is then responsible for commercial distributions and sales. For certain products under our cooperation with Xiaomi, the selling price is a fixed amount as agreed by both parties. For other products, we first recover our manufacturing and logistics cost when we deliver to Xiaomi, and are additionally entitled to share a portion of the gross profit when Xiaomi is successful in selling such products to end consumers.

We also sell Viomi-branded products through Xiaomi's e-commerce platform, Youpin, directly to consumers. We are charged with service fees proportionate to the sales amount of our products excluding refunds, or as otherwise agreed for certain products.

Please see the description under "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transaction—Our Relationship with Xiaomi—Business Cooperation Agreement." for a summary of the material terms of major agreements with Xiaomi. Please also see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Xiaomi is our strategic partner and our most important customer. Changes in our relationship with Xiaomi could have a material adverse effect on our operating results." for discussion of our risks associated with the cooperation with Xiaomi.

Sales and Marketing

Marketing

Our marketing is focused on building our brand recognition, increasing market awareness of our IoT @ Home platform and driving customer demand, as well as collaborating with our third-party partners across our sales channels. Examples of our marketing initiatives include:

Branding and advertisements

We conduct online marketing events on third-party e-commerce platforms as well as other traditional and social media channels together with various offline promotion campaigns. We have been improving user-experience of our products and

shopping experience in our experience stores to develop a word-of-mouth effect on our sales and business. In addition, we have been placing ads on e-commerce and social media platforms as well as paying for advertisements on traditional media such as television shows, magazines and billboards to reach more users and promote the awareness of our brands, products and IoT @ Home platform. In the second half of 2021, we further invested in elevator, print magazine and television advertising to promote brand awareness.

Further, we leverage social-media, including live-streaming platforms to engage with users of our products, whereby we enhance user-experience while promoting our brand. For example, we have invited internet key opinion leaders, or KOLs, industry KOLs, celebrities, and even our management and employees to be live-streaming hosts. Considering the target market of our brand and products, support from KOLs through social-media and live-streaming has been quite an effective marketing initiative, not only as a promotional tool, but also to increase customer and user stickiness and engagement.

Our Viomi fans also form WeChat groups where they can learn about our upcoming products, share thoughts and experiences, discover new functionalities, and make recommendations for improvements for our products and services. Our representatives regularly participate in the group discussions to respond to users' queries and to better understand users' fast-changing needs. We also maintain various official social media accounts to actively engage with users by answering their questions and concerns.

Events marketing

We organize and participate in various official offline events to promote our brand and the idea of a connected smart home. Our "Viomi 9-25 Appliance Refresh Day" campaign includes online promotions, as well as offline marketing efforts such as product launch events. We participated in exhibitions and forums such as the Appliance & Electronics World Expo in 2018, 2019 and the 2018 "Belt and Road" Finance and Investment Forum. We also actively participate in shopping festivals across e-commerce platforms such as "618", "Double Eleven" and "Double Twelve," which are highly popular among Chinese consumers. In 2020 and 2021, we mainly conducted our major marketing and branding activities through online events due to the COVID-19 situation. We hosted four virtual Strategy and New Product Launch events in May 2020, October 2020, April 2021 and March 2022, respectively.

Customer service

User experience is a key focus for our business. We strive to provide personalized support for our users, including support from live customer service representatives. If customers who shop through our online channels have any inquiries or complaints about our products or the ordering process, they can contact customer service representatives through real-time online chat or through our toll-free customer service phone number or visit our Viomi offline experience stores. To improve our overall customer service capability, we launched new customer satisfaction system, which integrates the call center, service task and customer relation management, as well as upgraded our service network across China.

After-sales service

The goal of our after-sale service is to create the best user experience for our customers. Our customers may return all products purchased from our official Viomi online store and other online platforms within seven days from receipt. Our customers may also have their products replaced for specific types of defects or quality issues as required under the relevant laws and regulations. In addition, we partner with local aftersales service providers to provide on-site services such as product installation and repairs to our customers.

Manufacturing and Fulfillment

Procurement and manufacturing

We produce our products both through outsourcing manufacturing and through in-house manufacturing. Currently, a majority of our product manufacturing is outsourced to a number of contract manufacturers, who produce our products using design specifications and standards that we have established. We also help our contract manufacturers to design the equipment and tooling used in the production and help train their workers. We evaluate on an ongoing basis our current contract manufacturers and component suppliers, including whether or not to utilize new or alternative contract manufacturers or component suppliers.

Our two in-house facilities, Guangdong Lizi and Guangdong AI Touch have commenced commercial operations in the first half of 2019 and were integrated into our Viomi platform. Guangdong Lizi was established as a smart water purification system facility focusing on the research, design, production and supply of smart water purifiers and water purifier filters, and then expanded to research, design, production and supply of some smart sweeper robots, alongside the supply of some small appliances. Going forward, we expect that an increase in the proportion of our smart water purifier, water purifier filter and smart sweeper robot demands that can be supplied directly through this facility. Guangdong AI Touch was built for the development,

production and supply of touch screen components for our smart products, and we expect a material proportion of the touch screens required for our smart products can be supplied directly through this facility.

In June 2020, we acquired land use rights to a parcel of land of approximately 36,000 square meters from the local government in Shunde, Guangdong Province, for the development of Viomi IoT Technology Park, a comprehensive high-tech industrial campus, which is expected to be completed in two phases over an up to five-year period. The first phase is expected to include the Company's multi-functional headquarters, including a product experience center, research and development center, smart manufacturing center, and centralized hub for sales and customer service functions. The second is expected to focus on and accommodate additional facilities for the Company's IoT products, serving as a focal point of Viomi's expanded supply chain capabilities, while attracting more upstream and downstream corporate and business opportunities. This initiative demonstrates our commitment to strengthening our IoT supply chain resources and provides the necessary foundation to support both the manufacturing and research & development capabilities we will need, in order to thrive in the upcoming 5G and IoT era. As of December 31, 2021, phase one of the construction progress had reached over 50%.

We believe that outsourcing certain manufacturing of our products while retaining others at our own facilities allows us to scale up more rapidly while also providing additional operational flexibility and at the same time ensures our control over our supply chain and technological expansion.

We procure certain key raw materials and components from domestic and some overseas suppliers, and then consign them to our contract manufacturers. Our suppliers generally also provide direct order fulfillment services with logistics that include delivery of parts and assembly to either our own facility for inspection or our contract manufacturers directly.

Inventory management

Our inventory primarily consists of finished products and raw materials. We manage our inventory with measures appropriate to the use and nature of the inventory. Our manufacturing plans are designed and implemented to accommodate our sales and maintain reasonable inventory levels. We receive aggregated and geographically-enabled inventory data feeds from our centralized distribution network, which facilitates product shipment from warehouses that are closer to the delivery destination. Through close coordination with our customers and contract manufacturers and frequent purchases of components from suppliers, we are able to carry relatively efficient levels of raw materials and in-process inventories, minimizing inventory risk.

Product quality assurance

We are committed to maintaining the highest level of quality in our products. We developed the quality assurance management software that monitors the manufacturing and quality assurance process used across our own manufacturing facility as well as our contract manufacturers. We have designed and implemented a quality management system that provides the framework for continuing improvement of our products and processes. For our new product lines, we conduct thorough examinations of product samples and each of their components at the product verification testing stage to make sure they satisfy our technical requirements. For our existing product lines, we also have a quality assurance team that establishes, communicates and monitors quality standards by product category. In addition, we have quality assurance personnel seconded to the facilities of our contract manufacturers to ensure that they fully adhere to our quality standards in the production process.

We have constant access to each manufacturing facility of our contract manufacturers, and our quality control team continuously monitors the quality of incoming components, materials and finished products, as well as the manufacturing processes at our contract manufacturers' facilities. We also require our partners to maintain quality control over their logistics, production and quality inspection procedures based on ISO9001 quality standards.

IT Infrastructure

Our network infrastructure is designed to satisfy the requirements of our operations, to support the growth of our business and to ensure the reliability of our operations as well as the security of information on our platform. We continuously develop our platform to offer users an effortless and seamless experience across our products and services, while at the same time enhancing the reliability and scalability of our platform.

We cooperate with KSYUN, Xiaomi, Alibaba and Tencent Cloud services for services such as computing services, storage, server, bandwidth and video call. We have a working data redundancy model with comprehensive backups of both cloud services. This redundancy supports the reliability of our network and the stable operation of our business.

Competition

We compete with other companies in all aspects of our business, particularly companies that are in the home appliances and smart home markets. The home appliances and smart home markets have a large number of participants, including traditional

appliances and consumer electronics companies as well as AI and consumer internet companies that are moving into the hardware space.

We believe the principal competitive factors impacting the market for our products include: brand recognition, value, user experience, breadth of product and service offerings, product functionality and quality, sales and distribution as well as supply chain management. We believe we can compete favorably on the basis of these factors. Viomi has been developed as an aspirational, “next generation” brand with attractive value propositions that aims to bring the full suite of AI capabilities and IoT experience to the home environment. Our Xiaomi business continues to leverage Xiaomi’s brand recognition for Xiaomi-branded products. We plan to continue to utilize our strong research and development capabilities and introduce new and innovative products with advanced functionalities to market. In addition, we have developed strong and diversified sales channels and are making investments to strengthen our supply chain management resources. However, the industry in which we compete is evolving rapidly and is becoming increasingly competitive. For additional information, see “Item 3. Key Information—D. Risk Factors—Risks Related to our Business and Industry—We operate in highly competitive markets, and the scale and resources of some of our competitors may allow them to compete more effectively than we can, which could result in a loss of our market share and a decrease in our net revenues and profitability.”

Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased product liability insurance for our products, including water purifiers, gas stoves, range hoods and refrigerators, sold in the domestic market as well as those exported to the overseas market. We maintain public liability insurance for any personal injury or property loss of any third party occurred in the operating facilities of the Company in China, including those of Foshan Viomi and its subsidiaries in China. We have also procured insurance policies to insure against the risk of potential inabilities to collect our accounts receivables.

In line with common practice of the market, we do not maintain any business interruption insurance, which is not typical in our industry or mandatory under Chinese laws. We do not maintain key-man life insurance or insurance policies covering non-physical damages to our IT infrastructure or information technology systems. We also do not maintain insurance policies against risks relating to the Contractual Arrangements.

Regulation

Substantially all of our business is located in PRC, and laws and regulations in PRC are most relevant to our business. This section sets forth a summary of the most significant rules and regulations that affect our business activities in China.

Regulation on value-added telecommunication services

The Telecommunications Regulations of the PRC, promulgated by the State Council in 2000 and last amended in February 2016, provide a regulatory framework for telecommunications services providers in PRC. These regulations require telecommunications services providers to obtain operating licenses prior to the commencement of their operations. The telecommunications services are categorized into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Business, attached to the Telecommunications Regulations and last amended by the MIIT in June 2019, each of internet information services and transaction processing services provided via fixed network, mobile network and Internet fall within value-added telecommunications services.

The Administrative Measures on Internet Information Services, promulgated by the State Council in 2000 and amended in January 2011, set out guidelines on the provision of internet information services. This rule classified internet information services into commercial internet information services and non-commercial internet information services, and a commercial operator of internet information services or transaction processing services must obtain a corresponding operating permit for value-added telecommunications services (VATS License) from the appropriate telecommunications administration authorities. The Administrative Measures for Telecommunications Businesses Operating Licensing, promulgated by the MIIT in July 2017 and effective on September 1, 2017, provides that a commercial operator of value-added telecommunications services must first obtain a VATS License, from the MIIT or its provincial level counterparts. The VATS License is classified as the Cross-regional Value-added Telecommunications Operating License and the Value-added Telecommunications Operating License within a province, autonomous region and municipality directly under the central government. In addition, in the first quarter of every year while the operator is holding the license, it must report information such as business performance of the telecommunications business in the previous year, the actual progress in network buildup, business development, turnover of staff, institutional restructuring and service quality to the issuing authorities.

Pursuant to the Provisions on the Administration of Foreign-Invested Telecom Enterprises, promulgated by the State Council in 2001 and amended in 2016, the primary foreign investor of a foreign-invested telecom enterprise operating value-added telecom services shall have a good track record of, and operation experience in, operating value-added telecom services. In

addition, the establishment of a foreign-invested telecom enterprise operating value-added telecom services requires approval from the MIIT.

To comply with these regulations, we have adopted the VIE structure and obtained a renewed VATS License through Foshan Viomi, one of our VIEs, which allows us to provide online data processing and transaction processing services through our value-added e-commerce platform and the internet information services recently launched on our IoT @ Home platform.

Regulation on catalogue relating to foreign investment

Investment activities in the PRC by foreign investors are subject to the Catalogue Industries for Encouraging Foreign Investment, or the Catalogue, and the Catalogue of special management measures, or the Negative List, both of which were promulgated and are amended from time to time by the Ministry of Commerce and the NDRC. The latest Catalogue, amended and issued on December 27, 2020, and effective on January 27, 2021, or the 2020 Catalogue, indicates the encouraged industries for foreign investments. The latest Negative List, amended and issued on December 27, 2021, and effective on January 1, 2022, or the 2021 Negative List, divides the industries listed therein into two categories: restricted industries and prohibited industries. Any industry not listed in any of the 2020 Catalogue or the 2021 Negative List is classified as a permitted industry for foreign investment. Establishment of wholly foreign-owned enterprises is generally allowed in industries outside of the Negative List. For the restricted industries within the Negative List, some are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, restricted category projects are subject to government approvals and certain special requirements. Foreign investors are not allowed to invest in industries in the prohibited category. Industries not listed in the Negative List are generally open to foreign investment unless specifically restricted by other PRC regulations.

The PRC Foreign Investment Law was promulgated on March 15, 2019 by the State Council and has come into force since January 1, 2020, which stipulates that the state implements a management system of pre-entry national treatment plus Negative List for the administration of foreign investment. According to the PRC Foreign Investment Law, foreign investors and their investments are entitled to pre-entry national treatment and are subject to the negative list management system. The pre-entry national treatment refers to the treatment given to foreign investors and their investments at the market access stage that is no less favorable than that given to domestic investors and their investments. The PRC Foreign Investment Law also provides that the industries not included in the Negative List shall be managed under the principle that domestic investment and foreign investment shall be treated equally. On December 26, 2019, the State Council promulgated the Implementation Regulations on the PRC Foreign Investment Law, which came into effect on January 1, 2020, and it further requires that foreign-invested enterprises and domestic enterprises shall be treated equally with respect to policy making and implementation.

On December 30, 2019, the MOFCOM and the State Administration for Market Regulation jointly issued the Measures for Foreign Investment Information Reporting which came into effect on January 1, 2020 and replaced the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-invested Enterprises. Since January 1, 2020, for foreign investors carrying out investment activities directly or indirectly in the PRC, such foreign investors or foreign-invested enterprises shall submit investment information through the Enterprise Registration System and the National Enterprise Credit Information Publicity System operated by the State Administration for Market Regulation. Foreign investors or foreign-invested enterprises shall disclose their investment information by submitting reports for their establishments, modifications and cancellations and their annual reports in accordance with the Measures for Foreign Investment Information Reporting. If a foreign-invested enterprise investing in the PRC has finished submitting its reports for its establishment, modifications and cancellation and its annual reports, the relevant information will be shared by the competent market regulation department to the competent commercial department, and does not require such foreign-invested enterprise to submit the reports separately.

Currently, our business related to the development and application of IoT technology falls within the encouraged category, our provision of e-commerce services falls within the permitted category and our provision of internet information services falls within the restricted category.

Regulation on product quality and consumer protection

The PRC Product Quality Law applies to all production and sale activities in China. Pursuant to this law, products offered for sale must satisfy the relevant quality and safety standards. Enterprises may not produce or sell counterfeit products in any fashion. Any producer or seller producing or selling products that do not conform to the national standards or trade standards for ensuring human health and the personal or property safety shall be ordered to stop production or sale of the products; the products illegally produced or sold shall be confiscated; a fine no less than the equivalent of, but not more than three times, the value of the products illegally produced or sold (including those already sold and those not yet sold, hereinafter the same) shall be imposed concurrently; if there are illegal proceeds, such proceeds shall be confiscated concurrently; if the circumstances are serious, the business license shall be revoked. If the case constitutes a crime, criminal liability shall be investigated. Where a defective product causes physical injury to a person or damage to another person's property, the victim may claim compensation from the manufacturer or from the seller of the product. If the seller pays compensation and it is the manufacturer that should bear the

liability, the seller has a right of recourse against the manufacturer. Similarly, if the manufacturer pays compensation and it is the seller that should bear the liability, the manufacturer has a right of recourse against the seller.

The PRC Consumer Protection Law, as amended in October 2013 and effective in March 2014, sets out the obligations of business operators and the rights and interests of the consumers. Pursuant to this law, business operators must guarantee that the commodities they sell satisfy the requirements for personal or property safety, provide consumers with authentic information about the commodities and guarantee the quality, function, usage and term of validity of the commodities. Where business operators use internet, television, telephone, mail or other means to sell their commodities, consumers have the right to return such commodities, except the following commodities within seven days from the date when the consumers receive the commodities without giving any reason:

- commodities customized by the consumers;
- fresh perishable commodities;
- digitized commodities such as audio-video products and computer software downloaded online or opened by the consumers; and
- delivered newspapers and periodicals.

Where business operators use internet, television, telephone, mail or other means to provide goods or services, or provide securities, insurance, banking or other financial services, they shall provide consumers with information in regard to themselves and the goods or services provided such as business address, contact information, quantity and quality, price or fees, term and method of performance, safety precautions, risk warnings, after-sale services, and civil liabilities. Consumers whose legitimate rights and interests are infringed while purchasing goods or receiving services via an online trading platform shall have the right to claim compensation from the vendor of the goods or the provider of the services. Failure to comply with the PRC Consumer Protection Law may subject business operators to civil liabilities such as refunding purchase prices, exchanging commodities, repairing, remanufacturing, 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 consumers. If the goods or services a business operator provides have caused personal injuries to consumers or other victims, the business operator shall compensate for the medical expenses, nursing expenses, transportation expenses and other reasonable fees for treatment and rehabilitation as well as the reduced income for loss of working time.

Under the PRC Civil Code, which became effective on January 1, 2021, producers shall bear tortious liability for damage caused to others by their defective products. If damages to other persons are caused by defective products due to the fault of a third party, such as the parties providing transportation or warehousing, the producers and the sellers of the products have the right to recover their respective losses from such third parties. If defective products are identified after they have been put into circulation, the producers or the sellers shall take remedial measures such as issuance of a warning, recall of products, etc. in a timely manner. The producers or the sellers shall be liable under tort if they fail to take remedial measures in a timely manner or have not made efforts to take remedial measures, thus causing damages. If the products are produced or sold with known defects, causing deaths or severe adverse health issues, the infringing party has the right to claim punitive damages in addition to compensatory damages.

We are subject to the above laws and regulations as an online retailer of IoT products and believe that we are currently in compliance with these regulations in all material aspects.

Regulation on intellectual property rights

The PRC has adopted comprehensive legislation governing intellectual property rights, including patents, trademarks, copyrights and domain names.

Patents

Pursuant to the PRC Patent Law, most recently amended on October 17, 2020, and its implementation rules, most recently amended on January 9, 2010, patents in China fall into three categories: invention, utility model and design. An invention patent is granted to a new technical solution proposed in respect of a product or method or an improvement of a product or method. A utility model is granted to a new technical solution that is practicable for application and proposed in respect of the shape, structure or a combination of both of a product. A design patent is granted to the new design of a certain product in shape, pattern or a combination of both, and in color, shape and pattern combinations aesthetically suitable for industrial application. Under the PRC Patent Law, the term of patent protection starts from the date of application. Patents relating to invention are effective for twenty years, and utility models and designs are effective for ten years from the date of application. The PRC Patent Law adopts the principle of “first-to-file” system, which provides that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first.

Existing patents can become narrowed, invalid or unenforceable due to a variety of grounds, including lack of novelty, creativity, and deficiencies in patent application. In China, a patent must have novelty, creativity and practical applicability. Under the PRC Patent Law, novelty means that before a patent application is filed, no identical invention or utility model has been publicly disclosed in any publication in China or overseas or has been publicly used or made known to the public by any other means, whether in or outside of China, nor has any other person filed with the patent authority an application that describes an identical invention or utility model and is recorded in patent application documents or patent documents published after the filing date. Creativity means that, compared with existing technology, an invention has prominent substantial features and represents notable progress, and a utility model has substantial features and represents any progress. Practical applicability means an invention or utility model can be manufactured or used and may produce positive results. Patents in China are filed with the SIPO. Where, pursuant to the receipt of an application for a patent of an invention, the patent administrative department under the State Council, upon preliminary examination, finds the application conforms to the requirements of the PRC Patent Law, it shall publish the application promptly within 18 full months from the filing date. Upon the request of the applicant, the patent administrative department under the State Council may publish the application earlier.

Article 19 of the PRC Patent Law provides that, for an invention or utility model completed in China, any applicant (not just Chinese companies and individuals), before filing a patent application outside of China, must first submit it to the SIPO for a confidential examination. Failure to comply with this requirement will result in the denial of any Chinese patent for the relevant invention. This added requirement of confidential examination by the SIPO has raised concerns by foreign companies who conduct research and development activities in China or outsource research and development activities to service providers in China.

Patent enforcement

Unauthorized use of patents without consent from owners of patents, forgery of the patents belonging to other persons or engagement in other patent infringement acts will subject the infringers to infringement liability. Serious offences such as forgery of patents may be subject to criminal penalties.

When a dispute arises out of infringement of the patent owner's patent right, Chinese law requires that the parties first attempt to settle the dispute through mutual consultation. However, if the dispute cannot be settled through mutual consultation, the patent owner, or an interested party who believes the patent is being infringed, may either file a civil legal suit or file an administrative complaint with the relevant patent administration authority. In the event the patent administrative department, when handling the matter, believes there is an infringement, it may order the infringing party to cease the infringement with immediate effect. If the infringing party is not satisfied with the ruling, it may, within 15 days from the date of receiving the notification of the order, initiate legal proceedings in the people's court in accordance with the PRC Administrative Procedure Law. If the infringing party neither takes legal action at the expiration of the time limit nor ceases the infringement, the patent administrative department may request the people's court for a compulsory execution of the aforementioned order. A Chinese court may issue a preliminary injunction upon the patent owner's or an interested party's request before instituting any legal proceedings or during the proceedings. Damages for infringement are calculated as the loss suffered by the patent holder arising from the infringement, and if the loss suffered by the patent holder arising from the infringement cannot be determined, the damages for infringement shall be calculated as the benefit gained by the infringer from the infringement. If it is difficult to ascertain damages in this manner, damages may be determined by using a reasonable multiple of the license fee under a contractual license. Statutory damages may be awarded in the circumstances where the damages cannot be determined by the above-mentioned calculation standards. The damage calculation methods shall be applied in the aforementioned order. Generally, the patent owner has the burden of proving that the patent is being infringed. However, if the owner of an invention patent for manufacturing process of a new product alleges infringement of its patent, the alleged infringer has the burden of proof.

As of December 31, 2021, we had 2,930 patents granted and 1,332 patents applications pending in China, 56 patents granted and 31 patents pending outside China.

Trademark law

The PRC Trademark Law and its implementation rules protect registered trademarks. The PRC Trademark Office of State Administration for Market Regulation is responsible for the registration and administration of trademarks throughout the PRC. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration.

In addition, pursuant to the PRC Trademark Law, counterfeit or unauthorized production of the label of another person's registered trademark, or sale of any label that is counterfeited or produced without authorization will be deemed as an infringement to the exclusive right to use a registered trademark. The infringing party will be ordered to stop the infringement immediately, a fine may be imposed and the counterfeit goods will be confiscated. The infringing party may also be held liable for the right holder's damages, which will be equal to the gains obtained by the infringing party or the losses suffered by the right holder as a result of the infringement, including reasonable expenses incurred by the right holder for stopping the infringement. If the gains or losses are difficult to determine, the court may render a judgment awarding damage of no more than RMB3 million.

As of December 31, 2021, we had registered 611 trademarks in China.

Software copyright law

The PRC Copyright Law (Revised in 2020) provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The purpose of the PRC Copyright Law aims to encourage the creation and dissemination of works that are beneficial for the construction of socialist spiritual civilization and material civilization and promote the development and prosperity of Chinese culture.

In order to further implement the Computer Software Protection Regulations promulgated by the State Council in 2001, and amended subsequently, the State Copyright Bureau issued the Computer Software Copyright Registration Procedures in 2002, which apply to software copyright registration, license contract registration and transfer contract registration.

As of December 31, 2021, we had registered 60 pieces of software copyright in China.

Regulation on domain name

Internet domain name registration and related matters are primarily regulated by CNNIC Implementing Rules of National Top Level Domain Name Registration issued by China Internet Network Information Center, or CNNIC, the domain name registrar of mainland China, which became effective on June 18, 2019, the Administrative Measures for Internet Domain Names, issued by the MIIT in August 2017 and effective as of November 1, 2017, and the Measures on Domain Name Disputes Resolution issued by CNNIC, which became effective on June 18, 2019. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration.

As of December 31, 2021, we had registered 16 domain names.

Regulation on manufacture and sale of home appliances

Pursuant to the Regulations of the PRC Concerning Accreditation and Recognition, promulgated by the State Council, in 2003 and most recently amended in November 2020, products specified by the applicable government authorities shall not be delivered, sold, imported or used in other business activities until they are certified (or referred to as the Compulsory Product Certification) and labeled with China Compulsory Certification mark. For products that are subject to Compulsory Product Certification, the state implements unified product catalogue, or the 3C Catalogue, unified compulsory requirements, standards and compliance assessment procedures in technical specification, unified certification marks and unified charging standards. Pursuant to the latest Compulsory Product Certification Product Catalogue, or the 3C Product Catalogue (2020), by the State Administration for Market Regulation and the Certification and Accreditation Administration, or the CNCA, in April, 2020, household and similar electrical appliances, including the refrigerator, water heater, range hood, washing machine and water purifier, are required to obtain the Compulsory Product Certification in order to be delivered, sold, imported or used.

In addition, according to the Surveillance and Administrative Measures of Drinking Water Hygiene jointly promulgated by the Ministry of Health (currently, the National Health and Family Planning Commission, or the NHFPC) of the PRC, and the Ministry of Construction of the PRC in 1997, and most recently amended by the Ministry of Housing and Urban-Rural Development and the NHFPC in April 2016, any entities or individuals engaging in the production of the products relating to hygiene and safety of drinking water shall apply to health administration authorities for hygiene licenses.

According to the Classification Catalogue for Products Related to Drinking Water, promulgated by the Ministry of Health (currently, the NHFPC) and effective on September 20, 2007, and most recently amended on September 22, 2011, entities or individuals are required to obtain hygiene license from NHFPC before producing or importing any products relating to drinking water.

In July 2011, the Ministry of Health (currently, the NHFPC) promulgated the Notice on Adjustment of Hygiene Administrative License for Domestic Reverse Osmosis Water Purifier and Domestic Nano Filter Water Purifier, which delegates health administrative departments at the provincial level the authority to regulate domestic reverse osmosis water purifiers and domestic nano filter water purifiers. Hereafter, the Ministry of Health and the NHFPC promulgated Regulations on Administrative License for Hygienic Safety Products involving Drinking Water at the Provincial Level, delegating the authority of examination and approval of products related to hygiene and safety of drinking water, except for those made of new materials, technology and chemicals, to the health and family planning department at the provincial level.

Energy Label Management Rules, jointly promulgated by the NDRC, and the General Administration of Qualification Supervision, Inspection and Quarantine, or the AQSIQ, in 2004 and most recently amended in February 2016, provide that the products listed in the Catalogue of the People's Republic of China on the Products Affixed with Energy Efficiency Labels shall be

marked with the energy-efficient labels. Manufacturers and importers of energy-using products included in such catalogue shall file a record of energy efficient labels and the relevant information with the AQSIQ and the China National Institute of Standardization authorized by the NDRC.

According to the PRC Administration Rules of Industrial Product Production Licenses Regulations, promulgated in 2005 by the State Council and effective on September 1, 2005, no entity may produce any products in the Catalogue for Industrial Products Implementing Products Licensing System without obtaining an industrial product production license, and no entity or individual may produce, sell or use products in the such catalogue for which the relevant industrial product production license has not been obtained.

To comply with these laws and regulations, we have obtained the certificates, licenses and labels necessary for our current products. Further, we have verified the qualifications of our manufacturing contractors for the production of the relevant products before their engagement by requiring them to provide effective licenses, such as the industrial product production license.

Regulation on mobile internet

Pursuant to the Provisions on the Administration of Mobile Internet Applications Information Services, or the Provisions on Administration of Application, promulgated by the Cyberspace Administration of China in June 2016 and effective on August 1, 2016, application information service providers shall obtain the relevant qualifications prescribed by laws and regulations, strictly implement their information security management responsibilities and carry out the duties including to establish and complete user information security protection mechanism, to establish and complete information content inspection and management mechanisms, to protect users' right to know and right to choose in the process of usage, and to record users' daily information and preserve it for 60 days. Application store services providers shall, within 30 days of the business going online and starting operations, conduct filing procedures with the local cybersecurity and information department. Furthermore, internet application store service providers and internet application information service providers shall sign service agreements to determinate both sides' rights and obligations.

As the operator of Viomi mobile app, we are subject to the above laws and regulations as an application information services provider and believe that we are currently in compliance with these regulations in all material aspects.

Regulation on Information Security and Privacy Protection

In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. The PRC law does not prohibit the internet information service providers, or the ICP Operators, from collecting and using personal information from their users with the users' consent. However, the Administrative Measures on Internet Information Services promulgated by the State Council on August 1, 2011 prohibit an ICP Operator from insulting or slandering a third party or infringing the lawful rights and interests of a third party. The regulations further authorize the relevant telecommunications authorities to order ICP Operators to rectify unauthorized disclosure. ICP Operators are subject to legal liability if the unauthorized disclosure results in damages or losses to users. The PRC government, however, has the power and authority to order ICP Operators to turn over personal information if an internet user posts any prohibited content or engages in illegal activities on the internet. On December 29, 2011, the MIIT promulgated the Several Provisions on Regulating the Market Order of Internet Information Services, effective as of March 15, 2012. It stipulates that ICP Operators may not, without a user's consent, collect the user's information that can be used alone or in combination with other information to identify the user and may not provide any such information to third parties without the user's prior consent. ICP Operators may only collect users' personal information that is necessary to provide their services and must expressly inform the users of the method, content and purpose of the collection and use of such personal information. In addition, an ICP Operator may only use users' personal information for the stated purposes under the ICP Operator's scope of service. ICP Operators are also required to ensure the proper security of users' personal information, and take immediate remedial measures if users' personal information is suspected to have been inappropriately disclosed. If the consequences of any such disclosure are expected to be serious, ICP Operators must immediately report the incident to the telecommunications regulatory authority and cooperate with the authorities in their investigations.

On December 28, 2012, the Standing Committee of the NPC issued the Decision on Strengthening the Protection of Online Information. Most requirements under this decision relevant to ICP Operators are consistent with the requirements already established under the MIIT provisions discussed above, but are often stricter and broader. Under this decision, ICP Operators are required to take such technical and other measures necessary to safeguard information against inappropriate disclosure. To further implement this decision and relevant rules, MIIT issued the Regulation of Protection of Telecommunication and Internet User Information on July 16, 2013, which became effective on September 1, 2013.

In August 2015, the Standing Committee of the NPC promulgated the Ninth Amendment to the Criminal Law, which became effective in November 2015 and amended the standards of crime of infringing citizens' personal information and reinforced the criminal culpability of unlawful collection, transaction, and provision of personal information. It further provides

that any ICP provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders will be subject to criminal liability.

On March 15, 2017, the NPC issued the General Rules of the Civil Law of the People's Republic of China, which came into effect on October 1, 2017. The General Rules have introduced personal information rights and data protection and provide that personal information of a natural person should be protected by the law. On May 28, 2020, the NPC approved the Civil Code of the PRC, or the Civil Code, which came into effect on January 1, 2021 and abolished the General Rules of the Civil Law of the People's Republic of China. Pursuant to the Civil Code, the collection, storage, use, process, transmission, provision and processing of personal information should follow the principles of legitimacy, properness and necessity.

The Cyber Security Law of the PRC, or the PRC Cyber Security Law, which was promulgated on November 7, 2016 by the Standing Committee of the NPC and came into effect on June 1, 2017, provides that network operators shall meet their cyber security obligations and shall take technical measures and other necessary measures to protect the safety and stability of their networks. Under the PRC Cyber Security Law, network operators are subject to various security protection-related obligations, including: (i) network operators shall comply with certain obligations regarding maintenance of the security of internet systems; (ii) network operators shall verify users' identities before signing agreements or providing certain services such as information publishing or real-time communication services; (iii) when collecting or using personal information, network operators shall clearly indicate the purposes, methods and scope of the information collection, the use of information collection, and obtain the consent of those from whom the information is collected; (iv) network operators shall strictly preserve the privacy of user information they collect, and establish and maintain systems to protect user privacy; (v) network operators shall strengthen management of information published by users, and when they discover information prohibited by laws and regulations from publication or dissemination, they shall immediately stop dissemination of that information, including taking measures such as deleting the information, preventing the information from spreading, saving relevant records, and reporting to the relevant governmental agencies. In addition, the PRC Cyber Security Law requires that critical information infrastructures operators generally shall store, within the territory of the PRC, the personal information and important data collected and produced during their operations in the PRC and their purchase of network products and services that affect or may affect national securities shall be subject to national cybersecurity review.

On April 10, 2019, the Cyber Security and Protection Bureau of the Ministry of Public Security, the Beijing Internet Industry Association and the Third Research Institute of the Ministry of Public Security jointly issued Internet Personal Information Security Protection Guidance. The guidance applies to "personal information holders", which means enterprises that provide services through the internet and organizations or individuals who use a private or internet-disconnected space to control and process personal information. It indicates that in addition to traditional internet companies, companies or individuals in other fields are also subject to its governance for long as they are involved in the control and processing of personal information. The guidance heightened requirements on the collection of personal information by personal information holders. For example, the guidance provides that personal information that is not related to the services provided by personal information holders should not be collected, and service providers shall not force users to provide personal information by bundling products or various business functions of the service.

On November 28, 2019, the Secretary Bureau of the CAC, the General Office of the MIIT, the General Office of the Ministry of Public Security and the General Office of SAMR, issued the Notice on the Measures for the Determination of the Collection and Use of Personal Information by Apps in Violation of Laws and Regulations. The notice requires that there shall be a privacy policy in the app, and the privacy policy shall contain the rules for collecting and using personal information. The notice also requires that the app shall prompt their users to read the privacy policy through obvious methods such as pop-up windows when an app is put into operation for the first time. According to the notice, the type of personal information collected by the app should be limited to the extent necessary to meet the operation of the corresponding business function. If personal information collected through app for a new business function is beyond the scope of a user's previous consent, refusing to provide the original business function by the app upon the user's disagreement with the new scope of personal information collection shall be considered as in violation of the necessity principle, except in the case where the new business function replaces the previous business function.

On June 10, 2021, the Standing Committee of the NPC promulgated the PRC Data Security Law, which became effect in September 2021. The PRC Data Security Law provides for data security and privacy obligations on entities and individuals carrying out data activities and introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. The appropriate level of protection measures is required to be taken for each respective category of data. For example, a processor of important data shall designate the personnel and the management body responsible for data security, carry out risk assessments for its data processing activities and file the risk assessment reports with the competent authorities. In addition, the PRC Data Security Law provides a national security review procedure for those data activities which affect or may affect national security and imposes export restrictions on certain data and information.

On July 30, 2021, the State Council promulgated the Regulations on Protection of Critical Information Infrastructure, which became effective on September 1, 2021. Pursuant to the Regulations on Protection of Critical Information Infrastructure, critical information infrastructure shall mean any important network facilities or information systems of the important industry or field such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, which may endanger national security, people's livelihood and public interest in case of damage, function loss or data leakage. In addition, relevant administration departments of each critical industry and sector, or Protection Departments, shall be responsible to formulate eligibility criteria and determine the critical information infrastructure operator in the respective industry or sector. The operators shall be informed about the final determination as to whether they are categorized as critical information infrastructure operators.

On August 20, 2021, the Standing Committee of the NPC promulgated the Personal Information Protection Law, which came into effect on November 1, 2021. The Personal Information Protection Law integrates the scattered rules with respect to personal information rights and privacy protection. Pursuant to the Personal Information Protection Law, personal information refers to information related to identified or identifiable natural persons which is recorded by electronic or other means (excluding the anonymized information). The Personal Information Protection Law provides the circumstances under which a personal information processor could process personal information, including but not limited to, where the consent of the individual concerned is obtained and where it is necessary for the conclusion or performance of a contract to which the individual is a contractual party. It also stipulates certain specific rules with respect to the obligations of a personal information processor, such as to inform the purpose and method of processing to the individuals, and the obligation of the third party who has access to the personal information by way of co-processing or delegation etc. Processors processing personal information exceeding the threshold to be set by the relevant authorities and critical information infrastructure operators are required to store, within the territory of the PRC, the personal information collected and produced within the PRC. Specifically, personal information processors using personal information for automated decision-making shall ensure the transparency of decision-making and the fairness and impartiality of the results, and shall not impose unreasonable differential treatment on individuals in terms of pricing and other transaction conditions. The relevant governmental authorities shall organize assessment on mobile apps' personal information protection and publicize the outcome. The mobile apps that are identified as not in compliance with personal information protection requirements under such law may be required to suspend or terminate the services and the operators may also be subject to penalties including confiscation of illegal revenues and fines. Furthermore, the Personal Information Protection Law also provides for the rights of natural persons whose personal information is processed, and heightens the protection of the personal information of minors under 14 and sensitive personal information.

On November 14, 2021, the CAC issued the Draft Cyber Data Security Regulations, which provide that data processors conducting the following activities shall apply for cybersecurity review: (i) merger, reorganization or separation of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests affects or may affect national security; (ii) listing abroad of data processors processing over one million users' personal information; (iii) listing in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security.

December 28, 2021, the CAC, the NDRC, the MIIT, the Ministry of Public Security, the Ministry of National Security, the MOF, the MOFCOM, the People's Bank of China, the SAMR, the National Radio and Television Administration, the CSRC, the National Administration of State Secrets Protection and the State Cryptography Administration jointly released the Cybersecurity Review Measures, which took effect on February 15, 2022. Pursuant to the Cybersecurity Review Measures, network platform operators with personal information of over one million users shall apply with the Cybersecurity Review Office for a cybersecurity review before going to list abroad.

On December 31, 2021, the CAC, the MIIT, the Ministry of Public Security, and the SAMR jointly promulgated the Administrative Provisions on Internet Information Service Algorithm Recommendation, which came into effect on March 1, 2022. The Administrative Provisions on Internet Information Service Algorithm Recommendation implements classification and hierarchical management for algorithm recommendation service providers based on various criteria, stipulates that algorithm recommendation service providers shall inform users of their provision of algorithm recommendation services in a conspicuous manner, and publicize the basic principles, purpose intentions, and main operating mechanisms of algorithm recommendation services in an appropriate manner, and that algorithm recommendation service providers selling goods or providing services to consumers shall protect consumers' rights of fair trade, and are prohibited from carrying out illegal conducts such as unreasonable differential treatment on transaction conditions based on consumers' preferences, purchasing habits, and such other characteristics.

To comply with these laws and regulations, we have adopted security policies and measures to protect our cyber system and user information. In addition, we have required our users to consent to our collecting and using their personal information, and established information security systems to protect users' privacy.

Regulation on employment

The PRC Labor Law, effective in 1995 and most recently amended on December 29, 2018, the PRC Employment Contract Law, effective on January 1, 2008, and most recently amended on December 28, 2012, and the Implementing Regulations of the PRC Employment Contract Law, effective on September 18, 2008, provide requirements concerning employment contracts between an employer and its employees, namely, employers must execute written labor contracts with full-time employees and regulate employee/employer rights and obligations. If an employer fails to enter into a written employment contract with an employee within one year from the date on which the employment relationship is established, the employer must rectify the situation by entering into a written employment contract with the employee and pay the employee twice the employee's salary for the period from the day following the lapse of one month from the date of establishment of the employment relationship to the day prior to the execution of the written employment contract. The PRC Labor Contract Law and its implementation rules also require compensation to be paid upon certain terminations, which significantly affects the cost of reducing workforce for employers. In addition, if an employer intends to enforce a non-compete provision in an employment contract or non-competition agreement with an employee, it has to compensate the employee on a monthly basis during the term of the restriction period after the termination or expiry of the labor contract. Employers in most cases are also required to provide severance payment to their employees after their employment relationships are terminated.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely, a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. According to the PRC Social Insurance Law, effective on July 1, 2011 and most recently amended on December 29, 2018, an employer that fails to make social insurance contributions may be ordered to pay the required contributions within a stipulated deadline and be subject to a late fee. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue. In addition, social insurance contributions payable by an employee shall be paid on his or her behalf by the employer through transfer from wage deduction, and the employer shall notify each employee of details of social insurance contributions to his or her account on a monthly basis. According to the Regulations on Management of Housing Fund, effective on April 3, 1999, and most recently amended on March 24, 2002, when employing new staff or workers, the units shall undertake housing fund payment and deposit registration at the housing fund management center within 30 days from the date of the employment, and the housing fund to be paid and deposited by an individual staff member or worker shall be withheld from his salary by the unit for which he serves. An enterprise that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated deadline; otherwise, an application may be made to a local court for compulsory enforcement.

Regulation on tax

PRC enterprise income tax

Pursuant to the PRC Enterprise Income Tax Law, which was promulgated in 2007 and took effect on January 1, 2008, and most recently amended on December 29, 2018, and the Implementing Regulations of the Law of the People's Republic of China on Enterprise Income Tax, effective on January 1, 2008, and partly amended on April 23, 2019, enterprises and other organizations receiving income are the taxpayers of enterprise income tax and shall pay enterprise income tax in accordance with the provisions of such laws and regulations. The PRC Enterprise Income Tax Law imposes a uniform enterprise income tax rate of 25% on all PRC resident enterprises, including FIEs, unless they qualify for certain exceptions. The enterprise income tax is calculated based on the PRC resident enterprise's global income as determined under PRC tax laws and accounting standards. If a non-resident enterprise sets up an organization or establishment in the PRC, it will be subject to enterprise income tax for the income derived from such organization or establishment in the PRC and for the income derived from outside the PRC but with an actual connection with such organization or establishment in the PRC.

According to the PRC Enterprise Income Tax Law, the enterprise income tax rate of a high and new technology enterprise is 15%. Pursuant to the Administrative Rules for the Certification of High and New Technology Enterprises, effected on January 1, 2008, and amended on January 29, 2016, specifying the criteria and procedures for the certification of High and New Technology Enterprises, and the certificate of a high and new technology enterprise, is valid for three years.

Pursuant to Circular of the State Administration of Taxation on Printing and Distributing the Implementing Measures for Special Tax Adjustments (for Trial Implementation), effective on January 1, 2008, enterprises shall adopt a reasonable transfer pricing method when conducting transactions with their affiliates. Tax authorities have the power to assess whether related transactions conform to the principle of equity and make adjustments accordingly. Therefore, the invested enterprise should faithfully report relevant information of its related transactions. Pursuant to the Announcement of the State Administration of Taxation on Issuing the Administrative Measures for Special Tax Adjustment and Investigation and Mutual Consultation Procedures, effective on May 1, 2017, an enterprise may adjust and pay taxes at its own discretion when it receives a special tax adjustment risk warning or identifies its own special tax adjustment risks, and the tax authorities may also carry out special tax

investigation and adjustment in accordance with the relevant provisions in regard to enterprises that adjust and pay taxes at their own discretion.

PRC value added tax

In January 2012, the State Council officially launched a pilot value-added tax reform program, or the Pilot Program, applicable to businesses in selected industries. Businesses in the Pilot Program would pay value added tax, or VAT, instead of business tax. The Pilot Program initially applied only to transportation industries and “modern service industries” in Shanghai and would be expanded to eight trial regions (including Beijing and Guangdong province) and nationwide if conditions permit. According to official announcements made by competent authorities in Beijing and Guangdong province, Beijing launched the same Pilot Program on September 1, 2012, and Guangdong province launched it on November 1, 2012.

In March 2016, the PRC Ministry of Finance and the SAT, jointly issued the Circular on the Pilot Program for Overall Implementation of the Collection of Value Added Tax Instead of Business Tax, or Circular 36, which took effect on May 1, 2016. Pursuant to the Circular 36, all of the companies operating in construction, real estate, finance, life service or other sectors which were required to pay business tax are required to pay VAT, in lieu of business tax. The VAT rate is 6%, except for rate of 11% for real estate sale, land use right transferring and providing service of transportation, postal sector, basic telecommunications, construction and real estate lease; rate of 17% for providing lease service of tangible property; and rate of zero for specific cross-bond activities. At the State Council executive meeting on March 28, 2018, China’s State Council has announced the VAT rate on manufacturing is to be cut by one percent to 16% which took effect on May 1, 2018. On April 4, 2018, the PRC Ministry of Finance and the SAT promulgated the Notice on Adjusting Value-added Tax Rates, which reduced the tax rates for sale, import and export of goods, as well as the deduction rate for taxpayer’s purchaser of agricultural products.

On March 20, 2019, the PRC Ministry of Finance, the SAT and the General Administration of Customs promulgated the Announcement on Policies to Deepen Value-Added Tax Reform, which provides that the applicable tax rate for VAT taxable sales or imports by a general taxpayer of VAT shall be adjusted to 13% from the original 16% and to 9% from the original 10%, commencing on April 1, 2019.

According to the Circular of the State Administration of Taxation on Printing and Distributing the Administrative Measures for Tax Refund (Exemption) for Exported Goods (for Trial Implementation), effective on May 1, 2005, unless otherwise provided by law, for the goods as exported via an export agency, the exporter may, after the export declaration and the conclusion of financial settlement for sales, file a report to competent State Taxation Bureau for the approval of refund or exemption of VAT or consumption tax on the strength or the relevant certificates.

PRC dividend withholding tax

Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties issued in 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Announcement on Certain Issues with Respect to the “Beneficial Owner” in Tax Treaties, issued on February 3, 2018, and effective on April 1, 2018, the business activities conducted by the applicant do not constitute substantive business activities is one of the factors which are not conducive to the determination of an applicant’s status as a “beneficial owner”, and thus are not entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

Regulation on foreign exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, most recently amended on August 5, 2008. Under the Foreign Exchange Administration Regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements. However, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of foreign currency-denominated loans.

On August 29, 2008, the SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, regulating the conversion by an FIE of foreign currency-registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular 142 provides that the RMB capital converted from foreign currency registered capital of an FIE may only be used for purposes within the business scope approved by the applicable government authority and may not be used for

equity investments within China. The SAFE also strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of FIEs. The use of such RMB capital may not be changed without the SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. On March 30, 2015, the SAFE issued SAFE Circular 19, which took effective and replaced SAFE Circular 142 on June 1, 2015, and was amended on December 30, 2019. Although SAFE Circular 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in China, the restrictions continue to apply as to FIEs' use of the converted RMB for purposes beyond the business scope, for entrusted loans (unless permitted by the business scope) or for inter-company RMB loans. The SAFE promulgated the Circular of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-affiliated enterprises. Violations of SAFE Circular 19 or Circular 16 could result in administrative penalties.

On November 19, 2012, the SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment, which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts (e.g., pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts), the reinvestment of lawful incomes derived by foreign investors in China (e.g., profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment) and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in an FIE no longer require the SAFE approval, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible before. In addition, the SAFE promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents in May 2013, which specifies that the administration by the SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration, and banks shall process foreign exchange business relating to the direct investment in China based on the registration information provided by the SAFE and its branches.

On February 13, 2015, the SAFE promulgated the Circular on Further Simplifying and Improving the Policies Concerning Foreign Exchange Control on Direct Investment, or SAFE Circular 13, which took effect on June 1, 2015 and was amended on December 30, 2019. SAFE Circular 13 delegates the authority to enforce the foreign exchange registration in connection with the inbound and outbound direct investment under relevant SAFE rules to certain banks and therefore further simplifies the foreign exchange registration procedures for inbound and outbound direct investment.

Regulation on foreign exchange registration of offshore investment by PRC residents

On July 4, 2014, the SAFE issued the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, and its implementation guidelines, which abolished and superseded the Circular on Several Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investments via Overseas Special Purpose Companies, SAFE Circular 75. Pursuant to SAFE Circular 37 and its implementation guidelines, PRC residents (including PRC institutions and individuals) must register with local branches of the SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle, or SPV, directly established or indirectly controlled by PRC residents for the purposes of offshore investment and financing with their legally owned assets or interests in domestic enterprises, or their legally owned offshore assets or interests. Such PRC residents are also required to amend their registrations with the SAFE when there is a change to the basic information of the SPV, such as changes of a PRC resident individual shareholder, the name or operating period of the SPV, or when there is a significant change to the SPV, such as changes of the PRC individual resident's increase or decrease of its capital contribution in the SPV, or any share transfer or exchange, merger or division of the SPV. Failure to comply with the registration procedures set forth in the Circular 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, the capital inflow from the offshore entities and settlement of foreign exchange capital, and may also subject relevant onshore company or PRC residents to penalties under PRC foreign exchange administration regulations.

Mr. Xiaoping Chen has completed his initial registrations with the local branch of the SAFE and all the PRC resident shareholders shall register or amend their existing registrations with the local branch of the SAFE in connection with the equity interest of our company held by them directly or indirectly through the trust arrangements adopted in 2020, please see the description under "Item 6. Directors, Senior Management and Employees—E. Share Ownership." for a summary of the trust arrangements.

Regulation on employee share incentive plan of overseas publicly listed company

On December 25, 2006, the People's Bank of China promulgated the Administrative Measures for Individual Foreign Exchange. On February 15, 2012, the SAFE issued the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Companies, or the Stock Option Rules,

which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly Listed Companies issued by the SAFE on March 28, 2007. Pursuant to the Stock Option Rules, PRC residents who are granted shares or stock options by companies listed on overseas stock exchanges according to the stock incentive plans are required to register with the SAFE or its local branches, and PRC residents participating in the stock incentive plans of overseas listed companies shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plans on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. In addition, the PRC agents are required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agents or the overseas entrusted institution, or other material changes. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share options, apply to the SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, the PRC agents shall file each quarter the form for record-filing of information of the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies with the SAFE or its local branches.

Our PRC citizen employees who have been granted share options or restricted shares, or PRC grantees, are subject to the Stock Option Rules. If we or our PRC grantees fail to comply with the Individual Foreign Exchange Rule and the Stock Option Rules, we and/or our PRC grantees may be subject to fines and other legal sanctions. We may also face regulatory uncertainties that could restrict our ability to adopt additional share incentive plans for our directors and employees under PRC law. In addition, the State Administration for Taxation has issued certain circulars concerning employee share awards. Under these circulars, our employees working in the PRC who exercise share options or hold the vested restricted shares will be subject to PRC individual income tax. Our PRC subsidiaries and VIEs have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options or hold the vested restricted shares. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC government authorities.

Regulation on dividend distributions

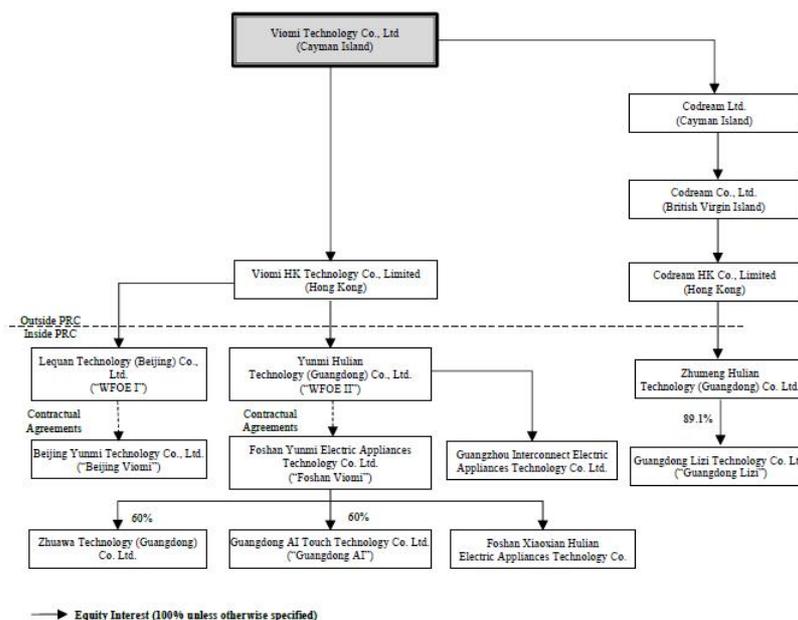
The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include:

- The PRC Company Law (1993), as amended in 1999, 2004, 2005, 2013 and 2018;
- The PRC Foreign Investment Law (2020); and
- The Implementation Regulations on the PRC Foreign Investment Law (2020).

Under these laws and regulations, FIEs in China may pay dividends only out of their accumulated profits, if any, 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 10.0% of its after-tax profit based on PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reach 50.0% of its registered capital. These reserves are not distributable as cash dividends. A PRC company is not permitted to distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

C. Organizational Structure

The following diagram illustrates our corporate structure, including our significant subsidiaries and VIEs as of the date of this annual report:



Notes:

- (1) Mr. Xiaoping Chen, our founder, chairman of our board of directors, chief executive officer and a beneficial owner of the shares of our company, holds 99.9978% of the equity interests in Foshan Viomi, with the remaining 0.0022% equity interests held by a limited partnership controlled and managed by Mr. Xiaoping Chen.
- (2) Mr. Chen holds 60% equity interests in Beijing Viomi. Two employees of our shareholders, Red Better Limited and Shunwei Talent Limited, equally hold the remaining 40% of the equity interests in Beijing Viomi.

Contractual Arrangements with Our VIEs and Their Shareholders

Agreements that provide us with effective control over our VIEs

Shareholder Voting Proxy Agreements. Our WFOE I, Foshan Viomi and Mr. Xiaoping Chen, who was then the sole shareholder of Foshan Viomi, entered into a Shareholder Voting Proxy Agreement on September 5, 2018, or the Original Shareholder Voting Proxy Agreement. On April 28, 2020, WFOE I, Foshan Viomi and Mr. Xiaoping Chen entered into a Termination Agreement, which terminated the Original Shareholder Voting Proxy Agreement. On the same date, WFOE II, Foshan Viomi and shareholders of Foshan Viomi entered into a Shareholder Voting Proxy Agreement with provisions substantially the same as the Original Shareholder Voting Proxy Agreement. Pursuant to the Shareholder Voting Proxy Agreement, each shareholder of Foshan Viomi has irrevocably authorized any person designated by our WFOE II to act as his attorney-in-fact to exercise all of his rights as a shareholder of Foshan Viomi, including, but not limited to, the right to convene and attend shareholders' meetings, vote on any resolution that requires a shareholder vote, such as the appointment and election of directors, and other senior management personnel who shall be appointed or removed by the shareholders as well as the sale or transfer of all or part of the equity interests owned by such shareholder. Such shareholder voting proxy agreements will remain effective, unless otherwise terminated in advance pursuant to agreement in writing from all parties.

On July 21, 2015, our WFOE I, Beijing Viomi and each of the shareholders of Beijing Viomi entered into a Shareholder Voting Proxy Agreement, which contains terms substantially similar to the Shareholder Voting Proxy Agreement executed by the shareholders of Foshan Viomi described above.

Equity Pledge Agreements. Our WFOE I, Foshan Viomi and Mr. Xiaoping Chen entered into an Equity Pledge Agreement on September 5, 2018, or the Original Equity Pledge Agreement. On April 28, 2020, WFOE I, Foshan Viomi and Mr. Xiaoping Chen entered into a Termination Agreement, which terminated the Original Equity Pledge Agreement. On the same date, WFOE II, Foshan Viomi and shareholders of Foshan Viomi entered into an Equity Pledge Agreement with provisions substantially the same as the Original Shareholder Voting Proxy Agreement. Pursuant to the Equity Pledge Agreement, the shareholders of Foshan

Viomi have pledged 100% equity interests in Foshan Viomi to our WFOE II to guarantee the performance by the shareholders of their obligations under the Exclusive Option Agreement, the Shareholder Voting Proxy Agreement and the Equity Pledge Agreement, as well as the performance by Foshan Viomi of its obligations under the Exclusive Option Agreement, the Shareholder Voting Proxy Agreement, the Exclusive Consultation and Service Agreement and the Equity Pledge Agreement. In the event of a breach by Foshan Viomi or any shareholder of contractual obligations under the Equity Pledge Agreement, our WFOE II, as pledgee, will have the right to dispose of the pledged equity interests in Foshan Viomi and will have priority in receiving the proceeds from such disposal. The shareholders of Foshan Viomi also undertake that, without the prior written consent of our WFOE II, the shareholders will not dispose of, create or allow any encumbrance on the pledged equity interests. Foshan Viomi undertakes that, without the prior written consent of our WFOE II, they will not assist or allow any encumbrance to be created on the pledged equity interests.

On July 21, 2015, our WFOE I, Beijing Viomi and each of the shareholders of Beijing Viomi entered into an Equity Pledge Agreement, which contains terms substantially similar to the Equity Pledge Agreement described above.

We have completed the registration of the equity pledge with the competent office of the State Administration for Market Regulation in accordance with the PRC Civil Code.

Agreements that allow us to receive economic benefits from our VIEs

Exclusive Consultation and Service Agreements. Our WFOE I and Foshan Viomi entered into an Exclusive Consultation Service Agreement on July 21, 2015, or the Original Exclusive Consultation and Service Agreement. On April 28, 2020, WFOE I and Foshan Viomi entered into a Termination Agreement, which terminated the Original Exclusive Consultation and Service Agreement. On the same day, WFOE II and Foshan Viomi entered into an Exclusive Consultation and Service Agreement with provisions substantially the same as the Original Shareholder Voting Proxy Agreement. Pursuant to the Exclusive Consultation Service Agreement, our WFOE II has the exclusive right to provide Foshan Viomi with the software technology development, technology consulting and technical services required by Foshan Viomi's business. Without our WFOE II's prior written consent, Foshan Viomi may not accept any same or similar services subject to this agreement from any third party. Foshan Viomi agrees to pay our WFOE II an annual service fee at an amount that is equal to 100% of its annual net income or the amount which is adjusted in accordance with our WFOE II's sole discretion for the relevant year as well as the mutually agreed amount for certain other technical services, both of which should be paid within three months after the end of the relevant calendar year. Our WFOE II has the exclusive ownership of all the intellectual property rights created as a result of the performance of the Exclusive Consultation and Service Agreement, to the extent permitted by applicable PRC laws. To guarantee Foshan Viomi's performance of its obligations thereunder, the shareholder has pledged his equity interests in Foshan Viomi to our WFOE II pursuant to the Equity Pledge Agreement. The Exclusive Consultation and Service Agreement will remain effective for an indefinite term, unless otherwise terminated pursuant to mutual agreement in writing or applicable PRC laws.

On July 21, 2015, our WFOE I, Beijing Viomi and each of the shareholders of Beijing Viomi entered into an Exclusive Consultation and Service Agreement, which contains terms substantially similar to the Exclusive Consultation and Service Agreement described above.

Agreements that provide us with the option to purchase the equity interests in and assets of our VIEs

Exclusive Option Agreements. Our WFOE I, Foshan Viomi and Mr. Xiaoping Chen entered into an Exclusive Option Agreement on September 5, 2018, or the Original Exclusive Option Agreement. On April 28, 2020, WFOE I, Foshan Viomi and Mr. Xiaoping Chen entered into a Termination Agreement, which terminated the Original Exclusive Option Agreement. On the same day, WFOE II, Foshan Viomi and shareholders of Foshan Viomi entered into an Exclusive Option Agreement with provisions substantially the same as the Original Shareholder Voting Proxy Agreement. Pursuant to the Exclusive Option Agreement, the shareholders of Foshan Viomi have irrevocably granted our WFOE II an exclusive option to purchase all or part of such shareholders' equity interests in Foshan Viomi, and Foshan Viomi has irrevocably granted our WFOE II an exclusive option to purchase all or part of its assets. Our WFOE II or its designated person may exercise such options to purchase equity at their respective paid-in registered capital in Foshan Viomi, or the lowest price permitted under applicable PRC laws, whichever lower. Our WFOE II or its designated person may exercise such options to purchase assets at the lowest price permitted under applicable PRC laws. The shareholders of Foshan Viomi undertake that, without our WFOE II's prior written consent, the shareholders will not, among other things, (i) transfer or otherwise dispose of their equity interests in Foshan Viomi, (ii) create any pledge or encumbrance on their equity interests in Foshan Viomi, (iii) change Foshan Viomi's registered capital, (iv) merge Foshan Viomi with any other entity, (v) dispose of Foshan Viomi's material assets (except in the ordinary course of business), or (vi) amend Foshan Viomi's articles of association. In addition, Foshan Viomi undertakes that, without our WFOE II's prior written consent, it will not, among other things, create any pledge or encumbrance on any of its assets, or transfer or otherwise dispose of its material assets (except in the ordinary course of business). The Exclusive Option Agreement will remain effective until the entire equity interests in and all the assets of Foshan Viomi have been transferred to our WFOE II or its designated person.

On July 21, 2015, our WFOE I, Beijing Viomi and each of the shareholders of Beijing Viomi entered into an Exclusive Option Agreement, which contains terms substantially similar to the Exclusive Option Agreement described above.

In the opinion of Han Kun Law Offices, our PRC legal counsel:

- the ownership structures of our VIEs in China and our WFOEs, are not in violation of applicable PRC laws and regulations currently in effect; and
- the contractual arrangements between our company, our WFOEs, our VIEs and their respective shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of 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. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or our VIE are found to be in violation of any existing or future PRC 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 to take action in dealing with such violations or failures. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating some of our business operations in China do not comply with PRC regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties, or be forced to relinquish our interest in those operations” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system and changes in laws and regulations in China could adversely affect us.”

D. Property, Plant and Equipment

Our headquarters are located in Guangzhou, China, where we rent the office building with an aggregate floor area of approximately 4,957 square meters. Our research and development facilities and our management and operations facilities are located at our headquarters. Our R&D and office space located in Shengda Industry Park in Foshan, Guangdong Province, has an aggregate floor area of approximately 9,272 square meters. Our manufacturing facility located in Fulv Park, Foshan, has an aggregate floor area of approximately 18,000 square meters.

We have acquired land use rights to a parcel of land of approximately 36,000 square meters from the local government in Shunde, Guangdong Province, for the development of Viomi IoT Technology Park, a comprehensive high-tech industrial campus, which is expected to be completed in two phases over an up to five-year period. The Viomi IoT Technology Park is planned to host our future headquarters and IoT development and manufacturing sites. We started the construction in May 2021 by entering into an overall project consignment contract with a main contractor. As of December 31, 2021, phase one of the construction progress has reached over 50%.

As of December 31, 2021, we leased and occupied approximately 4,957 square meters of office space in Guangzhou, approximately 562 square meters of office space in Beijing and approximately 163 square meters of office space in Shanghai. These leases vary in duration from one to five years.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

A. Operating Results

Key Factors Affecting Our Results of Operations

Key factors affecting our results of operations include the following:

Consumption upgrade and greater adoption of IoT-enabled smart home technology in China

Our business and operating results are affected by general factors influencing China’s broader consumer products and home appliances industries, including overall macroeconomic growth and increase in disposable income, overall consumption upgrade trends as well as public knowledge, acceptance and adoption of new and innovative technology such as IoT technology.

In line with sustained economic growth and increases in disposable income in recent years, China has seen a clear consumption upgrade trend and expectations for higher living standards. Chinese consumers now have greater purchasing power and an increasing preference for high quality and aspirational products with innovative features and functionalities. In addition, Chinese consumers, particularly the young, modern, “new middle class” population, who are our key target demographic, are becoming increasingly receptive to next-generation products that incorporate AI and IoT technologies to create a modern living experience. New technologies such as voice- and motion-activated controls have also gained increasing prominence as these technologies become more mainstream and consumers become more educated about their applications. These macroeconomic and industry trends have played and will continue to play a significant role in driving demand for our products and our results of operations. Unfavorable changes in any of these general industry conditions could negatively affect demand for our products and materially adversely affect our results of operations.

Increasing brand recognition and expanding user base

The uniqueness and effectiveness of our products and related benefits, our targeted marketing and promotional campaigns, together with our strategic partnership with Xiaomi, have enabled us to enjoy strong word-of-mouth and extensive media coverage, which have provided us with strong momentum in increasing our brand recognition and the expansion of our user base, which have been key contributors to the growth of our business. Our number of cumulative household users increased significantly from approximately 113 thousand as of March 31, 2016 to approximately 6.6 million as of December 31, 2021. As we continue to gain scale and invest in our brand, we expect our brand to gain even greater recognition among consumers, which will facilitate increasing demand for our products as well as further growth in our user base, creating additional monetization opportunities and in turn, driving further growth in our results of operations.

New product launches

Our introduction and sales of new products that are well received by consumers, both Viomi-branded and Xiaomi-branded, are important contributors to our sustainable growth. We have introduced numerous new products over the past several years and will continue to launch additional new products on a regular basis, including those with next-generation capabilities and functionalities, such as 5G and AI, which we expect to drive continued strong growth in our results of operations. We introduced our premium water purifier sub-brand “Quanxian” in September 2020, with introduction of a series of large-flux water purifiers. Further, we introduced EROx mineral water purifier, which is able to retain minerals beneficial for human health to cater to diversified consumer demands, as well as Super Pro 1200G water purifier in 2021. Following our successful official launch of Viomi-branded sweeper robot business in both of domestic and overseas markets in late 2020, we have introduced a series of new sweeper robots with auto dust-collecting, self-cleaning and UV sterilization functionalities, such as Alpha 2 Pro and Alpha 2 Plus sweeper robots in 2021. We expanded our cleanliness product category by launching our first wet/dry vacuum cleaner and mop Cyber to meet the increasing consumer demands for this product category. With a focus of AI application in 2021, we also introduced new products across other categories, including the Space all-direction AI air conditioner, the EyeBot AI smart toilet, as well as EyeBot AI range hood and other new AI products with technology upgrades. Furthermore, we introduced new SKUs in the smart home category, such as EyeLink 2T smart lock with AI face recognition technology.

As we continue to grow our business and introduce additional new products, both self-branded and Xiaomi-branded, to improve connectivity and synergies across our IoT @ Home platform and further promote the IoT @ Home lifestyle experience, we expect to deliver additional growth through repeat customer purchases, bundled sales, as well as additional monetization of our consumable products and value-added businesses.

Performance of our offline sales network

An important part of our sales channel strategy is the network of Viomi offline experience stores across China, the majority of which were stand-alone stores. Please see “Item 4. Information on the Company—B. Business Overview—Sales Channels—Offline” for more details. These stores have been important positive drivers on our results of operations by strengthening our brand awareness, increasing our overall market presence and supporting the attractive pricing of our products as part of our sales channel and go-to-market strategy.

Depending on market conditions, we may continue to roll out additional experience stores across the country and continue to invest in in-store training and enhance our in-store experience, in conjunction with our network partners, to drive the continued growth in our revenues and results of operations. We are also undertaking initiatives to increase overall store operating efficiency and productivity, such as attracting more experienced and better resourced network partners. In addition, to further diversify and strengthen our overall channel penetration and presence, we have expanded cooperation to increase our overall points of sales, particularly through cooperation with various O2O outlets of major e-commerce retailers, as well as establishing strategic partnership with retail leaders such as Hunan Friendship & Apollo Commercial Co. Ltd., all of which are expected to increase our end-points of sales and overall consumer awareness of our brand, products and concept. We do not expect our strategy in relation to our Viomi offline experience store network or other channel diversification strategies to have a material impact on our overall margins.

Product and business mix

We generate a significant portion of our revenues through the sales of our IoT products and we are continuing to introduce new products to the market. For the years ended December 31, 2019, 2020 and 2021, sales of our IoT products accounted for 77.2%, 78.2% and 78.1% of our net revenues, respectively. Different product categories may have different attributable gross margins due to various factors, including industry and competitive dynamics, our pricing strategy, target customer demographics as well as raw material and production costs, among others. We may price certain flagship products, such as our smart refrigerators, at competitive prices to facilitate initial household user acquisition and entry in the family home, which may negatively affect our gross margins in the near term.

In addition, the proportionate contributions of our various business lines to our net revenues may change over time as we continue to grow our business and increase the number of our household users. As such, our combined gross margin may be affected both by any change in revenues attributable to, and any change in the gross margin of, each business line.

Investment in R&D, marketing and brand promotion

Our success is significantly dependent on our ability to continually bring to market products and services that are popular among consumers, particularly relative to those offered by our competitors. Accordingly, we dedicate significant resources towards research and development. For the year ended December 31, 2019, 2020 and 2021, research and development expenses were RMB204.9 million, RMB265.7 million and RMB311.8 million (US\$48.9 million), accounting for 4.4%, 4.6% and 5.9% of our net revenues, respectively. We have been devoting research and development resources in the areas of AI, IoT, 5G and other emerging technologies in furtherance of our “AI + IoT + 5G” strategy. Going forward, we will further invest in our research and development efforts as we continue to introduce new and innovative products to create a unique and holistic IoT @ Home lifestyle experience for the benefit of consumers.

Similarly, attracting new users and growing the number of our household users by continuing to strengthen our brand awareness as well as educating consumers about the benefits of our IoT @ Home platform and the IoT @ Home lifestyle experience are our key growth strategies. For the year ended December 31, 2019, 2020 and 2021, our selling and marketing expenses were RMB529.2 million, RMB597.2 million and RMB751.0 million (US\$117.9 million), accounting for 11.4%, 10.3% and 14.2% of our revenues, respectively. Going forward, we intend to continue investing significant resources in our marketing, advertising and brand promotion efforts.

Relationship with Xiaomi

Xiaomi is our strategic partner, shareholder, customer and related party. Our strategic partnership with Xiaomi provides us access to Xiaomi’s ecosystem users, sales platforms and data resources and related support. Sales to Xiaomi, predominantly comprising Xiaomi-branded products, accounted for 45.4%, 49.6% and 43.3% of our net revenues in 2019, 2020 and 2021, respectively. Our strong research and development capabilities, supply chain resources and innovative products and services are able to enrich Xiaomi’s suite of offerings, resulting in a mutually beneficial relationship between Xiaomi and us.

While we expect the proportion of our revenues generated from our sales to Xiaomi to gradually decrease going forward, maintaining a mutually beneficial relationship with Xiaomi, including potential additional product collaborations, will continue to be important to our operations and future growth.

Seasonality

We generally expect to experience seasonally higher sales in the second and fourth quarters, primarily attributable to the major shopping festivals and promotional activities across major e-commerce platforms in China, such as “618,” “Double Eleven” and “Double Twelve.” Given the impact of this seasonality, timely and effective forecasting and product supply and introductions for the peak seasons are critical to our operations.

Key Components of Our Results of Operations

Net revenues

We derive our revenues from four key business lines, (i) IoT @ Home portfolio, (ii) home water solutions, (iii) consumables, and (iv) small appliances and others. Our IoT @ Home portfolio includes our smart kitchen products and other smart products. Home water solutions mainly include smart water purification systems. Consumables include products complementary to our IoT products, such as water filters. Our small appliances and other business include the sales of complimentary household products, such as small appliances and homeware, as well as provision of various services, such as access to media and entertainment content, e-commerce platforms and interfaces embedded within and integrated with our products, and installation services.

The following table sets forth the breakdown of our net revenues by business lines both in absolute amounts and as a proportion of the net revenue for the periods indicated.

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	%
Net revenues:							
IoT @ Home portfolio	2,522,189	54.3	3,671,717	63.0	3,400,966	533,687	64.1
Home water solutions	1,065,166	22.9	883,325	15.2	742,912	116,579	14.0
Consumables	265,844	5.7	382,896	6.6	367,021	57,593	6.9
Small appliances and others(1)	794,314	17.1	887,686	15.2	792,936	124,429	15.0
Total	4,647,513	100.0	5,825,624	100.0	5,303,835	832,288	100.0

Note:

(1) Including sales of small appliances and rendering of services. See footnote 13 to the Consolidated Financial Statements for more details.

IoT @ Home portfolio

We generate a significant portion of our revenues through sales of products under our IoT @ Home portfolio, which comprises smart kitchen products and other smart products. We have continued to diversify and expand our smart kitchen products over recent years. Our smart kitchen products include refrigerators, oven steamers, dishwashers, range hoods and gas stoves. We also offer a diverse array of other smart products such as air conditioning systems, washing machines, water heaters, smart water kettles, sweeper robots, smart locks and other smart devices, among others.

Home water solutions

The core of our home water solutions is smart water purification systems, which were the first product category we launched and sales of these products have contributed a material portion of our historical revenues. As we continue to roll out new IoT products in other categories over time and generate additional revenues from our consumable products and small appliances and others, we expect our sources of revenues to continue to diversify both in terms of product as well as business mix. As a result, the proportion of revenues attributable to the sales of smart water purification systems has decreased in the past years and we expect the decrease to narrow with our product portfolio approaching stable.

Consumables

We offer a range of consumable products complementary, and often essential, to our IoT products, which provide us with additional, recurring and ongoing revenue streams across the life cycle of our IoT products. Consumers can purchase such products either through our sales channels or through the e-commerce platform embedded within various of our IoT products. Consumable products predominantly include water filters for our smart water purifiers, water pitcher filters, and air filters for our refrigerators. The growth of our consumable products business will depend on the size of our IoT products' household user base.

Small appliances and others

Revenues from small appliances and others include revenues from the sales of other related household products such as rice cookers, portable fans, water quality meters, water filter pitchers, stainless steel insulated water bottles, smart toilets and food waste disposals, among others, as well as revenue from rendering of services. Historically, revenues from this category have predominantly comprised of related household product sales.

Brands

Our IoT @ Home platform comprises of two key pillars, our Viomi business, predominantly comprising our Viomi-branded products, and our Xiaomi business, comprising our strategic partnership with Xiaomi. Sales to Viomi and other third-party channels, which constitute the vast majority of our Viomi-branded products business, accounted for 54.6%, 50.4% and 56.7% of our net revenues in 2019, 2020 and 2021, respectively. We introduced our premium water purifier sub-brand “Quanxian” in September 2020, with introduction of a series of large-flux water purifiers. We have enriched and intend to expand SKUs offered under Quanxian to cater to diversified consumer demands for water purification and human health. We also launched our premium AI-focused “coKiing” brand in late 2019 and have introduced a series of air conditioning, washing machine and refrigerator products, to offer an advanced and AI-centric product portfolio to high-end market.

Xiaomi is our strategic partner, shareholder and customer. Our strategic partnership with Xiaomi provides us access to Xiaomi’s ecosystem users, sales platforms and data resources and related support. Sales to Xiaomi, predominantly comprising Xiaomi-branded products, historically accounted for 45.4%, 49.6% and 43.3% of our net revenues in 2019, 2020 and 2021, respectively. We sell Xiaomi-branded products directly to Xiaomi, who then on-sells these products to its customers and end-consumers.

Cost of revenues

Our cost of revenues primarily consists of material costs, estimated warranty costs, manufacturing and fulfillment costs, salaries and benefits for staff engaged in production activities and related expenses that are directly attributable to the production of products. We procure a variety of raw materials and components from third-party suppliers, and outsource a majority of our manufacturing and order fulfillment activities to third parties. Our product costs fluctuate with the costs of raw materials and underlying product components as well as the prices we are able to negotiate with our contract manufacturers and raw material and component suppliers. Our cost of revenues was RMB3,565.1 million, RMB4,742.7 million and RMB4,105.8 million (US\$644.3 million) for the years ended December 31, 2019, 2020 and 2021, respectively.

Gross profit and gross profit margin

Our gross profit margin is affected by changes in our product and business mix as well as our cost of revenues. Please see “—Key Factors Affecting our Results of Operations—Product and business mix” for more details. The table below sets forth our gross profit in absolute amount and gross profit margins of products and services for the periods indicated.

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	%
Gross profit and gross profit margin	1,082,404	23.3	1,082,956	18.6	1,198,068	188,003	22.6

Operating expenses

Our operating expenses can be classified into three categories: general and administrative, research and development, and selling and marketing. The following table sets forth the components of our operating expenses, both in absolute amount and as a proportion of our net revenues, for the periods presented.

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	%
Operating expenses:							
General and administrative	73,061	1.6	68,914	1.2	97,730	15,336	1.8
Research and development	204,942	4.4	265,680	4.6	311,786	48,926	5.9
Selling and marketing	529,212	11.4	597,176	10.3	751,011	117,850	14.2
Total	807,215	17.4	931,770	16.0	1,160,527	182,112	21.9

General and administrative. General and administrative expenses consist primarily of salaries and welfare for general and administrative personnel and share-based compensation for management and administrative personnel. Within the total general and administrative expenses incurred in the year ended December 31, 2019, 2020 and 2021, RMB7.3 million, RMB11.3 million and RMB9.1 million (US\$1.4 million) were share-based compensation expenses, respectively.

Research and development. Our research and development expenses primarily consist of salaries and benefits as well as share-based compensation for research and development personnel, materials, general expenses and depreciation expenses associated with research and development activities. We expect our research and development expenses to increase in absolute amount as we expand our team of technology and product development professionals and continue to invest in our technology infrastructure to enhance our capabilities in the fields of AI, IoT, 5G and big data analytics as well as expand and upgrade our smart home solutions.

Selling and marketing. Our selling and marketing expenses primarily consist of advertising and market promotion expenses, shipping expenses and salaries and welfare for sales and marketing personnel. We bear the advertising and marketing expenses for our Viomi-branded products. We do not bear such expenses for Xiaomi-branded products. We have invested heavily in selling and marketing initiatives in recent periods to promote the Viomi brand and new product launches, and to attract more household users to our IoT @ Home platform, as reflected in the increase in our selling and marketing expenses in absolute amount and as a percentage of our net revenues. While we expect our selling and marketing expenses will continue to increase in absolute amount going forward as we continue to strengthen our brand recognition and expand our user base, we expect selling and marketing expenses as a percentage of our net revenues to gradually moderate and stabilize as the Viomi brand, our respective products and the benefits of our IoT @ Home platform become more widely known and adopted by consumers.

Other income

Other income primarily consists of government grants received from local government authorities to encourage our technology development and innovation. These amounts are paid in the discretion of the relevant governmental authorities, and there is no assurance that we will receive such grants in future periods.

Results of Operations

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

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US\$	
Net revenues(1)	4,647,513	100.0	5,825,624	100.0	5,303,835	832,288	100.0
Cost of revenues	(3,565,109)	(76.7)	(4,742,668)	(81.4)	(4,105,767)	(644,285)	(77.4)
Gross profit	1,082,404	23.3	1,082,956	18.6	1,198,068	188,003	22.6
Operating expenses(2):							
Research and development expenses(2)	(204,942)	(4.4)	(265,680)	(4.6)	(311,786)	(48,926)	(5.9)
Selling and marketing expenses(2)	(529,212)	(11.4)	(597,176)	(10.3)	(751,011)	(117,850)	(14.2)
General and administrative expenses(2)	(73,061)	(1.6)	(68,914)	(1.2)	(97,730)	(15,336)	(1.8)
Total operating expenses	(807,215)	(17.4)	(931,770)	(16.0)	(1,160,527)	(182,112)	(21.9)
Other income, net	35,880	0.8	32,795	0.6	27,128	4,257	0.5
Income from operations	311,069	6.7	183,981	3.2	64,669	10,148	1.2
Interest income and short-term investment income, net	26,109	0.6	31,968	0.5	28,589	4,486	0.5
Income before income tax expenses	339,020	7.3	217,767	3.7	94,630	14,849	1.8
Income tax expenses	(45,190)	(1.0)	(43,321)	(0.7)	(5,739)	(901)	(0.1)
Net Income	293,830	6.3	174,446	3.0	88,891	13,948	1.7

Notes:

- (1) Includes RMB2,112.2 million, RMB2,889.4 million and RMB2,295.6 million (US\$360.2 million) from sales to Xiaomi for the year ended December 31, 2019, 2020 and 2021, respectively.

(2) Share-based compensation expenses were allocated as follows:

	For the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
General and administrative expenses	7,282	11,303	9,130	1,433
Research and development expenses	23,564	49,996	32,609	5,117
Selling and marketing expenses	12,322	10,904	5,666	889
Total	43,168	72,203	47,405	7,439

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Net revenues

Our net revenues decreased by 9.0% from RMB5,825.6 million in 2020 to RMB5,303.8 million (US\$832.3 million) in 2021, primarily due to (i) the fact that we proactively and substantially scaled back the sales volume of Xiaomi-branded sweeper robots, and adjusted our product portfolio for margin expansion in other categories; and (ii) the overall weaker consumer demands for certain product categories.

IoT @ Home portfolio Revenues from IoT @ Home portfolio decreased by 7.4% from RMB3,671.7 million in 2020 to RMB3,401.0 million (US\$533.7 million) in 2021, primarily due to the scale back of our supply of Xiaomi-branded sweeper robots and the product portfolio adjustments for margin expansion in some other categories, both contributing to the overall gross margin improvement for IoT @ Home portfolio.

Home water solutions. Revenues from home water solutions decreased by 15.9% from RMB883.3 million in 2020 to RMB742.9 million (US\$116.6 million) in 2021, primarily due to our product portfolio adjustment involving a decrease in small-flux water purifiers.

Consumables. Revenues from consumables decreased by 4.1% from RMB382.9 million in 2020 to RMB367.0 million (US\$57.6 million) in 2021, primarily due to decreased demands for purifier filter products.

Small appliances and others. Revenues from small appliances and others decreased by 10.7% from RMB887.7 million in 2020 to RMB792.9 million (US\$124.4 million) in 2021, primarily due to the product portfolio adjustments we made for gross margin expansion in this category.

Cost of revenues

Our cost of revenues decreased by 13.4% from RMB4,742.7 million in 2020 to RMB4,105.8 million (US\$644.3 million) in 2021, primarily due to the stringent cost control measures we took.

Gross profit

Our gross profit increased by 10.6% from RMB1,083.0 million in 2020 to RMB1,198.1 million (US\$188.0 million) in 2021, and our gross margin increased from 18.6% in 2020 to 22.6% in 2021. The margin improvement was primarily driven by our continued efforts to shift the business and product mix toward higher gross margin products.

Operating Expenses

Our operating expenses increased by 24.6% from RMB931.8 million in 2020 to RMB1,160.5 million (US\$182.1 million) in 2021.

General and administrative. General and administrative expenses increased by 41.8% from RMB68.9 million in 2020 to RMB97.7 million (US\$15.3 million) in 2021, primarily due to the increase in related personnel salaries and expenses.

Research and development. Research and development expenses increased by 17.4% from RMB265.7 million in 2020 to RMB311.8 million (US\$48.9 million) in 2021, primarily due to the increase in related personnel salaries and expenses, as well as increased investment in research and development of new products.

Selling and marketing. Selling and marketing expenses increased by 25.8% from RMB597.2 million in 2020 to RMB751.0 million (US\$117.9 million) in 2021, primarily due to the increase in advertising and marketing activities to enhance our brand and market recognition.

Income tax expenses

We had an income tax expenses of RMB5.7 million (US\$0.9 million) in 2021, compared to RMB43.3 million in 2020.

Net income

As a result of the foregoing, we recorded a net income of RMB88.9 million (US\$13.9 million) in 2021, compared to RMB174.4 million in 2020. Excluding the impact of share-based compensation expenses, our net income was RMB136.3 million (US\$21.4 million) in 2021, compared to RMB246.6 million in 2020.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Net revenues

Our net revenues increased by 25.3% from RMB4,647.5 million in 2019 to RMB5,825.6 million in 2020, primarily driven by the continued successful rollout and increase in sales of Xiaomi-branded and Viomi-branded products.

IoT @ Home portfolio. Revenues from IoT @ Home portfolio increased by 45.6% to RMB3,671.7 million in 2020 from RMB2,522.2 million in 2019, primarily due to additional sales volume of Viomi-branded sweeper robots and air conditioners, as well as the additional sales volume of Xiaomi-branded sweeper robots.

Home water solutions. Revenues from home water solutions decreased by 17.1% to RMB883.3 million in 2020 from RMB1,065.2 million in 2019, primarily due to the decreases in average selling prices, particularly of Xiaomi branded water purifier products. These effects were partially mitigated by the successful introduction of new series of Viomi-branded water purifier products.

Consumables. Revenues from consumables increased by 44.0% to RMB382.9 million in 2020 from RMB265.8 million in 2019, primarily due to the increased demand for our water purifier filter products.

Small appliances and others. Revenues from small appliances and others increased by 11.8% to RMB887.7 million in 2020 from RMB794.3 million in 2019, primarily due to new product introductions, together with increased demand for our small appliances products.

Cost of revenues

Our cost of revenues increased by 33.0% from RMB3,565.1 million in 2019 to RMB4,742.7 million in 2020, as a result of the overall growth of our business and relatively in line with the rapid growth of net revenues.

Gross profit

Our gross profit is generally steady, increasing by 0.1% from RMB1,082.4 million in 2019 to RMB1,083.0 million in 2020, largely as a result of decreases in average selling prices of certain product categories, such as water purifiers, which outweigh the increase in sales volume.

Our gross margin decreased from 23.3% to 18.6% for the same periods. The decline in gross margin was primarily due to the shifts in our business and product mix, together with structural industry-wide year-over-year decreases in average selling prices, in particular for water purifiers, primarily caused by more aggressive promotional campaigns and channel destocking initiatives due to COVID-19. As we have taken various cost control measures, alongside the launch of new products with higher margins as well as the optimization across product lines, we achieved a meaningful recovery on gross margin in the fourth quarter of 2020.

Operating Expenses

Our operating expenses increased by 15.4% from RMB807.2 million in 2019 to RMB931.8 million in 2020, primarily due to the rapid growth of our business and an increase in share-based compensation, partially offset by our continued implementation of expense control initiatives.

General and administrative. General and administrative expenses decreased by 5.7% from RMB73.1 million in 2019 to RMB68.9 million in 2020, primarily due to implementation of expense control initiatives, which offset an increase in share-based

compensation expenses of RMB4.0 million to attract and retain senior management personnel a significant decrease in share-based compensation expenses.

Research and development. Research and development expenses increased by 29.6% from RMB204.9 million in 2019 to RMB265.7 million in 2020, primarily due to an increase in share-based compensation expenses amounting to RMB26.4 million to attract and retain research and development personnel, and expenses associated with depreciation of molds for researching and developing amounting to RMB20.3 million.

Selling and marketing. Selling and marketing expenses increased by 12.8% from RMB529.2 million in 2019 to RMB597.2 million in 2020. This increase was primarily due to an increase in commission expenses amounting to RMB62.9 million as a result of the growth of our business, partially offset by the expense control measures implemented by our Company.

Income tax expenses

We had an income tax expenses of RMB45.2 million in 2019, and RMB43.3 million in 2020.

Net income

As a result of the foregoing, we recorded a net income of RMB174.4 million in 2020, compared to RMB293.8 million for 2019. Excluding the impact of share-based compensation expenses, our net income was RMB246.6 million in 2020, compared to RMB337.0 million for 2019.

Taxation

Cayman Islands

We are an exempted company incorporated in the Cayman Islands. The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of estate duty or inheritance tax. The Cayman Islands does not impose a withholding tax on dividend payments.

Hong Kong

Our subsidiary incorporated in Hong Kong is subject to Hong Kong profit tax. From the year of assessment 2018/2019 onwards, profits tax is imposed on corporations at the rate of 8.25% on assessable profits up to HK\$2,000,000; 16.5% on any part of assessable profits over HK\$2,000,000 and on unincorporated businesses at 7.5% on assessable profits up to HK\$2,000,000; and 15% on any part of assessable profits over HK\$2,000,000. No Hong Kong profit tax has been levied as we did not have an 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.

China

Generally, our PRC subsidiaries, variable interest entities and their subsidiaries, which are considered PRC resident enterprises under PRC tax law, are subject to enterprise income tax on their worldwide taxable income as determined under PRC tax laws and accounting standards at a rate of 25%. However, according to the PRC Enterprise Income Tax Law, the income tax of an enterprise that has been determined to be a high and new technology enterprise can be reduced to a preferential rate of 15%. Each of our WFOE II, Foshan Viomi and Guangdong Lizi has obtained High and New Technology Enterprise Certificate and is thus eligible to enjoy a preferential tax rate of 15%, to the extent it has taxable income under the PRC Enterprise Income Tax Law.

Dividends paid by our wholly foreign-owned subsidiary in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income with respect to Taxes on Income and Capital and receives approval from the relevant tax authority. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We may rely on dividends paid by our PRC subsidiaries to fund any cash and financing requirements we may have. Any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to holders of the ADSs and our ordinary shares.”

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 Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.”

For the foreseeable future, we intend to use all the undistributed earnings of our variable interest entities and their subsidiaries incorporated in the PRC for our business operations and do not plan to have our PRC subsidiaries distribute any dividend. Therefore, no withholding tax is expected to be incurred in the foreseeable future.

B. Liquidity and Capital Resources

Cash flows and working capital

To date, we have financed our operations primarily through cash generated by operating activities and historical equity financing activities. As of December 31, 2019, 2020 and 2021, we had cash and cash equivalents and restricted cash of RMB1,003.0 million, RMB574.7 million and RMB622.8 million (US\$97.7 million), respectively. Our cash and cash equivalents primarily consist of cash on hand, demand deposits and highly liquid investments placed with banks. We believe that our cash and cash equivalents and restricted cash and our anticipated cash flows from operations will be sufficient to meet our current and anticipated needs for general corporate purposes for at least the next 12 months.

Although we consolidate the results of our VIEs, we only have access to cash balances or future earnings of our VIEs through our contractual arrangements with them. See “Item 4. Information on the Company—C. Organizational Structure.” For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see “—Holding Company Structure.”

Substantially all of our net revenues have been, and we expect they are likely to continue to be, in the form of Renminbi. 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 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 approval of the SAFE by following certain routine procedural requirements. However, current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Each of our PRC subsidiary is required to set aside at least 10% of its after-tax profits after making up previous years’ accumulated losses each year, if any, to fund certain statutory reserve funds until the total amount set aside reaches 50% of its registered capital. In addition, it may allocate a portion of its after-tax profits based on PRC accounting standards to discretionary reserve funds at its discretion. These reserves are not distributable as cash dividends. Historically, our PRC subsidiaries have not paid dividends to us, and it will not be able to pay dividends until it generates accumulated profits. Furthermore, capital account transactions, which include foreign direct investment and loans, must be approved by and/or registered with the SAFE, its local branches and certain local banks.

The restricted net assets of our PRC subsidiaries and VIEs amounted to RMB31.4 million, RMB61.9 million and RMB112.6 million (US\$17.7 million) as of December 31, 2019, 2020 and 2021, respectively. The unrestricted portion, or amounts otherwise available for transfer in the form of dividends, loans or advances amounted to RMB1,012.3 million, RMB871.4 million and RMB1,022.0 million (US\$160.4 million) as of December 31, 2019, 2020 and 2021, respectively.

As a Cayman Islands exempted company and offshore holding company, we are permitted under PRC laws and regulations to provide funding to our wholly foreign-owned subsidiaries in China only through loans or capital contributions, subject to the approval of government authorities and limits on the amount of capital contributions and loans. In addition, our wholly foreign-owned subsidiaries in China may provide Renminbi funding to their respective subsidiaries through capital contributions and entrusted loans, and to our consolidated variable interest entities only through entrusted loans. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of our securities offering 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.”

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

	For the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
Selected Consolidated Cash Flow Data:				
Net cash provided by operating activities	245,484	185,196	308,968	48,485
Net cash used in investing activities	(268,956)	(433,083)	(265,321)	(41,636)
Net cash provided by/(used in) financing activities	48,542	(146,375)	17,133	2,687
Effect of exchange rate changes on cash and cash equivalents	8,087	(34,034)	(12,703)	(1,993)
Net increase in cash and cash equivalents and restricted cash	33,157	(428,296)	48,077	7,543
Cash and cash equivalents and restricted cash at the beginning of the year	969,848	1,003,005	574,709	90,186
Cash and cash equivalents and restricted cash at the end of the year	1,003,005	574,709	622,786	97,729

Operating activities

Net cash provided by operating activities was RMB309.0 million (US\$48.49 million) in 2021. The difference between net cash provided by operating activities and our net income of RMB88.9 million (US\$13.9 million) was primarily due to changes in working capital of RMB94.6 million (US\$14.8 million), and the adjustment of RMB72.4 million (US\$11.4 million) in depreciation and amortization and RMB47.4 million (US\$7.4 million) in share-based compensation. The changes in working capital were mainly due to a decrease in accounts receivable from a related party of RMB287.7 million (US\$45.1 million), a decrease in accounts and notes receivable from related parties of RMB99.9 million (US\$15.7 million) and an increase in accounts and notes payable of RMB67.7 million (US\$10.6 million), partially offset by an increase in inventories of RMB145.1 million (US\$22.8 million), a decrease in amounts due to related parties of RMB118.8 million (US\$18.6 million) and an increase in prepaid expenses and other current assets of RMB76.1 million (US\$12.0 million).

Net cash provided by operating activities was RMB185.2 million in 2020. The difference between net cash provided by operating activities and our net income of RMB174.4 million was primarily due to RMB130.5 million used for working capital, partially offset by the adjustment of RMB72.2 million in share-based compensation, RMB54.3 million in depreciation and amortization and RMB22.6 million in inventory write-down. The additional cash used for working capital were mainly due to a RMB118.4 million increase in accounts and notes receivable from third parties, a RMB64.1 million increase in other receivables from related parties, a RMB43.9 million increase in inventory, a RMB41.8 million decrease in accounts and notes payables, and a RMB23.5 million increase in prepaid expenses and other current assets, partially offset by a RMB99.1 million increase in amounts due to related parties, a RMB98.8 million increase in accounts receivable from a related party, a RMB17.4 million increase in income tax payables, and a RMB9.5 million increase in advances from customers. The increase in accounts and notes receivable and that in inventories were due to the rapid growth of our business. The accounts receivable from a related party represent sales receivable of products to Xiaomi, the decrease of which reflects our increased efforts in collecting the receivable. The amounts due to related parties represent the payable of purchasing products from Xiaomi and other related parties, the increase of which reflects the increase of product purchase from the related parties. The accounts and notes receivable from third parties represent sales receivable of products to certain leading e-commerce platforms, the increase of which reflects the growth of our sales to these e-commerce platforms as a result of the growth of our overall business. Other receivables from related parties represent the receivable from sales of Viomi-branded products on the e-platform of Xiaomi, the increase of which reflects the growth of our sales to this e-platform.

Net cash provided by operating activities was RMB245.5 million in 2019. The difference between net cash provided by operating activities and our net income of RMB293.8 million was primarily due to RMB121.1 million used for working capital, partially offset by the adjustment of RMB43.2 million in share-based compensation, RMB23.6 million in depreciation and amortization and RMB15.7 million in inventory write-down. The additional cash used for working capital were mainly due to a RMB206.5 million increase in accounts and notes receivable from third parties, a RMB447.0 million increase in accounts receivable from a related party, a RMB201.7 million increase in inventory, partially offset by a RMB88.4 million decrease in other receivables from related parties, a RMB494.7 million increase in accounts and notes payable, and a RMB122.6 million increase in accrued expenses and other liabilities. The increases in accounts and notes receivable and inventories were due to the rapid growth of our business. The accounts receivable from a related party represent sales receivable of products to Xiaomi, the increase of which reflected the growth of our Xiaomi business and sales to Xiaomi. The accounts and notes receivable from third parties represent sales receivable of products to certain leading e-commerce platforms, the increase of which reflected the growth of our sales to these e-commerce platforms as a result of the growth of our overall business.

Investing activities

We used RMB265.3 million (US\$41.6 million) in investing activities in 2021, mainly as a result of RMB1.8 billion (US\$281.9 million) used for the purchase of short-term investments, RMB164.8 million (US\$25.9 million) used for placement of

short-term deposits and RMB99.4 million (US\$15.6 million) used for the purchase of equipment, partially offset by RMB1.7 billion (US\$261.0 million) from the maturity of short-term investments.

We used RMB433.1 million in investing activities in 2020, mainly as a result of RMB3,256.2 million used for the purchase of short-term investments and RMB215.6 million used for placement of short-term deposit, partially offset by RMB2,874.2 million from the maturity of short-term investments and RMB215.0 million from maturities of short-term deposits.

We used RMB269.0 million in investing activities in 2019, mainly as a result of RMB812.1 million used for the purchase of short-term investments and RMB270.5 million used for placement of short-term deposit, partially offset by RMB670.2 million from the maturity of short-term investments and RMB212.0 million from maturities of short-term deposits.

Financing activities

Net cash provided by financing activities was RMB17.1 million (US\$2.7 million) in 2021, mainly as a result of proceeds from borrowing of RMB16.1 million (US\$2.5 million) and proceeds from exercise of vested share options of RMB12.9 million (US\$2.0 million), partially offset by a spending on the repurchase of our ordinary shares of RMB12.1 million (US\$1.9 million).

Net cash used in financing activities was RMB146.4 million in 2020, mainly as a result of RMB95.9 million payback of short-term borrowing, RMB54.6 million used in repurchases of ordinary shares, partially offset by proceeds from exercise of vested share options of RMB6.6 million.

Net cash provided by financing activities was RMB48.5 million in 2019, mainly as a result of RMB95.9 million net proceeds from short-term borrowing, partially offset by cash paid for dividends of RMB46.6 million.

Working capital turnover

Inventories

Our inventory consists of finished products and raw materials. As of December 31, 2019, 2020 and 2021, our inventory was RMB418.0 million, RMB439.4 million and RMB576.4 million (US\$90.4 million), respectively. The increase reflected the growth in our sales. Our inventory turnover days was 34 days, 33 days and 45 days for the years ended December 31, 2019, 2020 and 2021, respectively. Inventory turnover days for a given period are equal to average of the balances of inventories, net of allowance for doubtful accounts, at the beginning and the end of the period divided by cost of revenues during the period and multiplied by the number of days during the period.

Accounts and notes receivable

Our accounts and notes receivable represent primarily accounts receivable from Xiaomi as well as accounts and notes receivable from third parties. As of December 31, 2019, 2020 and 2021, our accounts and notes receivable, net of allowance for doubtful accounts, were RMB1,024.1 million, RMB1,036.4 million and RMB623.3 million (US\$97.8 million), respectively. Our total accounts and notes receivable as of December 31, 2021 included RMB320.9 million (US\$50.4 million) from Xiaomi and RMB199.6 million (US\$31.3 million) from e-commerce platforms. Our accounts and notes receivable turnover days were 55 days, 65 days and 57 days for the years ended December 31, 2019, 2020 and 2021, respectively. Accounts and notes receivable turnover days for a given period are equal to average of the balances of accounts and notes receivable, net of allowance for doubtful accounts, at the beginning and the end of the period divided by net revenues during the period and multiplied by the number of days during the period.

Accounts and notes payable

Our accounts and notes payable represent primarily accounts and notes payable to contract manufacturers. As of December 31, 2019, 2020 and 2021, our accounts and notes payable were RMB1,043.2 million, RMB1,001.4 million and RMB1,069.1 million (US\$167.8 million), respectively. The increase reflected the growth of our sales. Our accounts and notes payable turnover days were 83 days, 80 days and 92 days for the years ended December 31, 2019, 2020 and 2021, respectively. Accounts and notes payable turnover days for a given period are equal to average of the balances of accounts and notes payable, at the beginning and the end of the period divided by cost of revenues during the period and multiplied by the number of days during the period.

Material cash requirements

Our material cash requirements as of December 31, 2021 and any subsequent interim period primarily include our capital expenditures, contractual obligations and capital commitments.

Cash flow in connection with capital expenditures amounted to RMB68.6 million, RMB50.4 million, and RMB110.2 million (US\$17.3 million) in the years ended December 31, 2019, 2020 and 2021, respectively. These capital expenditures are incurred primarily in connection with the purchase of property and equipment, intangible assets, the construction of Viomi IoT Technology Park and other long-term assets. Our capital expenditures may increase in the future as our product offerings continue

to expand and diversify and as we continue to construct the Viomi IoT Technology Park. We currently plan to fund these expenditures with our current cash and cash equivalents, short-term investments and cash flow generated from our operating activities.

Our contractual obligations mainly represent operating lease obligations, which consist of the commitments under the lease agreements for our office premises and several factories. The following table sets forth our contractual obligations as of December 31, 2021.

	Payment Due by Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Operating lease obligation ⁽¹⁾	27,184	16,103	11,081	—	—

Note:

(1) Operating lease obligation consist of the commitments under the lease agreements for our office premises and several factories.

As of December 31, 2021, we had RMB116.5 million outstanding capital commitments, which are mainly related to the construction of Viomi IoT Technology Park.

We intend to fund our existing and future material cash requirements with our existing cash and cash equivalents, restricted cash, short-term investments and other financing alternatives. We will continue to make cash commitments, including capital expenditures, to support the growth of our business.

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, 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

Viomi Technology Co., Ltd is a holding company with no material operations of its own. We conduct our operations primarily through our VIEs and their subsidiaries in China. As a result, Viomi Technology Co., Ltd's ability to pay dividends depends upon dividends paid by our PRC and Hong Kong subsidiaries, our VIEs and their subsidiaries in China. If our existing subsidiaries or controlled entities or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiary in China is permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiary, our VIEs and their subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, each of our wholly foreign-owned subsidiary in China, our variable interest entities and their subsidiaries may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by the SAFE. Our PRC subsidiaries have not paid dividends and will not be able to pay dividends until it generates accumulated profits and sets aside statutory reserve funds as required by PRC law.

Recent Accounting Pronouncements

See Item 17 of Part III, "Financial Statements—Note 2—Significant accounting policies—Recently issued accounting pronouncements."

C. Research and Development, Patents and Licenses, Etc.

See "Item 4. Information on the Company—B. Business Overview—Research and Development" and "—Intellectual Property."

D. Trend Information

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

E. Critical Accounting Estimate

Critical Accounting Policies, Judgments and Estimates

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent assets and liabilities at the balance sheet date, and the reported revenue and expenses during the reported period in the consolidated financial statements and accompanying notes. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates. Some of our accounting policies require a higher degree of judgment than others in their application and require us to make significant accounting estimates.

The following descriptions of critical accounting policies, judgments and related critical estimates should be read in conjunction with our consolidated financial statements and accompanying notes and other disclosures included in this annual report. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Revenue recognition

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”) and subsequently, the FASB issued several amendments which amend certain aspects of the guidance in ASC 2014-09 (ASU No. 2014-09 and the related amendments are collectively referred to as “ASC 606”). According to ASC 606, revenue is recognized when control of the promised good or service is transferred to the customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We will enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns, and any taxes collected from customers, which are subsequently remitted to governmental authorities. We adopted ASC 606 for all periods presented.

Our revenue is primary derived from (i) IoT @ Home portfolio including sweeper robots, air conditioning systems and other smart devices, (ii) home water solutions, which are composed of smart water purification systems, (iii) consumable products complementary to our IoT-enabled smart home products, such as water purifier filters, and (iv) small appliances and others refer to the value-added businesses.

Sales to Xiaomi

During 2019 to 2021, we generated a substantial portion of our revenues from sales of products to Xiaomi.

Under the cooperation agreement entered into between Xiaomi and us, we are responsible for design, research, development, production and delivery of designated products using the brand name of “Xiaomi,” or Xiaomi-branded products, and Xiaomi is responsible for commercial distributions and sales. We also sell some Viomi-branded products to Xiaomi.

Revenue is recognized upon acceptance by this customer, which is considered at the time the control of the products is transferred to Xiaomi. Revenue does not meet the criteria to be recognized over time since (i) even if the products use “Xiaomi” brand, it does not require significant rework to make them suitable to be sold to other customers, (ii) under the cooperation agreement, we do not have the right of payment for the work performed to date.

For a majority of types of products sold to this customer, the selling price is a fixed amount as agreed by both parties. For other types of products sold to this customer, the sales arrangement includes two installment payments. The first installment is priced to recover the costs incurred by us in developing, producing and shipping the products to this customer and is payable to us upon acceptance by the customer after delivery. We are also entitled to receive a potential second installment payment calculated as certain portion of the future gross profits from commercial sales made by this customer. Accordingly, we determine the sales price as the fixed first installment payment plus the variable second installment payment to the extent that it is probable that revenue reversal will not occur when settling with the customer subsequently. We estimate the variable consideration using the expected value method. In assessing the variable second installment payment, we take into consideration the historical experience with the customer, selling price of the same or similar products as at the report date as well as the recent market trend. Water purifiers products were previously entitled to second instalment payments, but such second instalment payment arrangement has terminated since the first quarter of 2020.

Sales to third-party customers, including: sales to leading e-commerce platforms and offline experience stores; and sales to customers directly through the online platforms operated by Xiaomi, third parties and us

- Sales to leading e-commerce platforms and offline experience stores

Pursuant to the contracts between leading e-commerce platforms/offline experience stores (the “e-commerce platforms and stores”) and us, the e-commerce platforms and stores have legal title and physical possession of the products upon acceptance and they would bear the inventory risk of loss due to physical damage before the products are transferred and accepted by end customers. The e-commerce platforms and stores are responsible for delivering the products to end customers and can direct the use of the products and obtain the remaining benefits from the products by reselling the products. The e-commerce platforms and stores have flexibility in determining the retail sales price within relatively broad price range set by us. Based on these indicators, we determined the e-commerce platforms and stores (as opposed to the end customers) as its customers according to ASC 606-10-55-39. We recognize revenue equal to the sales price to the e-commerce platforms and stores when control of the inventory is transferred.

- Sales to customers directly through the online platforms operated by Xiaomi, third parties and us

Under the cooperation agreements entered between online platforms and us, the platforms’ responsibilities are limited to offering an online marketplace, while we are primarily obligated in a sales transaction and takes inventory risk and has latitude in determining prices. The platforms charged us commission fees at pre-determined amounts or a fixed rate based on the sales amounts. Commission fees are recognized as selling expenses. We determine the end customers (as opposed to the platforms) as its customers and recognize revenue equal to the sales price to the end customers when control of the inventory is transferred.

We provide installation service to end customers for designated Viomi-branded products without separate charge. The end customers have the right, not the obligation, to ask us to provide installation service. The installation service is considered being distinct and accounted for as a separate performance obligation as the products and installation services are not inputs into a combined item the end customer has contracted to receive. In addition, we do not provide any significant integration, modification, or customization services. It can fulfill its obligation to transfer each of the products or services separately. End customers do not always exercise their rights to ask for installation services as the installation may not be complicated and could be done by end customers themselves. Therefore, we expect to be entitled to a breakage amount in the contract liabilities related to installation services. We estimate the breakage portion based on historical customers’ requests and recognize estimated breakage as revenue in proportion to the pattern of rights exercised by end customers. The assessment of estimated breakage would be updated on a quarterly basis. Changes in estimated breakage should be accounted for by adjusting contract liabilities to reflect the remaining rights expected to be exercised.

Judgment is required to determine standalone selling price for each distinct performance obligation and we then allocate the arrangement consideration to the separate accounting of each distinct performance obligation based on its relevant standalone selling price. The standalone selling price of the products is determined based on adjusted market assessment approach by estimating the price the customer is willing to pay for the product without installation service. For the standalone selling price of the installation services, we determine it by referring to actual costs charged by the third-party vendors, plus an estimated profit margin of 5% based on consideration of both company specific and relevant market factors.

We recognize revenue for the sales to third-party customers in accordance with the applicable revenue recognition method for each of the distinct performance obligation identified. Sales of products is recognized upon acceptance by customers after delivery. Installation services revenues are recognized when the services are rendered.

Sales returns and sales incentives

- Sales to leading e-commerce platforms

Our sales to leading e-commerce platforms started in 2018. As stipulated in the contracts, slow-moving goods are those unsold products after they are controlled by the e-commerce platforms for more than 30 days or 45 days or 60 days, depending on the different categories of products. We shall coordinate with the e-commerce platforms to sell the slowing-moving products to end customers through promotions within 30 or 60 days, otherwise, the e-commerce platforms can (i) return such slow-moving products, or (ii) sell on discount as determined by the e-commerce platforms. We shall bear all losses caused by such discounted sales. Based on our history of cooperation with the e-commerce platforms and the pattern that the e-commerce platforms dealt with slow-moving goods, we estimate that slow-moving goods will be returned to us instead of being sold through discounted sales by the e-commerce platforms. Under ASC 606, a right of return is not a separate performance obligation, but it affects the estimated transaction price for transferred goods. Revenue is only recognized for those products that are not expected to be returned. The estimate of expected returns should be determined in the same way as other variable consideration. Based on historical information and other relevant evidence, including the expected sales and inventory level of the e-commerce platforms, we assess if it is probable there will be no significant reversal of cumulative revenue, and recognize those sales as revenue. We would update our estimate of expected returns at each period end. The expected return asset is presented and assessed for impairment separately from the refund liability. We will assess the expected return asset for impairment, and adjust the value of the asset if it becomes impaired.

Further, we might provide various consideration to the e-commerce platforms, such as gross margin guarantee, advertising and promotion fees, in the form of cash, or directly reducing amounts owed to us by the e-commerce platforms. We evaluate each type of incentives or fees to be paid in accordance with ASC 606. Considering that we either do not receive any service from the e-commerce platforms or cannot elect to engage another vendor to provide similar advertising services on a standalone basis, we reduce the transaction price for the sale of products by the amount of various consideration payable to the e-commerce platforms.

7 days unconditional sales return

Under the PRC Consumer Protection Law, end customers have an unconditional right to return the products purchased through online platforms within 7 days. We base our estimates of sales return on historical results. We may provide sales incentives in the forms of discounts to end customers through online platforms in a bundle transaction. Revenue, recognized on a net basis after such sales incentives, are allocated based on the relative standalone selling prices for respective products.

Warranty

We offer product warranty pursuant to standard product quality required by the PRC Consumer Protection Law. The warranty period is calculated starting from the date when products are sold to the end customers. We have the obligation, at the customer's sole discretion, to either repair or replace the defective product. The customers cannot separately purchase the warranty and the warranty doesn't provide the customer with additional service other than assurance that the product will function as expected. Therefore, these warranties are accounted for in accordance with ASC 460 Guarantees. At the time revenue is recognized, an estimate of warranty expenses is recorded. The reserves established are regularly monitored based upon historical experience and any actual claims charged against the reserve. Warranty reserves are recorded as cost of revenues.

Fair value per ordinary share

In determining the grant date fair value of our ordinary shares for purposes of recording share-based compensation expenses in connection with restricted shares owned by our founder, restricted shares owned by our founder on behalf of certain key management founders, under the 2015 Share Incentive Plan and 2018 Share Incentive Plan, we evaluated the use of three generally accepted valuation approaches: market, cost and income approaches to estimate the enterprise value of our company and income approach (discounted cash flow, or DCF method) was relied on for value determination with market approach (guideline companies method, or GCM) taken as reference.

DCF method of the income approach involves applying appropriate weighted average cost of capital, or WACC, to discount the future cash flows forecast, based on our best estimates as of the valuation date, to present value. The WACC was determined based on a consideration of the factors including risk-free rate, comparative industry risk, equity risk premium, company size and non-systematic risk factors.

GCM under the market approach was adopted as reference of the equity valuation for our company. GCM employs trading multiples method of selected public comparable companies including trailing and leading enterprise value/revenue multiples.

In deriving the equity value of each class of shares, we applied the option pricing method. The option pricing method treats different classes of shares as call options on the total equity value, with exercise prices based on the liquidation preference or redemption amount of the certain classes of shares. Under this method, the ordinary share has value only if the fund available for distribution to shareholders exceeds the value of liquidation preference or redemption amounts at the time of a liquidity event, assuming the enterprise has funds available to pay for liquidation preference or redemption. Given the nature of the different classes of shares, the modeling of different classes of capital as call options on company's enterprise value is analyzed and the values of different classes of shares were derived accordingly.

We also applied a discount for lack of marketability, or DLOM, which was quantified by the black-scholes option pricing model. Under this option-pricing method, which assumed that the put option is struck at the average price of the stock before the privately held shares can be sold, the cost of the put option was considered as a basis to determine the DLOM.

The determination of the equity value requires complex and subjective judgments to be made regarding prospects of the industry and the products at the valuation date, our projected financial and operating results, our unique business risks and the liquidity of our shares.

The following table sets forth the fair values of our ordinary shares estimated from July 1, 2016 to December 31, 2021:

Date of Valuation	Fair Value Per Share (US\$)	Discount of Lack of Marketability (DLOM)	Discount Rate
July 1 and 2, 2016	0.51	30%	18.3%
January 1, 2017	0.76	30%	17.2%
April 1, 2017	0.81	30%	17.0%
July 1, 2017	1.21	20%	15.6%
December 24, 2017	1.59	20%	15.5%
December 31, 2017	1.60	20%	15.5%
January 2, 2018	1.61	20%	15.5%
March 21, 2018	3.17	10%	14.8%
March 31, 2018	3.19	10%	14.8%
April 1, 2018	3.15	10%	14.8%
August 23, 2018	3.30	10%	14.3%

The increase in the fair value of our ordinary shares from US\$0.51 per share as of July 1, 2016 to US\$1.60 per share as of December 31, 2017 was primarily attributable to continuous organic growth of our business and more certainty over the timing of our initial public offering.

The determined fair value of our ordinary shares increased from US\$1.60 per share as of December 31, 2017 to US\$3.30 per share as of August 23, 2018. We believe the increase in the fair value of our ordinary shares was primarily attributable to the following factors:

- Two types of our products won the 2018 iF Product Design Award which contributed to a further increase of our products' market recognition and thus increase in sales;
- As we progressed towards an initial public offering, the lead time to an expected liquidity event decreased, resulting in a decrease of DLOM from 20% as of December 31, 2017 to 10% as of August 23, 2018;
- We adjusted our financial forecast to reflect the anticipated higher revenue growth rate, in particular the impact for the several series of new products launched in March 2018, and better financial performance in the future due to the abovementioned developments; and
- As a result of milestone events described above and the continuous growth of our business, the discount rate decreased from 15.5% as of December 31, 2017 to 14.3% as of August 23, 2018.

Share-based compensation

Share-based compensation expenses arise from share-based awards, mainly including restricted shares held by our founder or held by the founder on behalf of certain key management founders and share options for the purchase of ordinary shares ("Restricted Shares"). We account for share-based awards granted to the founder and employees in accordance with ASC 718 Stock Compensation.

Before the reorganization, the Restricted Shares held by our founders were subject to a repurchase feature under which Xiaomi shall purchase the interest held by our founders at the original investment amount if our founders voluntarily terminate their employment with Foshan Viomi. The Restricted Shares were classified as equity classified awards as the underlying shares of the awards are ordinary shares of Foshan Viomi and the awards do not contain any of the characteristics of liability awards described in ASC718. The Restricted Shares are accounted for as share-based compensation based on the grant date fair value over the vesting period.

After the reorganization completed in July 2015, the repurchase feature remains, however, it became our Company's right, and not the obligation, to repurchase. With respect to the remaining unvested interest granted to the founder on behalf of certain key management founders, the underlying shares changed from ordinary shares of Foshan Viomi to Class A Ordinary Shares of the Company. These shares remain to be equity classified awards as they do not contain any characteristics of a liability award and were continually accounted for as share-based compensation based on the grant date fair value over the remaining vesting period. With respect to the remaining unvested interest granted to the Founder, the underlying shares changed from ordinary shares of Foshan Viomi to redeemable class B ordinary shares of the Company, which are redeemable convertible shares. These awards have been reclassified as liability classified awards as the underlying class B ordinary shares are redeemable at a fixed price plus 6% interest per year at the option of the holder if there is no qualified IPO after a certain period of time. According to ASC718, such awards effectively consist of: (1) a liability component representing the company's obligation to pay the redemption price if the holder chooses to redeem, and (2) an equity component representing the fair value of the upside potential of the class B ordinary shares, measured using an option pricing model. At the time of the modification, the Company compared the fair value of

the original award immediately before the modification, and the total fair value of the liability component and the equity component immediately after the modification. The incremental compensation amount is recognized over the remaining vesting period. The amount related to the liability component is recorded as a liability measured at the redemption price, subsequently accreted at 6% per year to reflect the increase in redemption price over time according to the terms of the class B ordinary shares, until the award is settled. The liability award is considered settled only upon redemption or IPO, when the class B ordinary shares are converted to class A ordinary shares at which time, the redemption feature would expire.

Upon the completion of the IPO on September 25, 2018, all pre-IPO class B ordinary shares were converted into Class B ordinary shares, the liability award had been settled.

For share options for the purchase of ordinary shares granted to our employees determined to be equity classified awards, the related share-based compensation expenses are recognized in our consolidated financial statements based on their grant date fair values which are calculated using the binomial option pricing model. The determination of the fair value is affected by the share price as well as assumptions regarding a number of complex and subjective variables, including the expected share price volatility, actual and projected employee share option exercise behavior, risk-free interest rates and expected dividends. The fair value of our ordinary shares is assessed using the income approach/DCF method, with a DLOM, given that the shares underlying the awards were not publicly traded at the time of grant. Share-based compensation expenses are recorded net of estimated forfeitures using graded-vesting method during the service period requirement, such that expenses are recorded only for those share-based awards that are expected to ultimately vest.

Share options

On September 17, 2015, our board of directors approved the establishment of 2015 Share Incentive Plan, the purpose of which is to provide an incentive for employees contributing to us. The 2015 Share Incentive Plan shall be valid and effective for 10 years from the grant date. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under 2015 Share Incentive Plan shall be 12,727,272 shares.

In June 2018, our board of directors and shareholders approved the 2018 Share Incentive Plan. The maximum number of shares issuable under the 2018 Share Incentive Plan was 23,920,858 as of December 31, 2021.

We calculated the estimated fair value of the options on the respective grant dates using the binomial option pricing model. Assumptions used to determine the fair value of share options granted during 2019, 2020 and 2021 are summarized in the following table:

	2020	2021
Risk-free interest rate	2.20%~3.30%	2.88%~3.19%
Expected volatility	41.30%~43.62%	42.93%~43.41%
Expected life of option (years)	10	10
Expected dividend yield	—	—
Fair value per ordinary share	US\$1.04~US\$1.47	US\$0.84~US\$2.25

Risk-free interest rate. Risk-free interest rate was estimated based on the yield to maturity of China Government Bond with a maturity period close to the contractual term of the options.

Expected life of option (years). Expected life of option (years) represents the expected years to vest the options.

Volatility. The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical stock price volatility of comparable listed companies over a period comparable to the contractual term of the options.

Dividend yield. The dividend yield was estimated by us based on its expected dividend policy over the contractual term of the options.

Redeemable convertible preferred shares

Pursuant to a shares purchase agreement, we issued certain class B ordinary shares to Mr. Chen, Red Better and Shunwei during the reorganization, and we also issued a total of 18,181,818 shares of series A preferred shares.

We classified the series A preferred shares and class B ordinary shares as mezzanine equity in the consolidated balance sheets because they were redeemable at the holders' option any time after a certain date and were contingently redeemable upon the occurrence of certain liquidation events outside of our control. The series A preferred shares and class B ordinary shares are recorded initially at fair value, net of issuance costs.

Prior to the reorganization, the 40% initial equity interests of Foshan Viomi held by the founder for himself has liquidation preference, and the 40% initial equity interests of Foshan Viomi held by Tianjin Jinxing has liquidation preference and also becomes redeemable in the event of a breach of contract by Foshan Viomi.

Upon completion of the reorganization, both Mr. Chen and Tianjin Jinxing's equity interests in Foshan Viomi were exchanged into 67,636,364 class B ordinary shares of us, respectively. After the reorganization, the most significant change in the provision is the addition of redemption clause which allows the holders of the class B ordinary shares to redeem the class B ordinary shares if there is no qualified IPO after the fifth anniversary of the completion of the series A preferred share financing. This transaction was considered as an extinguishment of the previous equity interests and therefore, the class B ordinary shares are measured at their fair value on the extinguishment date.

We recognize changes in the redemption value ratable over the redemption period. Increases in the carrying amount of the redeemable preferred shares are recorded by charges against retained earnings, or in the absence of retained earnings, by charges as reduction of additional paid-in capital until additional paid-in capital is reduced to zero. Once additional paid-in capital is reduced to zero, the redemption value measurement adjustment is recognized as an increase in accumulated deficit.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

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

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Xiaoping Chen	47	Founder, Chairman of the Board of Directors and Chief Executive Officer
De Liu	48	Director
Jinling Zhang	50	Independent Director
Weijiang Wu	45	Independent Director
Jun Li	43	Independent Director

Mr. Xiaoping Chen is our founder, and has served as the chairman of our board of directors and chief executive officer since our inception. Mr. Chen founded our company in May 2014. Prior to that, he served multiple positions in Midea Group Co., Ltd from 1999 to 2014, including vice president of development department and he was in charge of the research & development center from 2013 to 2014. Mr. Chen received his MBA degree from Sun Yat-sen University, and his dual bachelor's degrees in engineering and finance from Huazhong University of Science & Technology in 1998.

Mr. De Liu has served as our director since June 2018. Mr. Liu is one of the cofounders and a senior vice president of Xiaomi, where he is responsible for the organization department. He currently also serves as a director of Huami Corporation, a NYSE-listed company (NYSE: HMI). Mr. Liu is a leading figure in industrial design in China and has received numerous industrial design awards together with his team, including 5 Red Dot Design Awards (Germany), 18 iF Design Awards (Germany) and 10 Red Star Design Awards (Mainland, China). Mr. Liu also holds various positions, including the vice-chairman of China Industrial Design Association and a member of National Manufacturing Strategy Advisory Committee. Mr. Liu has received many honors in the business world as well. To name a few, he was awarded "Zhongguancun Top Talent" in 2015 and "Beijing Top Innovative and Entrepreneurial Leading Talent" in 2016. Mr. Liu received his bachelor's degree in industrial design and master's degree in mechanical design and theory from Beijing Institute of Technology in 1996 and 2001, respectively, and his master's degree in industrial design from the Art Center College of Design in 2010.

Ms. Jinling Zhang has served as our independent director since September 2018. Ms. Zhang has served as the managing partner and chief financial officer of Baidu Venture since November 2020 and the chief financial officer of Baidu Capital since 2018. Prior to her current role at Baidu Capital, Ms. Zhang served as the vice president of Baidu Group in 2017, the vice president of finance and investment of Xiaomi from 2013 to 2016, as the financial controller of Cisco Networks Asia Pacific in Japan and Greater China from 2010 to 2013, and as the financial and operational controller of global operations in Seagate Technology from 2006 to 2010. Ms. Zhang received her bachelor's degree in accounting from Capital University of Economics and Business in 1994, and her MBA from William E. Simon Business School of the University of Rochester in 2001. Ms. Zhang is a Chinese Certified Public Accountant, a Chinese Certified Tax Adviser and an American Certified Public Accountant.

Mr. Weijiang Wu has served as our independent director since September 2018. Mr. Wu has been the vice president of Zhejiang Youpon Integrated Ceiling Co., Ltd., a Shenzhen Stock Exchange listed company, since March 2010, and served several senior roles in charge of marketing and strategies from 2005 to 2009. Prior to his roles in Zhejiang Youpon Tegrated Ceiling Co., Ltd., Mr. Wu served as assistant to marketing manager in Guangdong Oppl Lighting Co., Ltd. From 2003 to 2004, and the chief of the franchising department in Guangdong Vatti Group from 2001 to 2002. Mr. Wu received his bachelor's degree in engineering from Huazhong University of Science & Technology in 1998.

Mr. Jun Li has served as our independent director since September 2019. Mr. Li is a professor, Ph. D. supervisor, and the Deputy Dean of College of Engineering in South China Agricultural University. Prior to joining South China Agricultural University in July 2007, Mr. Jun Li served as the sales and services manager in Wuyang-Honda Motors (Guangzhou) Co., Ltd from July 1998 to August 2002. Mr. Jun Li received his master's degree in mechatronic engineering in 2004 and his doctor's degree in vehicle engineering in 2007, both from South China University of Technology.

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause, at any time, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, dishonest acts to our detriment, misconduct or continued failure to perform agreed duties, or willful misconduct or gross negligence in performing the duties. We may also terminate an executive officer's employment without cause upon 60-day advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as may be agreed between us and the executive officer. The executive officer may resign at any time with a 60-day advance written notice.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the

employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer's employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for one year following the termination of employment. Specifically, each executive officer has agreed not to (i) approach our suppliers, clients, customers or contacts or other persons or entities introduced to the executive officer in his or her capacity as a representative of us for the purpose of doing similar business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors, without our express consent; (iii) seek directly or indirectly, to solicit the services of any of our employees who is known to be employed or engaged by us; or (iv) otherwise interfere with our business or accounts.

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 certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

B. Compensation of Directors and Executive Officers

In 2021, we paid an aggregate of approximately RMB3.8 million (US\$0.6 million) in cash to our executive officers, and RMB1.1 million (US\$0.2 million) to our independent directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our directors and executive officers. Our PRC subsidiaries and VIEs 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.

2015 Share Incentive Plan

In September 2015, our shareholders and board of directors adopted the 2015 Share Incentive Plan, which we refer to as the 2015 Plan in this annual report, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. The maximum aggregate number of ordinary shares that may be issued pursuant to all awards under the 2015 Plan is 12,727,272 shares. As of December 31, 2021, awards to purchase 5,160,254 ordinary shares have been granted and are outstanding under the 2015 Plan, excluding awards that were exercised, forfeited or cancelled after the relevant grant dates.

The following paragraphs summarize the terms of the 2015 Plan.

Types of Awards. The 2015 Plan permits the awards of options and restricted shares.

Plan Administration. The board of directors or one or more committees designated by the board of directors or another committee, within its delegated authority, acts as the plan administrator. The plan administrator will determine the participants who are to receive awards, the type or types of awards to be granted, the number of awards to be granted, and the terms and conditions of each award grant. The plan administrator can amend outstanding awards and interpret the terms of the 2015 Plan and any award agreement.

Award Agreement. Awards granted under the 2015 Plan are evidenced by an award agreement that sets forth the terms and conditions for each grant. The award agreements evidencing options shall contain the terms established by the Administrator for that Award, as well as any other terms, provisions, or restrictions that the administrator may impose on the option or any ordinary shares subject to the option.

Exercise of Awards. The exercise price of an award will be determined by the plan administrator, which will be specified in applicable award agreement. Each option shall expire not more than 10 years after its date of grant.

Eligibility. We may grant awards to our officers, employees, consultants, and all members of the board of directors.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is set forth in the relevant award agreement.

Transfer Restrictions. Awards may not be transferred in any manner by the recipient other than by will or the laws of descent and distribution, except as otherwise provided by the plan administrator.

Termination. The plan shall terminate in September 2025, provided that our board of directors may terminate the plan at any time and for any reason.

2018 Share Incentive Plan

In June 2018, our shareholders and board of directors adopted the 2018 Share Incentive Plan, which we refer to as the 2018 Plan in this annual report, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. The maximum aggregate number of shares which may be issued pursuant to all awards is 17,672,728, plus an annual increase on the first day of each of the fiscal years of the Company after the completion of our initial public offering during the term of this Plan commencing, by (i) an amount equal to 1% of the total number of the then outstanding shares or (ii) such fewer number of Shares as may be determined by the Board. As of December 31, 2021, the maximum of shares that may be issued under the 2018 Share Incentive Plan was 23,920,858. As of December 31, 2021, awards to purchase 17,066,084 ordinary shares have been granted and are outstanding under the 2018 Plan, excluding awards that were forfeited or cancelled after the relevant grant dates.

The following paragraphs summarize the terms of the 2018 Plan.

Types of Awards. The Plan permits the awards of options, restricted shares and restricted share units.

Plan Administration. The board of directors or a committee designated by the board of directors or another committee, within its delegated authority, acts as the plan administrator. The plan administrator will determine the participants who are to receive awards, the type or types of awards to be granted, the number of awards to be granted, and the terms and conditions of each award grant. The plan administrator can amend outstanding awards and interpret the terms of the 2018 Plan and any award agreement.

Award Agreement. Awards granted under the 2018 Plan are evidenced by an award agreement that sets forth the terms and conditions for each grant. The award agreements evidencing awards shall contain the terms established by the Administrator for that Award, as well as any other terms, provisions, or restrictions that the administrator may impose on the option or any ordinary shares subject to the option.

Exercise of Options. The exercise price per share subject to an option will be determined by the committee, which will be specified in applicable award agreement.

Eligibility. We may grant awards to our employees, consultants, and directors, as determined by the committee.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is set forth in the relevant award agreement.

Transfer Restrictions. Awards may not be transferred in any manner by the recipient other than by will or the laws of descent and distribution, except as otherwise provided by the plan administrator.

Termination and Amendment of the 2018 Plan. The 2018 Plan has a term of ten years, provided that our board of directors may terminate or amend the plan at any time and for any reason. However, no such action may adversely affect in any material way any awards previously granted unless agreed by the recipient.

The following table summarizes, as of December 31, 2021, the awards granted under the 2015 Plan and 2018 Plan to our directors and executive officers, excluding awards that were forfeited or cancelled after the relevant grant dates.

Name	Ordinary Share Underlying Options	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Chen Xiaoping	*	1.1	May 6, 2020	April 1, 2030

Note:

* Less than 1% of our total outstanding shares.

As of December 31, 2021, other employees as a group held outstanding options to purchase 21,226,338 ordinary shares of our company, at a weighted average exercise price of US\$0.78 per share.

Shares awarded to Mr. Xiaoping Chen

In August 2018, we issued 4,000,000 class A ordinary shares at par value to Mr. Xiaoping Chen's wholly owned entity Viomi Limited to award his contribution to our company's rapid development. Such shares were immediately vested. The issuance of such shares is accounted for as a share-based compensation to Mr. Xiaoping Chen. The share-based compensation expenses related to this one-off share award was RMB90.2 million.

C. Board Practices

Our board of directors consists of five directors. A director is not required to hold any shares in our company by way of qualification. A director may vote with respect to any contract, proposed contract, transaction or proposed transaction in which he is interested provided (a) such director has declared the nature of his interest at meeting of the board at which such contract or transaction or proposed contract or transaction shall come before the meeting for consideration, either specifically or by way of a general notice, (b) such director has not been disqualified by the chairman of the relevant board meeting, and (c) if such contract or arrangement is a transaction with a related party, such transaction has been approved by the audit committee in accordance with the Nasdaq rules. The directors may from time to time at their discretion exercise all the powers of the company to raise or borrow money, mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof, to issue debentures, debenture stock, bonds or other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

Committees of the Board of Directors

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

Audit Committee. Our audit committee consists of Ms. Jinling Zhang and Mr. Jun Li. Ms. Jinling Zhang is the chairman of our audit committee. We have determined that Ms. Jinling Zhang and Mr. Jun Li satisfy the "independence" requirements of Rule 5605(c)(2) of the Listing Rules of the Nasdaq and Rule 10A-3 under the Exchange Act. We have determined that Ms. Jinling Zhang qualifies as an "audit committee financial expert." 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:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation Committee. Our compensation committee consists of Mr. Xiaoping Chen, Ms. Jinling Zhang and Mr. Weijiang Wu. Ms. Jinling Zhang is the chairman of our compensation committee. We have determined that Ms. Jinling Zhang and Mr. Weijiang Wu satisfy the "independence" requirements of Rule 5605(c)(2) of the Listing Rules of the Nasdaq. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

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

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of Mr. Xiaoping Chen, Ms. Jinling Zhang and Mr. Weijiang Wu. Mr. Xiaoping Chen is the chairman of our nominating and corporate governance committee. Ms. Jinling Zhang and Mr. Weijiang Wu satisfy the “independence” requirements of Rule 5605(c)(2) of the Listing Rules of the Nasdaq. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

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

Duties of Directors

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly, and a duty to act in what they consider in good faith to be in 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 skills they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. 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. In certain limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders’ annual and extraordinary general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares in our company, including the registration of such shares in our share register.

Terms of Directors and Officers

Our officers are appointed by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they are removed from office by ordinary resolution of the shareholders or by the board. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies, or is found by our company to be or becomes of unsound mind; (iii) resigns his office by notice in writing to the company, (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our board of directors resolve that his office be vacated; or (v) is removed from office pursuant to any other provision of our memorandum and articles of association.

Board Diversity Matrix

The board diversity matrix below sets forth the information on each director's voluntary self-identified characteristics pursuant to Rule 5606 of the Listing Rules of Nasdaq.

Board Diversity Matrix As of February 28, 2022				
Country of Principal Executive Offices:	PRC			
Foreign Private Issuer	Yes			
Disclosure Prohibited Under Home Country Law	No			
Total Number of Directors	5			
	Female	Male	Non-Binary	Did Not Disclose Gender
Part I: Gender Identity	1	4	0	—
Part II: Demographic Background				
Underrepresented Individual in Home Country Jurisdiction	—			
LGBTQ+	—			
Did Not Disclose Demographic Background	—			

D. Employees

We had 1,470 employees as of December 31, 2021. The following table sets forth the numbers of our employees categorized by function as of December 31, 2021:

	As of December 31, 2021
Function:	
Research and development	583
Manufacturing	334
Sales and marketing	465
General administration	88
Total	<u>1,470</u>

We invest significant resources in the recruitment and training of our employees in support of our fast-growing business operations. We have a variety of training programs.

As required by laws and regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including housing, pension, medical insurance, childbirth insurance, work-related injury insurance, employment injury insurance, maternity insurance and unemployment insurance. We are required under PRC law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

We enter into standard confidentiality and employment agreements with our key employees. The agreements with our key personnel typically include standard non-compete covenants that prohibit the employee from competing with us, directly or indirectly, during his or her employment and for two years after the termination of his or her employment, provided that we pay compensation equal to a certain proportion of his or her pre-departure salary on a monthly basis during the restriction period.

We believe that we maintain a good working relationship with our employees, and we have not experienced any material labor disputes.

E. Share Ownership

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our shares as of February 28, 2022 by:

- each of our directors and executive officers; and
- each of our principal shareholders who beneficially own 5% or more of our total outstanding shares on an as-converted basis.

The calculations in the table below are based on 208,695,326 ordinary shares outstanding, consisting of 105,480,779 Class A ordinary shares (excluding 13,849,185 Class A ordinary shares that were issued to our depository bank and reserved for future grants under our share incentive plans) and 103,214,547 Class B ordinary shares outstanding as of February 28, 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 and voting power 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.

	Ordinary Shares Beneficially Owned			
	Class A Ordinary Shares	Class B Ordinary Shares	% of total ordinary shares	% of aggregate voting power**
Directors and Executive Officers*:				
Xiaoping Chen ⁽¹⁾	2,819,558	68,796,364	34.3%	60.7%
De Liu	—	—	—	—
Jinling Zhang	—	—	—	—
Weijiang Wu	—	—	—	—
Jun Li	—	—	—	—
All Directors and Executive Officers as a Group	2,819,557	68,796,364	34.3%	60.7%
Principal Shareholders:				
Viomi Limited ⁽²⁾	2,200,000	67,636,364	33.5%	59.6%
Shunwei Talent Limited ⁽³⁾	32,111,364	—	15.4%	2.8%
Red Better Limited ⁽⁴⁾	330,000	33,818,182	16.4%	29.8%

Notes:

* Unless otherwise stated, the business address of our directors and executive officers is Wansheng Square, Rm 1302 Tower C, Xingang East Road, Haizhu District, Guangzhou, Guangdong, Guangdong, 510220, People's Republic of China. Mr. De Liu's business address is Xiaomi Campus, No. 33 Xierqi Middle Road, Haidian District, Beijing, 100085, China.

** For each person or group included in this column, percentage of total voting power represents voting power based on both Class A and Class B ordinary shares beneficially owned by such person or group with respect to all outstanding shares of our Class A and Class B ordinary shares as a single class. Each holder of Class A ordinary shares is entitled to one vote per share. Each holder of our Class B ordinary shares is entitled to ten votes per share. Our Class B ordinary shares are convertible at any time by the holder into Class A ordinary shares on a one-for-one basis.

- (1) Represents (i) 2,200,000 Class A ordinary shares and 67,636,364 Class B ordinary shares beneficially owned by Viomi Limited, a British Virgin Islands company, (ii) 1,160,000 Class B ordinary shares and 219,558 Class A ordinary shares in the form of ADS beneficially owned by certain employees, and (iii) 400,000 Class A ordinary shares in the form of ADSs issuable pursuant to options exercisable within 60 days following February 28, 2022. Viomi Limited is wholly owned by a trust established for the benefit of Mr. Xiaoping Chen and his family. The abovementioned certain employees granted an irrevocable voting proxy for all their ordinary shares to Mr. Xiaoping Chen.
- (2) Represents 67,636,364 Class B ordinary shares and 2,200,000 Class A ordinary shares held by Viomi Limited, a British Virgin Islands company. Viomi Limited is wholly owned by Mr. Xiaoping Chen. The registered address of Viomi Limited is NovaSage Incorporation (BVI) Limited of NovaSage Chambers, P.O. Box 4389, Road Town, Tortola, British Virgin Islands.
- (3) Represents 32,111,364 Class A ordinary shares held by Shunwei Talent Limited. Information regarding beneficial ownership is reported as of December 31, 2021, based on the information contained in the Schedule 13G/A filed by Shunwei Talent Limited with SEC on February 9, 2021. The registered address of Shunwei Talent Limited is Vistra Corporate Services Center, Wickhams Cay II, Road Town, Tortola, VG 1110, British Virgin Islands. Shunwei Talent Limited is wholly owned by Shunwei China Internet Fund II, L.P. The general partner of Shunwei China Internet Fund II, L.P. is Shunwei Capital Partners II GP, L.P., and the general partner of Shunwei Capital Partners II GP, L.P. is Shunwei Capital Partners II GP Limited, which is controlled by Mr. Koh Tuck Lye.
- (4) Represents 33,818,182 Class B ordinary shares and 330,000 Class A ordinary shares in the form of ADSs held by Red Better Limited, a British Virgin Islands liability limited company. Information regarding beneficial ownership is reported as of December 31, 2018, based on the information contained in the Schedule 13G filed by Red Better Limited with SEC on February 1, 2019. The address of Red Better Limited is Jayla Place, Wickhams Cay I, Road Town, Tortola, British Virgin Islands. Red Better Limited is wholly owned by Fast Pace Limited, a British Virgin Islands company wholly owned by Xiaomi Corporation.

To our knowledge, as of February 28, 2022, 117,129,960 of our Class A ordinary shares were held by one record holder in the United States, which is the depository of our ADS program. As of February 28, 2022, none of our Class B ordinary shares are held by U.S. record holders. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

B. Related Party Transactions

Contractual Arrangements with Our VIEs and Their Respective Shareholders

See “Item 4. Information on the Company—C. Organizational Structure.”

Shareholders Agreement and Investor Rights Agreement

Shareholders agreement and registration rights

We entered into a shareholders agreement on July 21, 2015 with our shareholders, which consist of holders of ordinary shares and preferred shares. The shareholders agreement provides for certain special rights, including right of first refusal, co-sale rights, preemptive rights and contains provisions governing the board of directors and other corporate governance matters. Those corporate governance provisions, as well as special rights, except the registration rights, have automatically terminate upon the completion of our initial public offering.

Registration rights granted to shareholders

We have granted certain registration rights to our shareholders under the shareholders agreement. Set forth below is a description of the registration rights.

Demand Registration Rights. At any time after the earlier of (i) July 21, 2021 or (ii) one year following the closing of an initial public offering, holders of at least 25% of the redeemable convertible class B ordinary shares and preferred shares (or ordinary shares issued on the conversion of redeemable convertible class B ordinary shares and preferred shares) then outstanding has the right to demand that we file a registration statement covering at least 20% (or any lesser percentage if the anticipated gross proceeds to us from such proposed offering would exceed US\$5.0 million) of the registrable securities. We have the right to defer filing of a registration statement for a period of not more than 90 days (except for a registration statement on Form F-3, which shall be 60 days) after the receipt of the request of the initiating holders if we furnish to the holders requesting registration a certificate signed by our president or chief executive officer stating that in the good faith judgment of our board of directors, it would be materially detrimental to us and our shareholders for such registration statement to be filed at such time. However, we cannot exercise the deferral right more than once in any 12-month period. We are obligated to effect no more than two demand registrations, other than demand registration to be effected pursuant to registration statement on Form F-3, for which an unlimited number of demand registrations shall be permitted.

Piggyback Registration Rights. If we propose to file a registration statement for a public offering of our securities, we must offer our shareholders an opportunity to include in the registration all or any part of the registrable securities held by such holders. If the managing underwriters of any underwritten offering determine in good faith that marketing factors require a limitation of the number of shares to be underwritten, the managing underwriters may exclude shares from the registration and the underwriting, and the number of shares that may be included in the registration and underwriting shall be allocated first, to us, second to each of the holders requesting inclusion of their registrable securities on a pro rata basis, and third to holders of other securities of us.

Form F-3 Registration Rights. Our shareholders may request us in writing to file an unlimited number of registration statements on Form F-3 so long as such registration offerings are in excess of US\$500,000. We shall effect the registration of the securities on Form F-3 as soon as practicable, except in certain circumstances.

Expenses of Registration. We will bear all registration expenses, other than selling expenses, underwriting discounts and commissions, and fees for special counsel of the holders participating in such registration, incurred in connection with any demand, piggyback or Form F-3 registration.

Termination of Registration Rights. Our shareholders’ registration rights will terminate on the earlier of (i) the date that is the fifth anniversary of the closing of our initial public offering, (ii) upon our termination, liquidation, dissolution, and liquidation event and (iii) with respect to any shareholder, when the registrable securities proposed to be sold by such shareholder may then be sold without registration in any 90-day period pursuant to Rule 144 under the Securities Act.

Employment Agreements and Indemnification Agreements

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

Share Incentive Plans

See “Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—2015 Share Incentive Plan” and “2018 Share Incentive Plan.”

Private Placements

In August 2018, we issued 4,000,000 class A ordinary shares to Mr. Xiaoping Chen’s wholly-owned entity Viomi Limited to award his contribution to our company’s rapid development.

Our Relationship with Xiaomi

Xiaomi is our strategic partner, shareholder and customer. Our strategic partnership with Xiaomi provides us access to Xiaomi’s ecosystem users, sales platforms and data resources and related support. Meanwhile, our strong research and development capabilities, supply chain resources and innovative products and services are able to enrich Xiaomi’s suite of offerings, resulting in a mutually beneficial relationship between Xiaomi and us. Our cooperation with and sales to Xiaomi extends to a diversified range of products, which currently include Xiaomi-branded water purification systems, water purifier filters, range-hoods and gas stoves, dishwashers, sweeper robots, blenders as well as other complimentary products such as kettles and water quality meters. Since the third quarter of 2021, we have started to largely scaled back the supply of Xiaomi-branded sweeper robots, while maintaining cooperation in other categories we have reached.

Under our cooperation agreement with Xiaomi, we are responsible for the design, research, development, production and delivery of various Xiaomi-branded products to Xiaomi. Xiaomi is then responsible for commercial distributions and sales. For certain products under our cooperation with Xiaomi, the selling price is a fixed amount as agreed by both parties. For other products, we first recover our manufacturers and logistics cost when we deliver to Xiaomi, and are additionally entitled to share a portion of the gross profit when Xiaomi is successful in selling such products to end consumers. A business cooperation agreement provides the terms and conditions of the latter pattern.

We also sell products through Xiaomi’s online e-commerce channel, Youpin, and are charged of commissions pursuant to a commission sales agreement.

In 2021, revenues generated from sales to Xiaomi, predominantly comprising Xiaomi-branded products, was RMB2,295.6 million (US\$360.2 million), accounting for 43.3% of our net revenues.

Business cooperation agreement

The current business cooperation agreement entered into in 2017 with Xiaomi governs the design, production and sales to Xiaomi in relation to certain specified product categories, including some SKUs of Xiaomi-branded water purification systems, water purifier filters, as well as other complementary products such as kettles and water quality meters. This contract contains an auto-renewal provision, and was most recently renewed in September 2021 for two years. This agreement can be terminated earlier by Xiaomi, among other reasons, if (i) we breach the material obligation underlying this agreement and purchase order, (ii) except as prohibited by applicable bankruptcy laws, we declare bankruptcy, or if we are unable to repay due loans, or perform contracts, or if our assets are transferred to or taken by other creditors, (iii) the products fail to meet Xiaomi’s requirements, and Xiaomi determines that there is no value to remedy or the products still fail the requirement after three times’ remedies, (iv) we fail to deliver the products on time without reasonable cause and Xiaomi’s prior written consent, and (v) we fail to store the data to clouds designated by Xiaomi, cause disputes of violating users’ personal information, or disclose user data to any third party without Xiaomi’s consent.

Under the business cooperation agreement, (i) these products are exclusively designed for and can only be sold to Xiaomi, (ii) Xiaomi shall purchase these products at a price that covers all of our costs of raw materials, outsourcing manufacture, models and logistics, in connection with the manufacture and delivery of these products, and (iii) Xiaomi and we shall share gross profits, derived from sales of these products, the retail prices of which were set by Xiaomi and us together.

Regarding the intellectual property, Xiaomi by itself owns all industrial designs generated from the process of design, development, manufacturing and sales of the products we sell to Xiaomi. Xiaomi and we have joint ownership over all other technology properties and related intellectual properties generated from the process of design, development, manufacturing and sales of these products.

Regarding user data, we shall share with Xiaomi user data collected in relation to the respective Xiaomi-branded products. We can share or license user data to third parties only after we obtain Xiaomi's prior written consent. After the user data of Xiaomi-branded products reaches certain threshold, Xiaomi will also need to obtain our consent before making it available for use by any third party.

Youpin commission sales agreement

We have entered into a commission sales agreement with Xiaomi for the sale of our own branded products on Youpin. The commission sales agreement expired on December 31, 2021 and has been renewed up to December 31, 2022. Furthermore, this agreement may be terminated by Xiaomi with 30 days' written notice.

Under the commission sales agreement, we shall pay a service fee, calculated as certain portion of the sales price excluding customers' refunds or as otherwise agreed by the parties with respect to specific product lines, as well as a deposit to Xiaomi. The retail prices of our products on Youpin's platform shall be no higher than the sales price from any other e-commerce merchants or our official offline sales channel, including in the event of sales or promotion.

Transaction with Xiaomi

In 2021, we recorded RMB2,295.6 million (US\$360.2 million) in revenues from Xiaomi primarily for the sales of Xiaomi-branded products. As of December 31, 2021, the amount due from Xiaomi was RMB409.3 million (US\$64.2 million).

In 2020, we recorded RMB2,889.4 million in revenues from Xiaomi primarily for the sales of Xiaomi-branded products. As of December 31, 2020, the amount due from Xiaomi was RMB697.1 million.

In 2019, we recorded RMB2,112.2 million in revenues from Xiaomi primarily for the sales of Xiaomi-branded products. As of December 31, 2019, the amount due from Xiaomi was RMB731.9 million.

We purchased RMB43.0 million, RMB50.8 million and RMB33.8 million (US\$5.3 million) of products and services from Xiaomi in 2019, 2020 and 2021, respectively. We recognized RMB81.9 million, RMB97.2 million and RMB106.9 million (US\$16.8 million) in commission fees and other expenses to Xiaomi in 2019, 2020 and 2021, respectively, which was incurred by selling our own self-branded products on Youpin.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

We are currently not a party to any material legal or administrative proceedings. We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. For instance, please refer to "Item 3. Key Information—D. Risk Factors—Risk Related to Our Business and Industry—We may encounter claims alleging our infringement of third-party intellectual properties from time to time" for information of certain such litigation. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management's time and attention.

Dividend Policy

Our board of directors has discretion on whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. In either case, all dividends are subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. Even if we decide to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

On March 18, 2019, our board of directors declared a special cash dividend of US\$0.0333 per ordinary share (or US\$0.1 per ADS) on our outstanding ordinary shares. Going forward, we intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. We do not have any present plan to pay regular cash dividends on our ordinary shares in the foreseeable future.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China 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—B. Business Overview—Regulation—Regulation on Dividend Distributions.”

If we pay any dividends on our Class A ordinary shares, we will pay those dividends which are payable in respect of the Class A ordinary shares underlying our ADSs to the depositary, as the registered holder of such Class A ordinary shares, and the depositary then will pay such amounts to our ADS holders in proportion to 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. Cash dividends on our Class A ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

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

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

Our ADSs, each representing three Class A ordinary shares of ours, have been listed on the Nasdaq Stock Market since September 25, 2018 under the symbol “VIOT.”

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing three Class A ordinary shares of ours, have been listed on the Nasdaq Stock Market since September 25, 2018 under the symbol “VIOT.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our memorandum and articles of association and of the Companies Act of the Cayman Islands, or the Companies Act, insofar as they relate to the material terms of our ordinary shares.

Objects of Our Company. Under our memorandum and articles of association, the objects of our company are unrestricted and we have the full power and authority to carry out any object not prohibited by the Cayman Islands law.

Ordinary Shares. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares will have the same rights except for voting and conversion rights. Our ordinary shares are issued in registered form and are issued when registered in our register of shareholders. We may not issue shares to bearer. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Conversion. 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. Upon any sale, transfer, assignment or disposition of any Class B ordinary share by Mr. Xiaoping Chen or Viomi Limited to any person who is not Mr. Chen Xiaoping or his affiliate(s), or upon a change of ultimate beneficial ownership of any Class B ordinary share to any person who is not Mr. Xiaoping Chen or his affiliate(s), such Class B ordinary share shall be automatically and immediately converted into one Class A ordinary share. Upon any sale, transfer, assignment or disposition of any Class B ordinary share by a shareholder other than Mr. Xiaoping Chen or his affiliate(s) to any person, such Class B ordinary share shall be automatically and immediately converted into one Class A ordinary share.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors. In addition, our shareholders may declare dividends by ordinary resolution, but no dividend shall exceed the amount recommended by our directors. Our memorandum and 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 funds legally available for distribution. Under the laws of the Cayman Islands, our company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

Voting Rights. In respect of all matters subject to a shareholders' vote, each holder of Class A ordinary shares is entitled to one vote per share and each holder of Class B ordinary shares is entitled to ten votes per share on all matters subject to vote at our general meetings. Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law. Voting at any shareholders' meeting is by show of hands unless a poll is demanded (before or on the declaration of the result on a show of hands). A poll may be demanded by the chairman of such meeting or any shareholder present in person or by proxy.

General Meetings of Shareholders. As a Cayman Islands exempted company, we are not obliged by the Companies Act to call shareholders' annual general meetings. Our 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 shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors.

Shareholders' general meetings may be convened by the chairman of our board of directors or a majority of our board of directors (acting by a resolution of the board of directors). Advance notice of at least seven calendar days is required for the convening of our annual general shareholders' meeting (if any) and any other general meeting of our shareholders. A quorum required for any general meeting of shareholders consists of one or more shareholders present in person or by proxy, representing not less than one-third of all votes attaching to all of our shares in issue and entitled to vote.

The Companies Act provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our memorandum and articles of association provide that upon the requisition of shareholders representing in aggregate not less than one-third of the votes attaching to the issued and outstanding shares of our company entitled to vote at general meetings, our board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. However, our 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.

Transfer of Ordinary shares. Subject to the restrictions set out in our memorandum and articles of association as set out below, 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 of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;

- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as Nasdaq may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of Nasdaq, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our board may determine.

Liquidation. On the winding up of our company, 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 the par value of the shares held by them.

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

Redemption, Repurchase and Surrender of Shares. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by shareholders by special resolutions. Our Company may also repurchase any of our shares on such terms and in such manner as have been approved by our board of directors or by an ordinary resolution of our shareholders. 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 new issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our 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 issued and 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.

Variation of Rights of Shares. If at any time our share capital is divided into different classes of shares, the rights attached to any such class of shares (unless otherwise provided by the terms of issue of the shares of that class), may be materially adversely varied with the consent in writing of the holders of two-thirds of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class. 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 materially adversely varied by the creation or issue of further shares ranking *pari passu* with or subsequent to such existing class of shares or the redemption or purchase of any shares of any class by our company. In addition, the rights of the holders of shares shall not be deemed to be materially adversely 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.

Issuance of Additional Shares. Our memorandum and articles of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our memorandum and articles of association also authorizes our board of directors to establish from time to time one or more series of preference shares and to determine, with respect to any series of preference shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preference 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.

Inspection of Books and Records. Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (save for the memorandum and articles of association, our register of mortgages and charges and special resolutions of our shareholders). However, we will provide our shareholders with annual audited financial statements.

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

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

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

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 of 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 negotiable or bearer shares or 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 the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Board Practices. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested provided (a) such director, if his interest in such contract or arrangement is material, has declared the nature of his interest at the earliest meeting of the board at which it is practicable for him to do so, either specifically or by way of a general notice, (b) such director has not been disqualified by the chairman of the relevant board meeting, and (c) if such contract or arrangement is a transaction with a related party, such transaction has been approved by the audit committee in accordance with the Nasdaq rules. The directors may exercise all the powers of the company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

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 “Item 4. Information on the Company”, “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions,” in this “Item 10. Additional Information—C. Material Contracts” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on Foreign Exchange.”

E. Taxation

The following summary of the material Cayman Islands, PRC and U.S. federal income tax considerations of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax considerations relating to an investment in our ADSs or ordinary shares, such as the tax considerations under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, the People's Republic of China and the United States.

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 levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or, after execution, brought within the jurisdiction of the Cayman Islands. The Cayman Islands is 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.

Payments of dividends and capital in respect of our ordinary shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of our ordinary shares, nor will gains derived from the disposal of our ordinary shares or ADSs be subject to Cayman Islands income or corporation tax.

No stamp duty is payable in respect of the issue of our ordinary shares or on an instrument of transfer in respect of our ordinary shares.

People's Republic of China Taxation

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term "de facto management body" as the body that exercises full and substantial control over and overall and substantial management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued a circular, known as 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 only applies 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" test should be applied in determining the tax resident status of all offshore enterprises. According to 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 only if all of the following conditions are met: (i) the primary location where senior management personnel and departments that are responsible for 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 that Viomi Technology Co., Ltd is not a PRC resident enterprise for PRC tax purposes. Viomi Technology Co., Ltd is not controlled by a PRC enterprise or PRC enterprise group and we do not believe that Viomi Technology Co., Ltd meets all of the conditions above. Viomi Technology Co., Ltd is a company 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. For the same reasons, we believe our other entities outside of China 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 us.

If the PRC tax authorities determine that Viomi Technology Co., Ltd is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. It is also unclear whether non-PRC shareholders of Viomi Technology Co., Ltd would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that Viomi Technology Co., Ltd is treated as a PRC resident enterprise.

Provided that our Cayman Islands holding company, Viomi Technology Co., Ltd, is not deemed to be a PRC resident enterprise, holders of our ADSs and ordinary shares who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares or ADSs. However, under SAT Public Notice 7 and SAT Public Notice 37, where a non-resident enterprise conducts an “indirect transfer” by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, or the transferee or the PRC entity which directly owned such taxable assets may report to the relevant tax authority such indirect transfer. 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 is obligated to pay 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. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under SAT Public Notice 7 and SAT Public Notice 37, and we may be required to expend valuable resources to comply with SAT Public Notice 7 and SAT Public Notice 37, or to establish that we should not be taxed under these circulars. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.”

U.S. Federal Income Tax Considerations

The following is a summary of U.S. federal income tax considerations generally applicable to the ownership and disposition of our ADSs or ordinary shares. Unless otherwise noted, this summary addresses only U.S. Holders (as defined below) that hold our ADSs or ordinary shares as “capital assets” (generally, property held for investment) for U.S. federal income tax purposes. This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the “Code”), U.S. Treasury regulations promulgated thereunder (“Regulations”), judicial decisions, administrative pronouncements, the income tax treaty between the United States and China (the “Treaty”) and other relevant authorities, all as in effect as of the date hereof and all of which are subject to differing interpretations and change, possibly with retroactive effect.

This summary does not address U.S. federal estate, gift or other non-income tax considerations, the alternative minimum tax, the Medicare tax on certain net investment income, or any state, local and non-U.S. tax considerations, relating to the ownership or disposition of our ADSs or ordinary shares, nor does it address all aspects of U.S. federal income taxation that may be relevant to a particular U.S. Holder in light of that U.S. Holder’s particular circumstances or that may be relevant to certain types of U.S. Holders subject to special treatment under U.S. federal income tax law, such as:

- banks and other financial institutions;
- insurance companies;
- pension plans;
- cooperatives;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting;
- certain former U.S. citizens or long-term residents;
- tax-exempt entities (including private foundations);
- persons that acquire their ADSs or ordinary shares pursuant to any employee share option or otherwise as compensation;
- persons that will hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes;
- persons that have a functional currency other than the U.S. dollar; or
- persons that actually or constructively own 10% or more of our stock (by vote or value).

Prospective investors should consult their tax advisors with respect to the U.S. federal, state, local, non-U.S. income and other tax considerations relevant to the ownership and disposition of our ADSs or ordinary shares in light of their particular circumstances.

General

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our ADSs or ordinary shares that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created, or organized in or under the law of the United States, any state thereof or the District of Columbia;
- an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust (A) that is subject to the primary supervision of a court within the United States and the control of one or more United States persons for all substantial decisions or (B) that has validly elected to be treated as a United States person under the applicable Regulations.

If a partnership (or other entity or arrangement treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of our ADSs or ordinary shares, the U.S. federal income tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding our ADSs or ordinary shares and their partners should consult their tax advisors regarding an investment in our ADSs or ordinary shares.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement have been and will be complied with in accordance with the terms. If a U.S. Holder holds ADSs, such holder should be treated as the holder of the underlying common shares represented by those ADSs for U.S. federal income tax purposes.

Passive Foreign Investment Company Considerations

A non-U.S. corporation, such as our company, will be classified as a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes for any taxable year, if either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income (the “asset test”). Passive income generally includes dividends, interest, rents, royalties, annuities, net gains from the sale or exchange of property producing such income and net foreign currency gains. Passive assets are those which give rise to passive income and include assets held for investment, as well as cash, assets readily convertible into cash, and (subject to certain exceptions) working capital. Our company’s goodwill and other unbooked intangibles are taken into account and may be classified as active or passive depending on the income such assets generate or are held to generate. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly, indirectly or constructively, at least 25% (by value) of its stock.

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

Assuming that we are the owner of the VIEs for U.S. federal income tax purposes, and based upon an analysis of our income and assets and the market value of our ADSs, we do not believe we were a PFIC for the taxable year ended December 31, 2021. There can be no assurance regarding our PFIC status for the current taxable year or foreseeable future taxable years, however, because our PFIC status is a factual determination made annually that will depend, in part, upon the composition of our income and assets. The value of our assets for purposes of the asset test, including the value of our goodwill and unbooked intangibles, may be determined in part by reference to the market price of our ADSs or ordinary shares from time to time (which may be volatile). Because we will generally take into account our current market capitalization in estimating the value of our goodwill and other unbooked intangibles, our PFIC status for the current taxable year and foreseeable future taxable years may be affected by our market capitalization. Recent fluctuations in our market capitalization create a material risk that we may be classified as a PFIC for the current taxable year and foreseeable future taxable years. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend our liquid assets. Under circumstances in which our revenue from activities that produce passive income significantly increases relative to our revenue from activities that produce non-passive income, or in which we determine not to deploy significant amounts of cash for active purposes, our risk of becoming classified as a PFIC may substantially increase.

Because there are uncertainties in the application of the relevant rules, it is possible that the Internal Revenue Service (the “IRS”) may challenge our classification of certain income or assets as non-passive, or our valuation of our goodwill and other unbooked intangibles, each of which could cause us to become classified as a PFIC for the current or subsequent taxable years. If

we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares, the PFIC rules discussed below under “—Passive Foreign Investment Company Rules” will generally apply to such U.S. Holder for such taxable year, and unless the U.S. Holder makes certain elections, will apply in future taxable years even if we cease to be a PFIC.

The discussion below under “—Dividends” and “—Sale or Other Disposition” assumes that we are not and will not be classified as a PFIC for U.S. federal income tax purposes.

Dividends

The gross amounts of any distributions received by a U.S. Holder on our ADSs or ordinary shares (including any amount withheld in respect of PRC withholding taxes) will generally be subject to tax as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, and will be includible in the gross income of a U.S. Holder on the day actually or constructively received. Such dividends will not be eligible for the dividends received deduction generally allowed to U.S. corporations under the Code. Distributions in excess of our current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder’s adjusted tax basis in our ADSs and ordinary shares and thereafter generally as capital gain. Because we do not intend to determine our earnings and profits in accordance with U.S. federal income tax principles, the full amount of any distribution we pay will generally be treated as a dividend for U.S. federal income tax purposes.

Individuals and other non-corporate U.S. Holders may be subject to tax on any such dividends at the lower capital gain tax rate applicable to “qualified dividend income,” provided that certain conditions are satisfied, including that (1) the ADSs and ordinary shares are readily tradable on an established securities market in the United States, or, in the event that we are deemed to be a PRC resident enterprise under the PRC tax law, we are eligible for the benefits of the Treaty, (2) we are neither a PFIC nor treated as such with respect to a U.S. Holder (as discussed below) for the taxable year in which the dividend is paid and the preceding taxable year and (3) certain holding period requirements are met. For this purpose, our ADSs, but not our ordinary shares, are listed on the Nasdaq Stock Market so we anticipate that our ADSs should qualify as readily tradable on an established securities market in the United States, although there can be no assurances in this regard.

For U.S. foreign tax credit purposes, dividends received on our ADSs or ordinary shares will generally be treated as income from foreign sources and will generally constitute passive category income. If we are deemed to be a PRC resident enterprise under PRC tax law, a U.S. Holder may be subject to PRC withholding taxes on such dividends. Subject to certain conditions and limitations, a Treaty-eligible U.S. Holder may be entitled to claim a foreign tax credit in respect of any PRC income taxes paid or withheld with respect to dividends on our ADSs or ordinary shares to the extent that such taxes are non-refundable under the Treaty. Alternatively, a U.S. Holder may elect to deduct such taxes in computing its taxable income for U.S. federal income tax purposes. A U.S. Holder’s election to deduct foreign taxes instead of claiming foreign tax credits applies to all creditable foreign income taxes paid or accrued in the relevant taxable year. The rules regarding foreign tax credits and the deductibility of foreign taxes are complex. All U.S. Holders, whether or not they are Treaty-eligible, should consult their tax advisors regarding the availability of foreign tax credits and the deductibility of foreign taxes in light of their particular circumstances.

Sale or Other Disposition

A U.S. Holder will generally recognize gain or loss upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the U.S. Holder’s adjusted tax basis in such ADSs or ordinary shares. Any such gain or loss will generally be long-term capital gain or loss if the U.S. Holder’s holding period in the ADSs or ordinary shares exceeds one year at the time of disposition. Long-term capital gains of individuals and certain other non-corporate U.S. Holders are generally eligible for a reduced rate of taxation. The deductibility of capital losses may be subject to limitations.

As described in “—People’s Republic of China Taxation,” if we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, gains from the sale or other disposition of our ADSs or ordinary shares may be subject to PRC income tax and will generally be U.S. source income, which may limit a U.S. Holder’s ability to claim a foreign tax credit for any such PRC income tax imposed on such gain. U.S. Holders that are eligible for the benefits of the Treaty may apply the Treaty to treat such gain as PRC source, however. Notwithstanding this, pursuant to recently issued Regulations, it is possible that Treaty-eligible U.S. Holders that do not apply the Treaty and U.S. Holders that are not eligible for benefits under the Treaty may not be able to claim a foreign tax credit for any PRC tax imposed on a sale or other disposition of our ADSs or ordinary shares. The rules regarding foreign tax credits and the deductibility of foreign taxes are complex. U.S. Holders should consult their tax advisors regarding the availability of a foreign tax credit or a deduction in lieu thereof in light of their particular circumstances, as well as with respect to their eligibility for benefits under the Treaty and the potential impact of the recently issued Regulations.

Passive Foreign Investment Company Rules

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares, and unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will be subject to special tax rules with respect to

any “excess distribution” the U.S. Holder receives on our ADSs or ordinary shares and any gain the U.S. Holder recognizes on the sale or other disposition including, under certain circumstances, a pledge, of our ADSs or ordinary shares.

Distributions received by a U.S. Holder on our ADSs or ordinary shares in a taxable year that are greater than 125% of the average annual distributions the U.S. Holder received in the three preceding taxable years or, if shorter, such U.S. Holder’s holding period for the ADSs or ordinary shares will be treated as excess distributions. Under the PFIC rules:

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

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares and any of our non-U.S. subsidiaries, our VIEs or any of the non-U.S. subsidiaries of our VIEs are also PFICs, such U.S. Holder will be treated as owning a proportionate amount (by value) of the shares of each such lower-tier PFIC for purposes of the application of these rules.

Alternatively, a U.S. Holder of “marketable stock” (as defined below) in a PFIC may elect out of the excess distribution regime by making a mark-to-market election with respect to such stock. If a U.S. Holder makes a valid mark-to-market election with respect to our ADSs, the U.S. Holder will include in income each year that we are a PFIC an amount equal to the excess, if any, of the fair market value of the ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs. The U.S. Holder is allowed a deduction for the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year. Deductions are allowable, however, only to the extent of any net mark-to-market gains on the ADSs included in the U.S. Holder’s income for prior taxable years. Amounts included in the U.S. Holder’s income under a mark-to-market election, as well as any gain on the sale or disposition of ADSs, will be treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the ADSs, as well as any loss realized on the actual sale or other disposition of the ADSs, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included in income with respect to such ADSs. The U.S. Holder’s adjusted tax basis in the ADSs will be adjusted to reflect any such income or loss amounts. If a U.S. Holder makes a mark-to-market election, then, in any taxable year for which we are classified as a PFIC, tax rules that apply to distributions by corporations that are not PFICs would apply to distributions by us (except that the lower applicable capital gains rate for qualified dividend income would not apply). If a U.S. Holder makes a valid mark-to-market election and we subsequently cease to be a PFIC, the U.S. Holder will not be required to take into account the mark-to-market income or loss described above during any period that we are not classified as a PFIC.

The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market, as defined in the applicable Regulations. The ADSs, but not our ordinary shares, are listed on the Nasdaq Stock Market, which is a qualified exchange for these purposes, and consequently, assuming that the ADSs are regularly traded, it is expected that the mark-to-market election would be available to U.S. Holders of ADSs if we are or become a PFIC. However, a mark-to-market election may not be available with respect to our ordinary shares as they are not marketable stock. Accordingly, if we are a PFIC during any taxable year in which a U.S. Holder holds our ordinary shares, such holder will generally be subject to the PFIC rules above.

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

We do not intend to provide the 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.

U.S. Holders that own our ADSs or ordinary shares during any taxable year that we are a PFIC will generally be required to file an annual report with the IRS regarding their ownership of such shares. U.S. Holders should consult their tax advisors concerning the U.S. federal income tax consequences relevant to the ownership and disposition of our ADSs or ordinary shares if we were, are, or become a PFIC, including the possibility of making a mark-to-market election and the annual PFIC filing requirements, if any.

THE PRECEDING SUMMARY OF U.S. FEDERAL INCOME TAX CONSIDERATIONS IS INTENDED FOR GENERAL INFORMATION ONLY AND DOES NOT CONSTITUTE TAX ADVICE. U.S. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE U.S. FEDERAL, STATE, LOCAL, AND NON-U.S. TAX CONSIDERATIONS GENERALLY APPLICABLE TO THE OWNERSHIP AND DISPOSITION OF OUR ADSs AND ORDINARY SHARES IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the periodic reporting and other informational requirements of the Exchange Act. 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 no later than four months after the close of each fiscal year. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC 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 under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish Deutsche Bank Trust Company Americas, the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The 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.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Inflation

To date, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the consumer price index in China increased by 2.9%, 2.5% and 0.9% in 2019, 2020 and 2021, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected by higher rates of inflation in China in the future.

Market Risks

Foreign exchange risk

Substantially all of our revenues and expenses are denominated in RMB. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

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 RMB 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 or 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 amounts available to us.

Interest rate risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure. However, our future interest income may fall short of expectations due to changes in market interest rates.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Charges Our ADS Holders May Have to Pay

Deutsche Bank Trust Company Americas, as depositary, will register and deliver the ADSs. Each ADS will represent ownership of three Class A ordinary shares, deposited with Deutsche Bank AG, Hong Kong Branch, as custodian for the depositary. Each ADS will also represent ownership of any other securities, cash or other property which may be held by the depositary. The depositary's corporate trust office at which the ADSs will be administered is located at 60 Wall Street, New York, NY 10005, USA. The principal executive office of the depositary is located at 60 Wall Street, New York, NY 10005, USA.

Our ADS holders will be required to pay the following service fees to the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of the ADSs held):

Service	Fees
<ul style="list-style-type: none">To any person to which ADSs are issued or to any person to which a distribution is made in respect of ADS distributions pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits or other distributions (except where converted to cash)	Up to US\$0.05 per ADS issued
<ul style="list-style-type: none">Cancellation of ADSs, including the case of termination of the deposit agreement	Up to US\$0.05 per ADS cancelled
<ul style="list-style-type: none">Distribution of cash dividends	Up to US\$0.05 per ADS held
<ul style="list-style-type: none">Distribution of cash entitlements (other than cash dividends) and/or cash proceeds from the sale of rights, securities and other entitlements	Up to US\$0.05 per ADS held
<ul style="list-style-type: none">Distribution of ADSs pursuant to exercise of rights.	Up to US\$0.05 per ADS held
<ul style="list-style-type: none">Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US\$0.05 per ADS held
<ul style="list-style-type: none">Depositary services	Up to US\$0.05 per ADS held on the applicable record date(s) established by the depositary bank

Our ADS holders will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of the ADSs held) such as:

- Fees for the transfer and registration of Class A ordinary shares charged by the registrar and transfer agent for the Class A ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of Class A ordinary shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.

- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when Class A ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of Class A ordinary shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to Class A ordinary shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

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

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

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

Fees and Other Payments Made by the Depositary to Us

The depositary may make payments to us or reimburse us for certain costs and expenses, by making available a portion of the ADS fees collected in respect of the ADR program or otherwise, upon such terms and conditions as we and the depositary bank agree from time to time. For the year ended December 31, 2021, we did not receive reimbursement from the depositary.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

Material Modifications to the Rights of Security Holders

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

Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File Number 333-227063) (the “F-1 Registration Statement”) in relation to our initial public offering of 11,400,000 ADSs representing 34,200,000 Class A ordinary shares, at an initial offering price of US\$9.00 per ADS. Our initial public offering closed in September 2018. Morgan Stanley and CICC were the representatives of the underwriters for our initial public offering.

The F-1 Registration Statement was declared effective by the SEC on September 24, 2018. The total expenses incurred for our company’s account in connection with our initial public offering was approximately US\$11.1 million, which included US\$7.6 million in underwriting discounts and commissions for the initial public offering and approximately US\$3.5 million in other costs and expenses for our initial public offering. We received net proceeds of approximately US\$91.4 million from our initial public offering. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds from the initial public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates. We have used all of the net proceeds from our initial public offering.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer, who is also our principal financial officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, which is defined in Rules 13a-15(e) of the Exchange Act, as of December 31, 2021. Based upon that evaluation, our management, with the participation of our chief executive officer, has concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were not effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

Our management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2021 based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has, together with our independent registered accounting firm, identified two material weaknesses. Our management thus concluded that our internal control over financial reporting was not effective as of December 31, 2021.

The material weaknesses identified related to (i) our lack of sufficient resources regarding financial reporting and accounting personnel with understanding of U.S. GAAP, in particular, to address complex U.S. GAAP technical accounting issues, related disclosures in accordance with U.S. GAAP and financial reporting requirements set forth by the SEC, and (ii) lack of comprehensive U.S. GAAP accounting policies and financial reporting procedures. These material weaknesses were first identified during the audit of the Company’s consolidated financial statements for the years ended December 31, 2016, 2017 and 2018.

To remedy identified material weaknesses in internal control over financial reporting, we are in the process of implementing several measures, including:

- hiring additional competent and qualified accounting and reporting personnel with appropriate knowledge and experience of U.S. GAAP and SEC financial reporting requirements;

- establishing an ongoing program to provide sufficient and additional appropriate training to our accounting staff, especially trainings related to U.S. GAAP and SEC financial reporting requirements;
- establishing an internal control and compliance department and hiring additional compliance staff and perform internal audit and evaluation of internal controls from time to time;
- enhancing U.S. GAAP accounting manual to provide accounting team with more comprehensive guidelines on the accounting policies under U.S. GAAP, SEC rules and relevant requirements;
- establishing clear roles and responsibilities for accounting and financial reporting staff to address accounting and financial reporting issues; and
- enhancing our company’s monitoring controls over financial reporting, including additional review our company’s head of finance, and other senior financial staff over the application of U.S. GAAP accounting requirements, the selection and evaluation of U.S. GAAP accounting policies, critical accounting judgments and estimates, reporting and disclosures.

We are fully committed to continuing to implement measures to remediate our material weaknesses and other control deficiencies in our internal control over financial reporting. However, the implementation of these measures may not fully address the deficiencies in our internal control over financial reporting. We are not able to estimate with reasonable certainty the costs that we will need to incur in implementing these and other measures designed to improve our internal control over financial reporting. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—In connection with the audit of our consolidated financial statements included in this annual report, we and our independent registered public accounting firm identified two material weaknesses in our internal control over financial reporting. If we fail to develop and maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud.”

Attestation Report of the Registered Public Accounting Firm

As a company with less than US\$1.07 billion in revenues for fiscal year of 2021, we qualify as an “emerging growth company” pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company’s internal control over financial reporting. Therefore, no attestation report by our registered public accounting firm regarding our internal control is included in this annual report.

Changes in Internal Control

As of December 31, 2020, three material weaknesses were identified, which were related to (i) our lack of sufficient resources regarding financial reporting and accounting personnel with understanding of U.S. GAAP, in particular, to address complex U.S. GAAP technical accounting issues, related disclosures in accordance with U.S. GAAP and financial reporting requirements set forth by the SEC, (ii) lack of comprehensive U.S. GAAP accounting policies and financial reporting procedures and (iii) lack of an effective control procedure to track and estimate warranty provision relating to our products sold to ensure accuracy.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis.

During 2021, we have implemented a number of remedial measures to address the material weakness with respect to warranty provision, including (i) the adoption of a formal policies and procedures manual on the warranty provision end to end process, and the designation of appropriate personnel in the aftersales service team, department head and accounting department in each of the control points to improve the accuracy and completeness of the record of repair history and costs of all products; (ii) the establishment of a comprehensive model in the calculation of warranty provisions to cover all products and internal controls to ensure the accuracy and completeness of data used in the calculation; and (iii) the enhancement of the review procedures and documentation over the estimation of warranty provision.

As of December 31, 2021, based on an assessment performed by our management on the performance of certain remediation measures mentioned above, we concluded that the material weakness of “lack of an effective control procedure to track and estimate warranty provision relating to our products sold to ensure accuracy” in our internal control over financial reporting previously identified as of December 31, 2020 has been remediated.

Other than as described above, there were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Ms. Jinling Zhang, a member of our audit committee and independent director (under the standards set forth in Rule5605(c)(2) of the Listing Rules of the Nasdaq and Rule 10A-3 under the Exchange Act of 1934), is an audit committee financial expert.

ITEM 16B. CODE OF ETHICS

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees in August, 2018. We have posted a copy of our code of business conduct and ethics on our website at <http://ir.viomi.com/>.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP, our principal external auditors, for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

	<u>For the Year Ended December 31,</u>	
	<u>2020</u>	<u>2021</u>
	(in thousands of RMB)	
Audit fees ⁽¹⁾	5,850	6,850

Notes:

- (1) “Audit fees” means the aggregate fees billed for professional services rendered by our principal auditors for the audit of our annual financial statements and the review of our comparative interim financial statement.

The policy of our audit committee is to pre-approve all audit and other service provided by PricewaterhouseCoopers Zhong Tian LLP as described above, other than those for de minimis services which are approved by the Audit Committee prior to the completion of the audit.

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

Not applicable.

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

On March 26, 2020, our board of directors approved a share repurchase plan whereby we are authorized to repurchase up to US\$10 million worth of our company’s Class A ordinary shares in the form of ADS. The share repurchase plan was publicly announced on March 26, 2020 and ended on March 25, 2021.

On October 14, 2021, our board of directors approved a share repurchase program whereby we are authorized to repurchase up to US\$10 million worth of our company’s Class A ordinary share in the form of ADS over the twelve-month period ended October 13, 2022. The share repurchase program was publicly announced on October 14, 2021.

The following table sets forth a summary of our repurchase of the ADSs under the share repurchase plans described in the paragraph above since their respective announcement till December 31, 2021. All shares were repurchased in the open market pursuant to the share repurchase plans.

<u>Period</u>	<u>Total Number of ADSs Purchased</u>	<u>Average Price Paid per ADS</u>	<u>Total Number of ADSs Purchased as Part of the Publicly Announced Plans</u>	<u>Approximate Dollar value of ADSs that May Yet Be Purchased Under the Plans</u>
April 2020	254,848	\$ 5.1818	254,848	\$ 8,679,416
May 2020	113,763	\$ 5.9236	113,763	\$ 8,005,534
June 2020	6,005	\$ 4.9882	6,005	\$ 7,975,579
August 2020	10,877	\$ 5.8478	10,877	\$ 7,911,973
September 2020	447,531	\$ 5.8498	447,531	\$ 5,294,023
October 2020	220,839	\$ 5.9240	220,839	\$ 3,985,773
December 2020	356,860	\$ 5.5894	356,860	\$ 1,991,130
December 2021	665,990	\$ 2.8299	665,990	\$ 8,115,286

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

As a Cayman Islands company listed on the Nasdaq Stock Market, we are subject to the 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. Currently, we have elected to rely on home country practice exemption from the “independence” requirements of Rules 5605, which provide that audit committees must be comprised only of three or more independent directors, compensation committees must be comprised only of two or more independent directors, nominations committee must be comprised solely of independent directors. In addition, we opt to follow home country practice with respect to the frequency of holding annual general meeting of shareholders. As a result, our shareholders may be afforded less protection than they would otherwise enjoy under the Nasdaq governance listing standards applicable to U.S. domestic issuers.

See “Item 3. Key Information—D. Risk Factors—Risks Related to the ADSs—As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq corporate governance listing standards.”

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

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 Viomi Technology Co., Ltd and its subsidiaries and VIEs are included at the end of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Description of Document
1.1	Second Amended and Restated Memorandum and Articles of Association of the Registrant, effective September 24, 2018 (incorporated herein by reference to Exhibit 3.2 to the Form F-1 filed on August 28, 2018 (File No. 333-227063))
2.1	Registrant's Specimen American Depositary Receipt (included in Exhibit 4.3) (incorporated herein by reference to Exhibit 4.3 to the Form F-1/A filed on September 11, 2018 (File No. 333-227063))
2.2	Registrant's Specimen Certificate for Class A Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the Form F-1/A filed on September 11, 2018 (File No. 333-227063))
2.3	Deposit Agreement, among the Registrant, the depositary and holder of the American Depositary Receipts dated September 24, 2018 (incorporated herein by reference to Exhibit 4.3 to the Form S-8 filed on March 22, 2019 (File No. 333-230431))
2.4	Shareholders Agreement between the Registrant and other parties thereto dated April 29, 2015 (incorporated herein by reference to Exhibit 4.4 to the Form F-1 filed on August 28, 2018 (File No. 333-227063))
2.5	Description of Securities (incorporated herein by reference to Exhibit 2.5 to the Form 20-F filed on April 23, 2020 (File No. 001-38649))
4.1	2015 Share Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Form F-1 filed on August 28, 2018 (File No. 333-227063))
4.2	2018 Share Incentive Plan (incorporated herein by reference to Exhibit 4.2 to the Form 20-F filed on April 23, 2020 (File No. 001-38649))
4.3	Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.3 to the Form F-1 filed on August 28, 2018 (File No. 333-227063))
4.4	Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.4 to the Form F-1 filed on August 28, 2018 (File No. 333-227063))
4.5	English translation of executed form of shareholder voting proxy agreement among a VIE of the Registrant, its shareholders and the WFOE I of the Registrant as currently in effect, and a schedule of all executed shareholder voting proxy agreements adopting the same form in respect of each of the VIEs of the Registrant (incorporated herein by reference to Exhibit 10.5 to the Form F-1 filed on August 28, 2018 (File No. 333-227063))
4.6	English translation of executed form of equity pledge agreement among a VIE of the Registrant, its shareholders, and the WFOE I of the Registrant, as currently in effect, and a schedule of all executed equity pledge agreements adopting the same form in respect of each of the VIEs of the Registrant (incorporated herein by reference to Exhibit 10.6 to the Form F-1 filed on August 28, 2018 (File No. 333-227063))
4.7	English translation of executed form of exclusive consultation and service agreement between a VIE and the WFOE I of the Registrant, as currently in effect, and a schedule of all executed exclusive consultation and service agreements adopting the same form in respect of each of the VIEs of the Registrant (incorporated herein by reference to Exhibit 10.7 to the Form F-1 filed on August 28, 2018 (File No. 333-227063))
4.8	English translation of executed form of exclusive option agreement among a VIE of the Registrant, its shareholders, and the WFOE I of the Registrant, as currently in effect, and a schedule of all executed exclusive option agreements adopting the same form in respect of each of the VIEs of the Registrant (incorporated herein by reference to Exhibit 10.8 to the Form F-1 filed on August 28, 2018 (File No. 333-227063))

4.9	<u>English translation of executed form of spousal consent letter of the spouse of Mr. Xiaoping Chen as an individual shareholder of a VIE of the Registrant, as currently in effect, and a schedule of all executed spousal consent letters adopting the same form in respect of each of the VIEs of the Registrant (incorporated herein by reference to Exhibit 10.9 to the Form F-1 filed on August 28, 2018 (File No. 333-227063)).</u>
4.10*	<u>English Translation of Business Cooperation Agreement between Foshan Viomi and Xiaomi dated September 10, 2021</u>
4.11	<u>English Translation of Termination Agreement between WFOE I, Xiaoping Chen and Foshan Viomi dated April 28, 2020 (incorporated herein by reference to Exhibit 4.11 to the Form 20-F filed on April 26, 2021 (File No. 001-38649)).</u>
4.12	<u>English translation of the Shareholder Voting Proxy Agreement among Foshan Viomi, its shareholders and WFOE II on April 28, 2020 (incorporated herein by reference to Exhibit 4.12 to the Form 20-F filed on April 26, 2021 (File No. 001-38649)).</u>
4.13	<u>English translation of the Equity Pledge Agreement among Foshan Viomi, its shareholders, and WFOE II on April 28, 2020 (incorporated herein by reference to Exhibit 4.13 to the Form 20-F filed on April 26, 2021 (File No. 001-38649)).</u>
4.14	<u>English translation of the Exclusive Consultation and Service Agreement between Foshan Viomi and WFOE II on April 28, 2020 (incorporated herein by reference to Exhibit 4.14 to the Form 20-F filed on April 26, 2021 (File No. 001-38649)).</u>
4.15	<u>English translation of the Exclusive Option Agreement among Foshan Viomi, its shareholders and WFOE II on April 28, 2020 (incorporated herein by reference to Exhibit 4.15 to the Form 20-F filed on April 26, 2021 (File No. 001-38649)).</u>
4.16	<u>English translation of the Spousal Consent Letter of the spouse of Mr. Xiaoping Chen as an individual shareholder of Foshan Viomi on April 28, 2020 (incorporated herein by reference to Exhibit 4.16 to the Form 20-F filed on April 26, 2021 (File No. 001-38649)).</u>
4.17	<u>English translation of the Agreement on the Investment in Development and Construction of Plot 3 on the Licun Section of Industrial Avenue Subordinate to Licun Village Committee, Lunjiao Sub-district Office, Shunde District among Center for Land Development, Lunjiao Sub-district Office, Shunde District, Foshan City and WFOE II on June 1, 2020 (incorporated herein by reference to Exhibit 4.17 to the Form 20-F filed on April 26, 2021 (File No. 001-38649)).</u>
8.1*	<u>List of Subsidiaries and Consolidated Variable Interest Entities of the Registrant</u>
11.1	<u>Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the Form F-1 filed on August 28, 2018 (File No. 333-227063)).</u>
12.1*	<u>CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
12.2*	<u>CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
13.1**	<u>CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
13.2**	<u>CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
15.1*	<u>Consent of Han Kun Law Offices</u>
15.2*	<u>Consent of PricewaterhouseCoopers Zhong Tian LLP</u>
101.INS*	Inline XBRL Instance Document – this instance document does not appear on the Interactive Data File because its XBRL tags are not embedded with the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Scheme Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed with this Annual Report on Form 20-F.
** Furnished with this Annual Report on Form 20-F.

SIGNATURES

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

Viomi Technology Co., Ltd

By: /s/ Xiaoping Chen

Name: Xiaoping Chen

Title: Chairman of the Board of Directors and Chief Executive Officer

Date: April 27, 2022

VIOMI TECHNOLOGY CO., LTD

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Viomi Technology Co., Ltd

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Viomi Technology Co., Ltd and its subsidiaries (the “Company”) as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income, of changes in shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America.

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 Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements 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 consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the 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.

/s/PricewaterhouseCoopers Zhong Tian LLP
Guangzhou, the People’s Republic of China
April 27, 2022

We have served as the Company's auditor since 2018.

VIOMI TECHNOLOGY CO., LTD
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except shares, ADS, per share and per ADS data)

	As of December 31,		
	2020 RMB	2021 RMB	2021 US\$ (Note2(e))
Assets			
Current assets			
Cash and cash equivalents	504,108	586,955	92,106
Restricted cash	70,601	35,831	5,623
Short-term investments	696,051	828,867	130,067
Accounts and notes receivable from third parties (net of allowance of RMB9,246 and RMB34,385 as of December 31, 2020 and 2021, respectively)	427,352	302,336	47,443
Accounts receivable from a related party (net of allowance of RMB61 and RMB368 as of December 31, 2020 and 2021, respectively)	609,094	320,939	50,362
Other receivables from related parties (net of allowance of RMB9 and RMB104 as of December 31, 2020 and 2021, respectively)	88,038	88,367	13,867
Inventories	439,375	576,351	90,442
Prepaid expenses and other current assets	87,280	156,127	24,500
Long-term deposits -current portion	10,000	50,000	7,846
Total current assets	<u>2,931,899</u>	<u>2,945,773</u>	<u>462,256</u>
Non-current assets			
Prepaid expenses and other non-current assets	19,803	27,321	4,287
Property, plant and equipment, net	72,436	145,993	22,909
Deferred tax assets	14,189	35,304	5,540
Intangible assets, net	7,681	12,176	1,911
Right-of-use assets, net	20,529	18,425	2,891
Land use rights, net	62,982	61,722	9,686
Long-term deposits -non-current portion	50,000	30,000	4,708
Total non-current assets	<u>247,620</u>	<u>330,941</u>	<u>51,932</u>
Total assets	<u>3,179,519</u>	<u>3,276,714</u>	<u>514,188</u>
Liabilities and shareholders' equity			
Current liabilities			
Accounts and notes payable (including accounts and notes payable of the consolidated variable interest entities and their subsidiaries ("VIEs") without recourse to the Company of RMB860,454 and RMB545,966 as of December 31, 2020 and 2021, respectively)	1,001,371	1,069,108	167,766
Advances from customers (including advances from customers of the consolidated VIEs without recourse to the Company of RMB109,162 and RMB89,303 as of December 31, 2020 and 2021, respectively)	112,613	99,632	15,634
Amounts due to related parties (including amounts due to related parties of the consolidated VIEs without recourse to the Company of RMB124,192 and RMB5,415 as of December 31, 2020 and 2021, respectively)	124,192	5,415	850
Accrued expenses and other liabilities (including accrued expenses and other liabilities of the consolidated VIEs without recourse to the Company of RMB298,856 and RMB284,830 as of December 31, 2020 and 2021, respectively)	335,488	365,718	57,390
Income tax payables (including income tax payables of the consolidated VIEs without recourse to the Company of RMB47,242 and RMB16,231 as of December 31, 2020 and 2021, respectively)	50,962	43,343	6,801
Lease liabilities due within one year (including lease liabilities due within one year of the consolidated VIEs without recourse to the Company of RMB6,333 and RMB6,988 as of December 31, 2020 and 2021, respectively)	9,481	11,312	1,775
Total current liabilities	<u>1,634,107</u>	<u>1,594,528</u>	<u>250,216</u>
Non-current liabilities			
Accrued expenses and other liabilities (including accrued expenses and other liabilities of the consolidated VIEs without recourse to the Company of RMB3,400 and RMB7,558 as of December 31, 2020 and 2021, respectively)	3,400	7,558	1,186
Long-term borrowing	-	16,105	2,527
Lease liabilities (including lease liabilities of the consolidated VIEs without recourse to the Company of RMB6,484 and RMB4,571 as of December 31, 2020 and 2021, respectively)	11,693	7,596	1,192
Total non-current liabilities	<u>15,093</u>	<u>31,259</u>	<u>4,905</u>
Total liabilities	<u>1,649,200</u>	<u>1,625,787</u>	<u>255,121</u>
Commitments and contingencies (Note 21)			
Shareholders' equity			
Class A Ordinary Shares (US\$0.00001 par value; 4,800,000,000 shares authorized; 104,163,686 and 105,516,779 shares issued and outstanding as of December 31, 2020 and 2021, respectively)	6	6	1
Class B Ordinary Shares (US\$0.00001 par value; 150,000,000 shares authorized; 103,554,546 and 103,214,547 shares issued and outstanding as of December 31, 2020 and 2021, respectively)	6	6	1
Treasury stock	(54,600)	(66,668)	(10,462)
Additional paid-in capital	1,278,004	1,337,281	209,849
Retained earnings	363,051	449,900	70,599
Accumulated other comprehensive loss	(59,384)	(73,120)	(11,474)
Total equity attributable to shareholders of Viomi Technology Co., Ltd (the "Company")	<u>1,527,083</u>	<u>1,647,405</u>	<u>258,514</u>
Non-controlling interests	3,236	3,522	553
Total shareholders' equity	<u>1,530,319</u>	<u>1,650,927</u>	<u>259,067</u>
Total liabilities and shareholders' equity	<u>3,179,519</u>	<u>3,276,714</u>	<u>514,188</u>

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

VIOMI TECHNOLOGY CO., LTD
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands, except shares, ADS, per share and per ADS data)

	Year ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	2021 US\$ (Note2(e))
Net revenues:				
A related party	2,112,170	2,889,441	2,295,569	360,225
Third parties	2,535,343	2,936,183	3,008,266	472,063
Total net revenues	<u>4,647,513</u>	<u>5,825,624</u>	<u>5,303,835</u>	<u>832,288</u>
Cost of revenues	(3,565,109)	(4,742,668)	(4,105,767)	(644,285)
Gross profit	1,082,404	1,082,956	1,198,068	188,003
Operating expenses (1):				
Research and development expenses	(204,942)	(265,680)	(311,786)	(48,926)
Selling and marketing expenses	(529,212)	(597,176)	(751,011)	(117,850)
General and administrative expenses	(73,061)	(68,914)	(97,730)	(15,336)
Total operating expenses	<u>(807,215)</u>	<u>(931,770)</u>	<u>(1,160,527)</u>	<u>(182,112)</u>
Other income, net	35,880	32,795	27,128	4,257
Income from operations	311,069	183,981	64,669	10,148
Interest income and short-term investment income, net	26,109	31,968	28,589	4,486
Other non-operating income	1,842	1,818	1,372	215
Income before income tax expenses	339,020	217,767	94,630	14,849
Income tax expenses	(45,190)	(43,321)	(5,739)	(901)
Net income	293,830	174,446	88,891	13,948
Less: Net income attributable to the non-controlling interest shareholders	1,660	1,122	286	45
Net income attributable to ordinary shareholders of the Company	<u>292,170</u>	<u>173,324</u>	<u>88,605</u>	<u>13,903</u>
Net income attributable to the Company	292,170	173,324	88,605	13,903
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	10,641	(40,239)	(13,736)	(2,155)
Total comprehensive income attributable to the Company	<u>302,811</u>	<u>133,085</u>	<u>74,869</u>	<u>11,748</u>
Net income per share attributable to ordinary shareholders of the Company:				
-Basic	1.40	0.83	0.42	0.07
-Diluted	1.35	0.80	0.40	0.06
Weighted average number of ordinary shares used in calculating net income per share				
-Basic	208,156,507	208,812,049	209,551,821	209,551,821
-Diluted	215,855,577	215,623,773	220,735,997	220,735,997

VIOMI TECHNOLOGY CO., LTD
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – CONTINUED
(Amounts in thousands, except shares, ADS, per share and per ADS data)

(1) Share-based compensation was allocated in operating expenses as follows:

	Year ended December 31,			
	2019	2020	2021	2021
	RMB	RMB	RMB	US\$
Research and development expenses	23,564	49,996	32,609	5,117
Selling and marketing expenses	12,322	10,904	5,666	889
General and administrative expenses	7,282	11,303	9,130	1,433

(Note2(e))

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

VIOMI TECHNOLOGY CO., LTD
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Amounts in thousands, except shares, ADS, per share and per ADS data)

	Class A ordinary shares		Class B ordinary shares		Additional Paid-in Capital	Treasury stock		(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Equity Attributable to Shareholders of the Company	Non-Controlling Interest	Total Shareholders' Equity
	Shares	Amount RMB	Shares	Amount RMB		Shares	Amount RMB					
Balance as of January 1, 2019	90,200,000	5	117,600,000	7	1,193,174	—	—	(95,527)	(29,786)	1,067,873	2,992	1,070,865
Net income attributable to the Company and non-controlling interest shareholders	—	—	—	—	—	—	—	292,170	—	292,170	1,660	293,830
Share-based compensation related to 2015 and 2018 Share Incentive Plan	—	—	—	—	43,168	—	—	—	—	43,168	—	43,168
Class B ordinary shares converted to Class A ordinary shares	6,750,000	1	(6,750,000)	(1)	—	—	—	—	—	—	—	—
Issuance of ordinary shares for exercised share options	1,494,732	—	—	—	1,741	—	—	—	—	1,741	—	1,741
Capital injection in a subsidiary from a non-controlling interest shareholder	—	—	—	—	—	—	—	—	—	—	3,000	3,000
Purchase of non-controlling interests	—	—	—	—	(196)	—	—	—	—	(196)	(2,000)	(2,196)
Special dividends declared to ordinary shareholders	—	—	—	—	(46,602)	—	—	—	—	(46,602)	—	(46,602)
Appropriation to statutory reserves	—	—	—	—	1,047	—	—	(1,047)	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	10,641	10,641	—	10,641
Balance as of December 31, 2019	<u>98,444,732</u>	<u>6</u>	<u>110,850,000</u>	<u>6</u>	<u>1,192,332</u>	<u>—</u>	<u>—</u>	<u>195,596</u>	<u>(19,145)</u>	<u>1,368,795</u>	<u>5,652</u>	<u>1,374,447</u>
Balance as of January 1, 2020	98,444,732	6	110,850,000	6	1,192,332	—	—	195,596	(19,145)	1,368,795	5,652	1,374,447
Adoption of ASC 326	—	—	—	—	—	—	—	(2,405)	—	(2,405)	—	(2,405)
Net income attributable to the Company and non-controlling interest shareholders	—	—	—	—	—	—	—	173,324	—	173,324	1,122	174,446
Share-based compensation related to 2015 and 2018 Share Incentive Plan	—	—	—	—	72,203	—	—	—	—	72,203	—	72,203
Class B ordinary shares converted to Class A ordinary shares	7,295,454	—	(7,295,454)	—	—	—	—	—	—	—	—	—
Issuance of ordinary shares for exercised share options	2,655,669	—	—	—	8,989	—	—	—	—	8,989	—	8,989
Repurchase of shares	(4,232,169)	—	—	—	—	4,232,169	(54,600)	—	—	(54,600)	—	(54,600)
Purchase of non-controlling interests	—	—	—	—	1,016	—	—	—	—	1,016	(2,302)	(1,286)
Dividend to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(1,236)	(1,236)
Appropriation to statutory reserves	—	—	—	—	3,464	—	—	(3,464)	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(40,239)	(40,239)	—	(40,239)
Balance as of December 31, 2020	<u>104,163,686</u>	<u>6</u>	<u>103,554,546</u>	<u>6</u>	<u>1,278,004</u>	<u>4,232,169</u>	<u>(54,600)</u>	<u>363,051</u>	<u>(59,384)</u>	<u>1,527,083</u>	<u>3,236</u>	<u>1,530,319</u>
Balance as of January 1, 2021	104,163,686	6	103,554,546	6	1,278,004	4,232,169	(54,600)	363,051	(59,384)	1,527,083	3,236	1,530,319
Net income attributable to the Company and non-controlling interest shareholders	—	—	—	—	—	—	—	88,605	—	88,605	286	88,891
Share-based compensation related to 2015 and 2018 Share Incentive Plan	—	—	—	—	47,405	—	—	—	—	47,405	—	47,405
Class B ordinary shares converted to Class A ordinary shares	339,999	—	(339,999)	—	—	—	—	—	—	—	—	—
Issuance of ordinary shares for exercised share options	3,011,064	—	—	—	9,941	—	—	—	—	9,941	—	9,941
Capital injection in a subsidiary from an investor	—	—	—	—	175	—	—	—	—	175	—	175
Repurchase of shares	(1,997,970)	—	—	—	—	1,997,970	(12,068)	—	—	(12,068)	—	(12,068)
Appropriation to statutory reserves	—	—	—	—	1,756	—	—	(1,756)	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(13,736)	(13,736)	—	(13,736)
Balance as of December 31, 2021	<u>105,516,779</u>	<u>6</u>	<u>103,214,547</u>	<u>6</u>	<u>1,337,281</u>	<u>6,230,139</u>	<u>(66,668)</u>	<u>449,900</u>	<u>(73,120)</u>	<u>1,647,405</u>	<u>3,522</u>	<u>1,650,927</u>

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

VIOMI TECHNOLOGY CO., LTD
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands, except shares, ADS, per share and per ADS data)

	Year ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	2021 US\$ (Note2(e))
Cash flows from operating activities				
Net income	293,830	174,446	88,891	13,949
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	23,577	54,271	72,148	11,322
Inventory write-down	15,661	22,577	8,103	1,272
Share-based compensation	43,168	72,203	47,405	7,439
Allowance for doubtful accounts	2,006	4,484	25,541	4,008
Loss from disposal of property and equipment	29	—	—	—
Deferred income tax benefits	(7,042)	(1,492)	(21,115)	(3,313)
Investment income	(4,654)	(10,800)	(1,369)	(215)
Changes in operating assets and liabilities:				
Accounts and notes receivable from third parties	(206,477)	(118,403)	99,877	15,673
Accounts receivable from a related party	(446,963)	98,792	287,690	45,145
Inventories	(201,701)	(43,937)	(145,079)	(22,766)
Prepaid expenses and other current assets	(25,659)	(23,543)	(76,193)	(11,956)
Other receivables from related parties	88,376	(64,103)	(266)	(42)
Amounts due to related parties	19,343	99,086	(118,777)	(18,639)
Interest received relating to the investment income recognized in previous year	361	8,089	2,785	437
Accounts and notes payable	494,678	(41,788)	67,737	10,629
Advances from customers	16,838	9,463	(12,981)	(2,037)
Income tax payables	23,323	17,440	(7,619)	(1,196)
Accrued expenses and other liabilities	122,550	421	3,202	503
Lease liabilities	(5,760)	(8,392)	(11,012)	(1,728)
Purchase of a land use right	—	(63,618)	—	—
Net cash provided by operating activities	<u>245,484</u>	<u>185,196</u>	<u>308,968</u>	<u>48,485</u>
Cash flows from investing activities				
Purchase of equipment	(56,131)	(47,509)	(99,448)	(15,606)
Purchase of lease hold improvement	(7,874)	(569)	(3,991)	(626)
Purchase of intangible assets	(4,595)	(2,365)	(6,733)	(1,057)
Purchase of short-term investments	(812,086)	(3,256,151)	(1,796,620)	(281,929)
Maturity of short-term investments	670,190	2,874,162	1,663,489	261,038
Placement of short-term deposits	(270,457)	(215,630)	(164,761)	(25,855)
Maturities of short-term deposits	211,967	214,979	162,743	25,538
Placement of long-term deposits	—	—	(30,000)	(4,708)
Maturities of long-term deposits	—	—	10,000	1,569
Proceeds from disposal of property and equipment	30	—	—	—
Net cash used in investing activities	<u>(268,956)</u>	<u>(433,083)</u>	<u>(265,321)</u>	<u>(41,636)</u>
Cash flows from financing activities				
Dividend paid	(46,602)	—	—	—
Proceeds from exercise of vested share options	1,109	6,615	12,920	2,027
Receipt (repayment) of borrowing	95,868	(95,868)	16,106	2,527
Cash paid in relation to issuance of ordinary shares upon IPO	(2,637)	—	—	—
Capital injection in subsidiaries from non-controlling shareholders or investors	3,000	—	175	27
Purchase of non-controlling interests	(2,196)	(1,286)	—	—
Repurchase of ordinary shares	—	(54,600)	(12,068)	(1,894)
Dividends paid by non-wholly owned subsidiaries to non-controlling interests	—	(1,236)	—	—
Net cash provided by (used in) financing activities	<u>48,542</u>	<u>(146,375)</u>	<u>17,133</u>	<u>2,687</u>
Effect of exchange rate changes on cash and cash equivalents	8,087	(34,034)	(12,703)	(1,993)
Net increase (decrease) in cash and cash equivalents and restricted cash	33,157	(428,296)	48,077	7,543
Cash and cash equivalents and restricted cash at the beginning of the year	969,848	1,003,005	574,709	90,186
Cash and cash equivalents and restricted cash at the end of the year	<u>1,003,005</u>	<u>574,709</u>	<u>622,786</u>	<u>97,729</u>
Including:				
Cash and cash equivalents at the end of the year	972,438	504,108	586,955	92,106
Restricted cash at the end of the year	30,567	70,601	35,831	5,623
Supplemental disclosures of cash flow information:				
Cash paid for income tax	(28,909)	(27,373)	(34,446)	(5,405)
Cash paid for interest expense, net of amounts capitalized	(995)	(76)	—	—
Acquisition of equipment in form of other payable	5,997	15,624	60,507	9,495

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

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except shares, ADS, per share and per ADS data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Viomi Technology Co., Ltd (the “Company”) is a holding company incorporated under the Laws of the Cayman Islands in January 2015. The Company, through its consolidated subsidiaries and “VIEs” (collectively referred to as the “Group”) is primarily engaged in the operation of developing and selling Internet-of-things-enabled (“IoT-enabled”) smart home products in the People’s Republic of China (the “PRC”).

(a) History and Reorganization

The Group commenced its operations in May 2014 through Foshan Yunmi Electric Appliances Technology Co., Ltd. (“Foshan Viomi”), a PRC company established by Mr. Chen Xiaoping (“Mr. Chen” or the “Founder”), and Tianjin Jinxing Investment Co., Ltd. (“Tianjin Jinxing”), a subsidiary of Xiaomi Corporation (“Xiaomi”, also referring to entities controlled by Xiaomi Corporation where appropriate), who is an investor of the Company. Mr. Chen and Tianjin Jinxing invested RMB7,500 and RMB5,000 to establish Foshan Viomi and held 60% and 40% initial equity interests, respectively. Included in the RMB7,500 invested by Mr. Chen, RMB2,500 was invested by certain key management founders and held by Mr. Chen on their behalf (The key management founders, together with Mr. Chen are referred to “the Founders”). The Group has undertaken its reorganization (“Reorganization”) as detailed below.

In January 2015, the Company was incorporated in the Cayman Islands, Viomi HK Technology Co., Limited (“Viomi HK”) was incorporated in Hong Kong as a wholly owned subsidiary of the Company, Beijing Yunmi Technology Co., Ltd. (“Beijing Viomi”) was set up as a domestic company. In May 2015, Lequan Technology Beijing Co., Ltd (“Lequan”) was incorporated as a wholly owned subsidiary of Viomi HK in the PRC.

In July 2015, the Company issued 33,818,182 class A ordinary shares to exchange the interest of RMB2,500 in Foshan Viomi held by Mr. Chen on behalf of key management founders, 67,636,364 Class B redeemable convertible ordinary shares (Pre-IPO Class B Ordinary Shares) to exchange the interest of RMB5,000 in Foshan Viomi owned by Mr. Chen, and 67,636,364 Pre-IPO Class B Ordinary Shares to Red Better Limited (“Red Better”), a subsidiary of Xiaomi, and Shunwei Talent Limited (“Shunwei”), to exchange the interest of RMB5,000 held by Tianjin Jinxing. Concurrently, the Company obtained control over Foshan Viomi and Beijing Viomi through Lequan by entering into a series of contractual arrangements with Foshan Viomi, Beijing Viomi and their shareholders as detailed in note 1(c). As a result, Foshan Viomi and Beijing Viomi became the consolidated VIEs of the Group. The Reorganization lacks substance and should be treated as a non-substantive merger with no change in the basis of assets and liabilities of Foshan Viomi.

In addition, the Company issued 18,181,818 Series A Preferred Shares at the issue price of US\$1.1 per share to a group of investors for considerations of US\$20,000, including conversion of the outstanding bridge loans of US\$5,250, which was provided by the same investors during January 2015 to July 2015. The remaining consideration was fully received in cash.

In June 2018, the Board of Directors and the shareholders approved a transfer and surrender of shares plan, pursuant to which, Mr. Chen, who holds 33,818,182 class A ordinary shares on behalf of certain key management founders through Viomi Limited, transferred 16,145,454 class A ordinary shares to key management founders and surrendered the remaining 17,672,728 class A ordinary shares to the Company.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except shares, ADS, per share and per ADS data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

(a) History and Reorganization (Continued)

Pursuant to the written resolutions of all the shareholders of the Company on August 23, 2018, the Company effected a share split whereby each of the Company's authorized and outstanding ordinary shares and preferred shares, par value of \$0.0001 each, was divided into ten ordinary shares and preferred shares of the same series, par value US\$0.00001 each, respectively. All shareholders surrendered 90% of their after-share-split outstanding shares back to the Company for cancellation. After the share split and the surrender of shares for cancellation, the number of the Company's outstanding ordinary and preferred shares remained unchanged.

In December 2019, the Company established Yunmi Hulian Technology (Guangdong) Co., Ltd. ("Yunmi Hulian") as a wholly owned subsidiary of Viomi HK to act as a holding company for future business and investment opportunities.

In October 2020, Codream HK Co., Limited (Hong Kong) ("Codream HK"), one of the Company's subsidiaries, established Zhumeng Hulian Technology (Guangdong) Co. Ltd. ("Zhumeng Hulian") as a wholly owned subsidiary of the Company.

In November 2020, the Group entered into an agreement with Sunglow Wealth HK Limited ("Sunglow") to sell 1% of equity interests of Guangdong Lizi Technology Co. Ltd. ("Guangdong Lizi") for a consideration of RMB175. Meanwhile, Foshan Viomi transferred all of its equity interests of Guangdong Lizi to Zhumeng Hulian. Sunglow has paid up the consideration in December 2021 but is not entitled to any shareholder's rights of Guangdong Lizi until the fulfilment of certain conditions pursuant to the supplemental agreement in November 2021. The Group therefore did not recognize Sunglow as a non-controlling interest of Guangdong Lizi as of December 31, 2021.

As of December 31, 2021, details of the Company's principal subsidiaries and VIEs were as follows:

	Place of incorporation	Date of incorporation	Percentage of beneficial ownership	Principal activities
Subsidiaries:				
Viomi HK	Hong Kong	January 30, 2015	100%	Investment holding
Lequan	PRC	May 15, 2015	100%	Investment holding
Codream HK	Hong Kong	August 20, 2019	100%	Investment holding
Yunmi Hulian	PRC	December 9, 2019	100%	Investment holding
Zhumeng Hulian	PRC	October 14, 2020	100%	Investment holding
Guangdong Lizi	PRC	July 26, 2018	100%	Home appliance development and sales
Guangzhou interconnect Technology Co., Ltd.	PRC	December 7, 2020	100%	Home appliance development and sales
VIEs:				
Foshan Viomi	PRC	May 6, 2014	100%	Home appliance development and sales
Beijing Viomi	PRC	January 12, 2015	100%	No substantial business
Subsidiaries of Foshan Viomi:				
Guangdong AI Touch Technology Co., Ltd. ("AI Touch")	PRC	January 30, 2019	VIE's subsidiary	Home appliance development and sales
Foshan Xiaoxian Hulian Electric Appliances Technology Co., Ltd. ("Foshan Xiaoxian")	PRC	October 12, 2016	VIE's subsidiary	Home appliance development and sales

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except shares, ADS, per share and per ADS data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

(b) Dual Classes Ordinary Shares and Initial Public Offering

On September 25, 2018, the Company completed its IPO on the NASDAQ Global Market in the United States of America. In this offering, 11,400,000 American Depositary Shares (“ADSs”), representing 34,200,000 Class A ordinary shares, were issued and sold to the public at a price of US\$9.00 per ADS.

Pursuant to the resolution of the shareholders of the Company on August 23, 2018, the Company’s authorized share capital became US\$50,000 divided into 5,000,000,000 shares comprising of (i) 4,800,000,000 class A ordinary shares of a par value of US\$0.00001 each (“Class A Ordinary Shares”), (ii) 150,000,000 class B ordinary shares of a par value of US\$0.00001 each (“Class B Ordinary Shares”) and (iii) 50,000,000 shares of a par value of US\$0.00001 each of such class or classes (however designated) as the board of directors may determine in accordance with post-offering amended and restated memorandum and articles of association. In respect of all matters subject to a shareholder vote, each Class A ordinary share is entitled to one vote, and each Class B Ordinary Share is entitled to ten (10) votes, voting together as one class. 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. Upon any transfer of Class B Ordinary Shares by a holder to any person or entity other than holders of Class B Ordinary Shares or their affiliates, such Class B Ordinary Shares shall be automatically and immediately converted into the equivalent number of Class A Ordinary Shares.

Immediately prior to the completion of the IPO, 16,145,454 issued Class A Ordinary Shares held by certain key management founders, 33,818,182 issued Pre-IPO Class B Ordinary Shares held by Red Better, and 67,636,364 issued Pre-IPO Class B Ordinary Shares held by Mr. Chen’s wholly-owned entity Viomi Limited was automatically converted by way of re-designation and re-classification into Class B Ordinary Shares on a one-for-one basis, and the rest of the outstanding Class A Ordinary Shares, the rest of the outstanding Pre-IPO Class B Ordinary Shares, and all outstanding Series A Preferred Shares was automatically converted by way of re-designation and re-classification into Class A Ordinary Shares on a one-for-one basis.

(c) VIE Arrangements between the VIEs and the Company’s PRC subsidiaries

The Company, through Lequan or Yunmi Hulian, entered into the following contractual arrangements with Beijing Viomi, Foshan Viomi and their shareholders, respectively, that enable Lequan or Yunmi Hulian through their PRC subsidiaries to (1) have power to direct the activities that most significantly affects the economic performance of the VIEs, through the exercise of the shareholders’ rights under the shareholder voting proxy agreement as the shareholders’ meetings of the VIEs appoint the board of directors of the VIEs, and (2) receive the economic benefits of the VIEs that could be significant to the VIEs through the exclusive consultation and service agreement. Accordingly, Lequan or Yunmi Hulian are considered the primary beneficiaries of the VIEs and have consolidated the VIEs’ financial results of operations, assets and liabilities in the Company’s consolidated financial statements.

In making the conclusion that Lequan or Yunmi Hulian are the primary beneficiaries of the VIEs, the Company believes Lequan or Yunmi Hulian’s rights under the terms of the option agreement provide them with a substantive kick-out right. As advised by the Company’s PRC legal counsel, the Company believes the terms of the option agreement are valid, binding and enforceable under PRC laws and regulations currently in effect. The Company also believes that the consideration which is the minimum amount permitted by the applicable PRC law to exercise the option does not represent a financial barrier or disincentive for Lequan or Yunmi Hulian to currently exercise their rights under the exclusive option agreement.

A simple majority vote of Lequan or Yunmi Hulian’s board of directors is required to pass a resolution to exercise their rights under the option agreement. Lequan or Yunmi Hulian’s rights under the option agreement give them the power to control the shareholders of Foshan Viomi and Beijing Viomi. In addition, Lequan or Yunmi Hulian’s rights under the shareholder voting proxy agreement also reinforce their abilities to direct the activities that most significantly impact the VIEs’ economic performance. The Company also believes that this ability to exercise control ensures that the VIEs will continue to execute consultation and service agreements and also ensures that consultation and service agreements will be executed and renewed indefinitely unless a written agreement is signed by all parties to terminate it or a mandatory termination is requested by PRC laws or regulations. Lequan and Yunmi Hulian have the rights to receive substantially all of the economic benefits from the VIEs.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except shares, ADS, per share and per ADS data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

(c) VIE Arrangements between the VIEs and the Company's PRC subsidiary (Continued)

Exclusive consulting and service agreement. In July 2015, Lequan entered into exclusive consultation and service agreements with Foshan Viomi and Beijing Viomi respectively to enable Lequan to receive substantially all of the economic benefits of the VIEs. In April 2020, Lequan assigned and transferred its rights and obligations of Foshan Viomi under the original agreements to Yunmi Hulian, which succeeded Lequan as a party to such agreement and assumed its rights and obligations thereunder. Under the exclusive consultation and service agreements, Lequan or Yunmi Hulian have the exclusive right to provide or designate any entity affiliated with them to provide VIEs the technical and business support services, including information technology support, hardware management and updates, software development, maintenance and updates and other operating services. The exclusive consultation and service agreement could be indefinitely effective unless a written agreement is signed by all parties to terminate it or a mandatory termination is requested by PRC laws or regulations. The exclusive consultation and service agreement was effective in July 2015 and will remain effective until all equity interests and assets in Foshan Viomi and Beijing Viomi are sold to Lequan or Yunmi Hulian or the party designated by them. Under this arrangement, Lequan or Yunmi Hulian has the sole discretion to receive an annual service fee at an amount up to 100% of the annual net income of Foshan Viomi and Beijing Viomi, respectively. In addition, Lequan or Yunmi Hulian are entitled to receive other technical service fees at the amount mutually agreed upon by them and the respective VIE.

Equity pledge agreement. Pursuant to the equity pledge agreements in July 2015 among Foshan Viomi, Beijing Viomi, all of their shareholders and Lequan, all shareholders of Foshan Viomi and Beijing Viomi agreed to pledge their equity interests in Foshan Viomi or Beijing Viomi to Lequan to secure the performance of the VIEs' obligations under the existing exclusive purchase option agreement, shareholder voting proxy agreement, exclusive consulting and service agreement and also the equity pledge agreement. The Pledge will remain binding until Foshan Viomi, Beijing Viomi and their shareholders discharge all their obligations under the contractual agreements. In April 2020, Lequan assigned and transferred its rights and obligations under the original agreements to Yunmi Hulian.

Exclusive purchase option agreement. Lequan, Foshan Viomi, Beijing Viomi and their shareholders entered into exclusive option agreements in July 2015. In April 2020, Lequan assigned and transferred its rights and obligations under the original agreements to Yunmi Hulian, which succeeded Lequan as a party to such agreement and assumed its rights and obligations thereunder. Pursuant to the exclusive option agreements, the shareholders of Foshan Viomi and Beijing Viomi are obligated to sell their equity interest to Lequan or Yunmi Hulian. Lequan or Yunmi Hulian has the exclusive and irrevocable right to purchase, or cause the shareholders of Foshan Viomi and Beijing Viomi to sell to the party designated by them, in Lequan or Yunmi Hulian's sole discretion, all of the shareholders' equity interests or any assets in Foshan Viomi and Beijing Viomi when and to the extent that applicable PRC law permits Lequan or Yunmi Hulian to own such equity interests and assets in Foshan Viomi and Beijing Viomi. The price to be paid will be the minimum amount of consideration permitted by applicable PRC law at the time when such transaction occurs. All of the shareholders promised and agreed that they will refund the consideration once received to Lequan or Yunmi Hulian or any party designated by them within 10 working days. Also, the shareholders of Foshan Viomi and Beijing Viomi should try their best to help Foshan Viomi and Beijing Viomi develop well and are prohibited from transferring, pledging, intentionally terminating significant contracts or otherwise disposing of any significant assets in Foshan Viomi and Beijing Viomi without Lequan or Yunmi Hulian's prior written consent. The exclusive option agreement will remain effective until all equity interests and assets in Foshan Viomi and Beijing Viomi are sold to Lequan or Yunmi Hulian or the party designated by them.

Shareholder voting proxy agreement. In July 2015, all of the shareholders of Foshan Viomi and Beijing Viomi have executed a shareholder voting proxy agreement with Lequan, Foshan Viomi and Beijing Viomi, whereby all of the shareholders irrevocably appoint and constitute the person designated by Lequan as their attorney-in-fact to exercise on their behalf any and all rights that the shareholders have in respect of their equity interests in Foshan Viomi and Beijing Viomi. In April 2020, Lequan assigned and transferred its rights and obligations under the original agreement to Yunmi Hulian, which succeeded Lequan as a party to such agreement and assumed its rights and obligations thereunder. The shareholder voting proxy agreement will be indefinitely effective unless all parties decide to terminate it by written agreement.

In September 2018, Foshan Viomi reduced its registered capital and changed its shareholders from Mr. Chen and Tianjin Jinxing to Mr. Chen alone. Concurrently, the Group entered into a series of contractual arrangements in substantially the same forms with Foshan Viomi and Mr. Chen.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

(c) VIE Arrangements between the VIEs and the Company's PRC subsidiary (Continued)

Management therefore concluded that the Company, through its PRC subsidiary and the above contractual arrangements, has the power to direct the activities that most significantly impact the VIEs' economic performance, bears the risks of and enjoys the rewards normally associated with ownership of the VIEs, and therefore the Company is the ultimate primary beneficiary of these VIEs. Consequently, the financial results of the VIEs were included in the Group's consolidated financial statements.

Risks in relation to VIE structure

The Company believes that the contractual arrangements among its subsidiaries, their VIEs and their respective shareholders are in compliance with PRC laws and regulations and are legally enforceable. However, uncertainties in the PRC legal system could limit Lequan and Yunmi Hulian's ability to enforce the contractual arrangements. If the legal structure and contractual arrangements were found to be in violation of PRC laws and regulations, the PRC government could:

- revoke the business and operating licenses of the Company's PRC subsidiary and VIEs;
- discontinue or restrict the operations of any related-party transactions between the Company's PRC subsidiary and VIEs;
- limit the Group's business expansion in China by way of entering into contractual arrangements;
- impose fines or other requirements with which the Company's PRC subsidiary and VIEs may not be able to comply;
- impose additional conditions or requirements with which the Group may not be able to comply;
- take other regulatory or enforcement actions against the Group that could be harmful to the Group's business or
- require the Company or the Company's PRC subsidiary or VIEs to restructure the relevant ownership structure or operations.

The Company's ability to conduct its business may be negatively affected if the PRC government were to carry out any of the aforementioned actions. As a result, the Company may not be able to consolidate its VIEs in its consolidated financial statements as it may lose the ability to exert effective control over the VIEs and their respective shareholders and it may lose the ability to receive economic benefits from the VIEs. The Company, however, does not believe such actions would result in the liquidation or dissolution of the Company, its PRC subsidiary or VIEs.

Mr. Chen is the ultimate shareholder of Foshan Viomi and the largest shareholder of Beijing Viomi, and Mr. Chen is also the largest beneficiary owner of the Company. The interests of Mr. Chen as the largest beneficiary owner of the VIEs may differ from the interests of the Company as a whole, since Mr. Chen is only one of the beneficiary shareholders of the Company. The Company cannot assert that when conflicts of interest arise, Mr. Chen will act in the best interests of the Company or that conflicts of interests will be resolved in the Company's favor. Currently, the Company does not have existing arrangements to address potential conflicts of interest Mr. Chen may encounter in his capacity as a beneficial owner and director of the VIEs, on the one hand, and as a beneficial owner and director of the Company, on the other hand. The Company relies on Mr. Chen, as a director and executive officer of the Company, to fulfill his fiduciary duties and abide by laws of the PRC and Cayman Islands and act in the best interest of the Company. If the Company cannot resolve any conflicts of interest or disputes between the Company and Mr. Chen, the Company would have to rely on legal proceedings, which could result in disruption of its business, and there is substantial uncertainty as to the outcome of any such legal proceedings.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

(c) VIE Arrangements between the VIEs and the Company's PRC subsidiary (Continued)

In addition, the other shareholder of Beijing Viomi is also a beneficial owner of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, to further protect the investors' interest from any risk that the shareholders of the Foshan Viomi and Beijing Viomi may act contrary to the contractual arrangements, the Company, through Lequan, entered into a shareholder voting proxy agreement with all of the shareholders of Foshan Viomi and Beijing Viomi in July 2015. The shareholder voting proxy agreement with the shareholder of Foshan Viomi has been updated in September 2018 as Foshan Viomi reduced its registered capital and changed its shareholders from Mr. Chen and Tianjin Jinxing to Mr. Chen alone. In April 2020, Lequan assigned and transferred its rights and obligations of Foshan Viomi under the original agreements to Yunmi Hulian, which succeeded Lequan as a party to such agreement and assumed its rights and obligations thereunder. Through the shareholder voting proxy agreement, all shareholders of Foshan Viomi and Beijing Viomi have entrusted the person designated by Lequan or Yunmi Hulian as its proxy to exercise their rights as the shareholders of Foshan Viomi and Beijing Viomi with respect to an aggregate of 100% of the equity interests in Foshan Viomi and Beijing Viomi.

In March 2019, the National People's Congress enacted PRC Foreign Investment Law which would be effective starting from January 1, 2020. The Foreign Investment Law does not explicitly classify contractual arrangements as a form of foreign investment, but it contains a catch-all provision under the definition of "foreign investment", which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Existing laws or administrative regulations remain unclear whether the contractual arrangements with variable interest entities will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. However, the possibility that such entities will be deemed as foreign invested enterprise and subject to relevant restrictions in the future shall not be excluded. If variable interest entities fall within the definition of foreign investment entities, the Group's ability to use the contractual arrangements with its VIE and the Group's ability to conduct business through the VIE could be severely limited.

The following table sets forth the assets, liabilities, results of operations and cash flows of the VIEs and its subsidiaries taken as a whole on an aggregated basis, which were included in the Group's consolidated financial statements. For purposes of this presentation, activity within and between the VIEs and their subsidiaries have been eliminated, but transactions with other entities within the Consolidated Group have been included without elimination. Presentation of the comparative data for 2019 and 2020 have been expanded to conform to the current year presentation.

	As of December 31,	
	2020	2021
	RMB	RMB
Cash and cash equivalents	338,748	353,554
Short-term investments	579,457	820,344
Accounts receivable from third parties	412,118	204,769
Accounts receivable from a related party	609,094	320,939
Inventories	392,574	362,385
Amount due from Group companies	106,956	232,203
Other assets	395,941	383,569
Total assets	2,834,888	2,677,763
Accounts and notes payable	860,454	545,966
Accrued expenses and other liabilities*	302,256	292,388
Amount due to Group companies	480,058	824,304
Other liabilities	293,413	122,508
Total liabilities	1,936,181	1,785,166

* The amount of accrued expenses and other liabilities of VIEs as of December 31, 2020 has been revised to correct an error in previously issued annual financial statements included in our Form 20-F for the year ended December 31, 2020.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

(c) VIE Arrangements between the VIEs and the Company's PRC subsidiary (Continued)

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Revenue from Group companies (1)	—	25,994	131,379
Revenue from a related party and third parties	4,647,513	5,790,475	4,859,414
Cost from Group companies	—	214,289	1,291,468
Cost from a related party and third parties	3,565,109	4,556,588	2,870,809
Net income/(loss)	276,426	152,908	(60,908)
Net cash used in operating activities with Group companies	—	(162,243)	(794,936)
Net cash provided by operating activities with third parties	240,823	218,030	1,248,860
Net cash used in investing activities with Group companies	(1,482)	(30,404)	(83,325)
Net cash used in investing activities with third parties	(97,702)	(490,270)	(233,934)
Net cash provided by/(used in) financing activities with Group companies	161,722	154,557	(156,406)
Net cash (used in)/provided by financing activities with third parties	95,933	(98,390)	—

(1) Inter-company revenues between VIEs and other subsidiaries

VIEs sell certain products to other subsidiaries. For the years ended 31 December, 2019, 2020 and 2021, the inter-company sales recognized by VIEs to Equity subsidiaries are nil, RMB12.6 million and RMB131.3 million, respectively. And the inter-company sales recognized by VIEs to Primary beneficiary of VIEs and their subsidiaries for the year ended 31 December, 2019, 2020 and 2021 are nil, RMB13.4 million and RMB0.1 million, respectively.

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2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) to reflect the financial position, results of operations and cash flows of the Group. Significant accounting policies followed by the Group in the preparation of the consolidated financial statements are summarized below.

(b) Consolidation

The Group’s consolidated financial statements include the financial statements of the Company, its subsidiaries and VIEs for which the Company or its subsidiary is the primary beneficiary. All transactions and balances among the Company, its subsidiaries and VIEs have been eliminated upon consolidation.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting powers; or has the power to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meeting of directors; or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A VIE is an entity in which the Company, or its subsidiary, through contractual agreements, bears the risks of, and enjoys the rewards normally associated with ownership of the entity, and therefore the Company or its subsidiary is the primary beneficiary of the entity. In determining whether the Company or its subsidiaries are the primary beneficiary, the Company considered whether it has the power to direct activities that are significant to the VIE’s economic performance, and also the Company’s obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Lequan and ultimately the Company hold all the variable interests of the VIE and has been determined to be the primary beneficiary of the VIE.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Significant accounting estimates reflected in the Group's consolidated financial statements include sales returns, inventory valuation, product warranties, share-based compensation, allowance for doubtful accounts and the valuation allowance for deferred tax assets and income tax. Actual results could differ from those estimates, and such differences may be material to the consolidated financial statements.

(d) Foreign currency translation

The Group uses Renminbi ("RMB") as its reporting currency. The functional currency of the Company and its subsidiaries incorporated in Hong Kong and British Virgin Islands are United States dollar ("US\$"), while the functional currency of the Group's entities in the PRC is RMB, which is their respective local currency. In the consolidated financial statements, the financial information of the Company and its subsidiary in Hong Kong and British Virgin Islands, which use US\$ as their functional currency, have been translated into RMB. Assets and liabilities are translated at the exchange rates on the balance sheet date, equity amounts are translated at historical exchange rates, and revenues, expenses, and incomes are translated using the average exchange rate for the period. Translation adjustments arising from these are reported as foreign currency translation adjustments and are shown as a component of other comprehensive income in the statement of comprehensive income.

Foreign currency transactions denominated in currencies other than functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are remeasured at the applicable rates of exchange in effect at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from remeasurement at year-end are recognized in foreign currency exchange (losses) gains, net in the consolidated statement of comprehensive income.

(e) Convenience translation

Translations of balances in the consolidated balance sheets, consolidated statements of comprehensive income and consolidated statements of cash flows from RMB into US\$ as of and for the year ended December 31, 2021 are solely for the convenience of the reader and were calculated at the noon buying rate of US\$1.00 = RMB6.3726 on December 30, 2021 as 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 that rate on December 30, 2021, or at any other rate.

(f) Cash and cash equivalents

Cash includes currency on hand and deposits held by financial institutions that can be added to or withdrawn without limitation. Cash equivalents represent short-term and highly liquid investments placed with banks, and all highly liquid investments with original maturities of three months or less, which have both of the following characteristics:

- i) Readily convertible to known amounts of cash throughout the maturity period;
- ii) So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

(g) Restricted cash

Cash that is restricted as to withdrawal or for use or pledged as security is reported separately on the face of the consolidated balance sheets. Restricted cash is included in the total cash and cash equivalents and restricted cash in the consolidated statements of cash flows when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Group's restricted cash mainly represents security deposits held in designated bank accounts for issuance of bank acceptance notes.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Short-term deposits

Short-term deposits represent time deposits placed with banks with original maturities of more than three months but less than one year. Interest earned is recorded as interest income in the consolidated statement of comprehensive income during the years presented.

(i) Short-term investments

In accordance with ASC 825, for investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, the Company elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair values are reflected in the consolidated statements of comprehensive income.

(j) Accounts receivable

Accounts receivable are stated at the historical carrying amount net of allowance for doubtful accounts. On January 1, 2020, the Company adopted ASC326, "Financial Instruments—Credit Losses" using modified retrospective transition approach. The Group provides an allowance against accounts receivable to the amount management reasonably believe will be collected. The Group writes off trade receivable when they are deemed uncollectible.

The Company maintains an allowance for doubtful accounts which reflects its best estimate of amounts that potentially will not be collected. Accounts receivable have been grouped based on shared credit risk characteristics and days past due to estimate, taking into consideration various factors including but not limited to historical collection experience and credit-worthiness of the debtors.

(k) Inventories

Inventories are stated at the lower of cost or net realizable value. Inventory costs are calculated on the actual cost basis including expenses that are directly or indirectly incurred in the purchase, and production of manufactured product. Expenses include the cost of materials, consignment manufacturing cost and other direct costs. Cost is determined using the weighted average method. The Group assesses the valuation of inventory and periodically writes down the value for estimated excess and obsolete inventory based upon the turnover and age of the products. Write downs are recorded in cost of revenues in the consolidated statements of comprehensive income.

(l) Long-term deposits

Long-term deposits represent time deposits placed with banks with original maturities of more than one year. Interest earned is recorded as interest income in the consolidated statement of comprehensive income during the years presented.

(m) Property, plant and equipment, net

Property, plant and equipment are carried at cost less accumulated depreciation and impairment, if any. Depreciation is calculated on a straight-line basis over the following estimated useful lives and residual value. Residual rate is determined based on the economic value of the property and equipment at the end of the estimated useful lives as a percentage of the original cost.

	Estimated useful lives	Residual rate
Computers and equipment	2-10 years	0%-5%
Vehicle	4 years	5%

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Property, plant and equipment, net (Continued)

Expenditures for maintenance and repairs are expensed as incurred. The gain or loss on the disposal of property and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated statements of comprehensive income.

Construction in progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Completed assets are transferred to their respective asset classes and depreciation begins when an asset is ready for its intended use. Interest expense on outstanding debt is capitalized during the period of significant capital asset construction. Capitalized interest expense on construction-in-progress is included within property, plant and equipment and is amortized over the life of the related assets.

(n) Land use rights

Land use rights are recorded at cost less accumulated amortization and impairment, if any. Amortization is calculated on a straight-line basis over the estimated useful lives which are 50 years that represent the terms of land use rights certificate.

(o) Intangible assets

Intangible assets mainly consist of software and license. Identifiable intangible assets are carried at acquisition cost less accumulated amortization and impairment loss, if any. Finite-lived intangible assets are tested for impairment if impairment indicators arise. Amortization of finite-lived intangible assets is computed using the straight-line method over their estimated useful lives, which are as follows:

	Estimated useful lives
Software	1 - 10 years
License	3 - 10 years

(p) Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (Topic 842) "Leases". Topic 842 supersedes the lease requirements in Accounting Standards Codification (ASC) Topic 840, "Leases". Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating. The Company adopted the new standard using the optional transition method beginning January 1, 2019. As permitted under the transition guidance, the Company carried forward the assessment of whether the existing contracts contain or are leases, classification of the leases and remaining lease terms. RMB9,274 of right-of-use assets and RMB9,168 of lease liabilities were recognized on the balance sheet upon adoption as of January 1, 2019.

The Company categorize leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that allow lessees to substantially utilize or pay for the entire asset over its estimated life. Assets acquired under finance leases are recorded in property and equipment, net. All other leases are categorized as operating leases. All the leases recognized by the Company were classified as operating leases for the years presented.

Lease liabilities are recognized at the present value of the fixed lease payments using a discount rate based on similarly secured borrowings available to us. Lease assets are recognized based on the initial present value of the fixed lease payments plus any direct costs from executing the leases or lease prepayments reclassified from "Prepayments and other current assets" upon lease commencement. Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue recognition

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”) and subsequently, the FASB issued several amendments which amend certain aspects of the guidance in ASC 2014-09 (ASU No. 2014-09 and the related amendments are collectively referred to as “ASC 606”). According to ASC 606, revenue is recognized when control of the promised good or service is transferred to the customers, in an amount that reflects the consideration the Group expects to be entitled to in exchange for those goods or services. The Group will enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities. The Group adopted ASC 606 for all periods presented.

The Group’s revenue is primarily derived from (i) IoT @ Home portfolio including sweeper robots, air conditioning systems and other smart devices, (ii) Home water solutions, which are composed of smart water purification systems, (iii) consumable products complementary to the Group’s IoT smart home products, such as water purifier filters, (iv) Small appliances and others refer to the value-added businesses. Refer to Note 13 to the consolidated financial statements for disaggregation of the Group’s revenue by type of product and service for the years ended December 31, 2019, 2020 and 2021.

- 1) The Group conducts its business through various contractual arrangements, the following table disaggregates the Group’s revenue by type of contract for the years ended December 31, 2019, 2020 and 2021:

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Sales to Xiaomi	2,112,170	2,889,441	2,295,569
—Xiaomi-branded products	1,859,499	2,560,787	2,021,117
—Viomi-branded products	250,593	326,114	274,452
—Rendering of services	2,078	2,540	-
Sales to third-party customers	2,535,343	2,936,183	3,008,266
	<u>4,647,513</u>	<u>5,825,624</u>	<u>5,303,835</u>

a) Sales to Xiaomi

The Group generated a substantial portion of its revenues from sales of products to Xiaomi.

Under the cooperation agreement entered into between the Group and Xiaomi, the Group is responsible for design, research, development, production and delivery of designated products using the brand name of “Xiaomi” (“Xiaomi-branded products”). Xiaomi is responsible for commercial distributions and sales. The Group also sells some Viomi-branded products to Xiaomi.

Revenue is recognized upon acceptance by this customer, which is considered at the time the control of the products is transferred to Xiaomi. Revenue does not meet the criteria to be recognized over time since 1) even if the products use “Xiaomi” brand, it does not require significant rework to make them suitable to be sold to other customers, 2) under the cooperation agreement, the Group does not have the right of payment for the work performed to date.

For a majority of types of products sold to this customer, the selling price is a fixed amount as agreed by both parties. For other types of products sold to this customer, the sales arrangement includes two installment payments.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue recognition (Continued)

The first installment is priced to recover the costs incurred by the Group in developing, producing and shipping the products to this customer and is payable to the Group upon acceptance by the customer after delivery. The Group is also entitled to receive a potential second installment payment calculated as certain portion of the future gross profits from commercial sales made by this customer. Accordingly, the Group determines the sales price as the fixed first installment payment plus the variable second installment payment to the extent that it is probable that revenue reversal will not occur when settling with the customer subsequently. The Group estimates the variable consideration using the expected value method. In assessing the variable second installment payment, the Group takes into consideration of the historical experience with the customer, selling price of the same or similar products as at the report date as well as the recent market trend. Water purifiers products were previously entitled to second instalment payments but second instalment payment arrangement has stopped for water purifiers products since the first quarter of 2020. For the years ended December 31, 2019, 2020 and 2021, net revenues earned from second installment payment arrangement represented 5.9%, 3.8% and 2.0% of total revenue from Xiaomi, respectively.

In 2019, the Group entered into a cooperation arrangement with Xiaomi related to a certain type of products. Under the arrangement, the Group acts as an agent of Xiaomi to procure suppliers without obtaining the control, risks and rewards of the products during the whole process. The Group recognizes revenue of sales on a net basis for these products. This cooperation arrangement was terminated at the end of 2020.

- b) Sales to third-party customers, including: sales to leading e-commerce platforms and offline experience stores; and sales to customers directly through the online platforms operated by Xiaomi, third parties and the Group.

- Sales to leading e-commerce platforms and offline experience stores

Pursuant to the contracts between the Group and the leading e-commerce platforms/offline experience stores (“e-commerce platforms and stores”), the e-commerce platforms and stores have legal title and physical possession of the products upon acceptance and they would bear the inventory risk of loss due to physical damage before the products are transferred and accepted by end customers. The e-commerce platforms and stores are responsible for delivering the products to end customers and can direct the use of the products and obtain the remaining benefits from the products by reselling the products. The e-commerce platforms and stores have flexibility in determining the retail sales price within relatively broad price range set by the Group. Based on these indicators, the Group determined the e-commerce platforms and stores (as opposed to the end customers) as its customers according to ASC 606-10-55-39. The Group recognizes revenue equal to the sales price to the e-commerce platforms and stores when control of the inventory is transferred.

- Sales to customers directly through the online platforms operated by Xiaomi, third parties and the Group

Under the cooperation agreements entered between the Group and online platforms, the platforms’ responsibilities are limited to offering an online marketplace, while the Group is primarily obligated in a sales transaction and takes inventory risk and has latitude in determining prices. The platforms charged the Group commission fees at pre-determined amounts or a fixed rate based on the sales amounts. Commission fees are recognized as selling expenses. The Group determined the end customers (as opposed to the platforms) as its customers and recognizes revenue equal to the sales price to the end customers when control of the inventory is transferred.

The Group provides installation service to end customers for designated Viomi-branded products without separate charge. The end customers have the right, not the obligation, to ask the Group to provide installation service. The installation service is considered being distinct and accounted for as a separate performance obligation as the products and installation services are not inputs into a combined item the end customer has contracted to receive. In addition, the Group does not provide any significant integration, modification, or customization services. It can fulfill its obligation to transfer each of the products or services separately. End customers do not always exercise their rights to ask for installation services as the installation may not be complicated and could be done by end customers themselves. Therefore, the Group expects to be entitled to a breakage amount in the contract liabilities related to installation services. The Group estimates the breakage portion based on historical customers’ requests and recognizes estimated breakage as revenue in proportion to the pattern of rights exercised by end customers. The assessment of estimated breakage would be updated on a quarterly basis. Changes in estimated breakage should be accounted for by adjusting contract liabilities to reflect the remaining rights expected to be exercised.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue recognition (Continued)

Judgment is required to determine standalone selling price for each distinct performance obligation. The Group allocates the arrangement consideration to the separate accounting of each distinct performance obligation based on their relative standalone selling price. The standalone selling price of the products is determined based on adjusted market assessment approach by estimating the price the customer is willing to pay for the product without installation service. For the standalone selling price of the installation services, the Group determines it by referring to actual costs charged by the third-party vendors, plus an estimated profit margin of 5% based on consideration of both company specific and relevant market factors.

The Group recognizes revenue for the sales to third-party customers in accordance with the applicable revenue recognition method for each of the distinct performance obligation identified. Sales of products is recognized upon acceptance by customers after delivery. Installation services revenues are recognized when the services are rendered.

2) Sales returns and sales incentives

- Sales to leading e-commerce platforms

The Group's sales to leading e-commerce platforms started in 2018. As stipulated in the contracts, slow-moving goods are those unsold products after they are controlled by the e-commerce platforms for more than 30 days or 45 days or 60 days, depending on the different categories of products. The Group shall coordinate with the e-commerce platforms to sell the slowing-moving products to end customers through promotions within 30 or 60 days, otherwise, the e-commerce platforms can (i) return such slow-moving products, or (ii) sell on discount as determined by the e-commerce platforms. The Group shall bear all losses caused by such discounted sales. Based on the Group's history of cooperation with the e-commerce platforms and the pattern that the e-commerce platforms dealt with slow-moving goods, the Group estimates that slow-moving goods will be returned to the Group instead of being sold through discounted sales by the e-commerce platforms. Under ASC 606, a right of return is not a separate performance obligation, but it affects the estimated transaction price for transferred goods. Revenue is only recognized for those products that are not expected to be returned. The estimate of expected returns should be determined in the same way as other variable consideration. Based on historical information and other relevant evidence, including the expected sales and inventory level of the e-commerce platforms, the Group assesses if it is probable there will be no significant reversal of cumulative revenue, and recognizes those sales as revenue. For the years ended December 31, 2019, 2020 and 2021, the expected sales return was RMB12,037, RMB6,820 and RMB5,593. Accordingly, the Group recognizes an expected return asset of RMB8,572, RMB4,106 and RMB3,189, and a refund liability of RMB13,602, RMB7,707 and RMB6,320 as of December 31, 2019, 2020 and 2021, respectively. The Group would update its estimate of expected returns at each period end. The expected return asset is presented and assessed for impairment separately from the refund liability. The Group would assess the expected return asset for impairment, and adjust the value of the asset if it becomes impaired.

Further, the Group might provide various consideration to the e-commerce platforms, such as gross margin guarantee, advertising and promotion fees, in the form of cash, or directly reducing amounts owed to the Group by the e-commerce platforms. The Group evaluates each type of incentives or fees to be paid in accordance with ASC 606. Considering that the Group either does not receive any service from the e-commerce platforms or cannot elect to engage another vendor to provide similar advertising services on a standalone basis, the Group reduces the transaction price for the sale of products by the amount of various consideration payable to the e-commerce platforms.

- 7 days unconditional sales return

Under the consumer protection law, end customers have an unconditional right to return the products purchased through online platforms within 7 days. The Group bases its estimates of sales return on historical results. For the years ended December 31, 2019, 2020 and 2021, the amount of sales return was insignificant. The Group may provide sales incentives in the forms of discounts to end customers through online platforms in a bundle transaction. Revenue, recognized on a net basis after such sales incentives, are allocated based on the relative standalone selling prices for respective products.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue recognition (Continued)

3) Warranty

The Group offers product warranty pursuant to standard product quality required by consumer protection law. The warranty period is calculated starting from the date when products are sold to the end customers. The Group has the obligation, at the customer's sole discretion, to either repair or replace the defective product. The customers cannot separately purchase the warranty and the warranty doesn't provide the customer with additional service other than assurance that the product will function as expected. Therefore, these warranties are accounted for in accordance with ASC 460 Guarantees. At the time revenue is recognized, an estimate of warranty expenses is recorded. The reserves established are regularly monitored based upon historical experience and any actual claims charged against the reserve. Warranty reserves are recorded as cost of revenues.

4) Value added taxes

Value added taxes ("VAT") on sales is calculated at 17% on revenue from products before April 30, 2018, 16% between May 1, 2018 and March 31, 2019, and 13% after April 1, 2019. The Group reports revenue net of VAT. Subsidiaries and VIEs that are VAT general taxpayers are allowed to offset qualified VAT paid against their output VAT liabilities.

5) Contract balances

Key customers, including Xiaomi and third-party customers, are entitled to a credit term. The expected length of time between the products being transferred to customers and when they pay for those products is short. There is no difference between the amount of promised consideration and the cash selling price of the promised products. Therefore, the Group concludes that the contracts with these key customers generally do not include a significant financing component. The allowance for doubtful accounts reflects the Group's best estimate of probable losses inherent in the accounts receivable balance. The Group determines the allowance based on known troubled accounts, historical experience, and other currently available evidence. The amount of the allowance for doubtful accounts is recognized as expenses.

The opening balance of accounts receivable from these key customers as of January 1, 2020 was RMB 1,026,142. As of December 31, 2020 and 2021 accounts and notes receivable were RMB1,045,753 and RMB658,028, respectively. During the years ended December 31, 2020 and 2021, the Group recognized impairments, net of recoveries, for accounts receivable from customers amounted to RMB 4,475 and RMB 25,446 respectively.

Contract liabilities consist of deferred revenue related to the Group's provision of installation services and membership services, where there is still an obligation to be fulfilled by the Group. The contract liabilities will be recognized as revenue when all of the revenue recognition criteria are met.

The opening balance of deferred revenue as of January 1, 2020 was RMB7,790. As of December 31, 2020 and 2021, deferred revenue were RMB5,719 and RMB2,111, respectively. During the years ended December 31, 2019, 2020 and 2021, the Group recognized revenue of installation services amounted to RMB1,276, RMB7,790 and RMB5,719, respectively, that was included in the corresponding contract liability balance at the beginning of the years. The Group expects to recognize approximately RMB1,642 and RMB469 of the unearned amount for the Group's remaining performance obligations related to installation services and membership service in 2022, respectively. During the years ended December 31, 2019, 2020 and 2021, the Group does not have any arrangement where the performance obligations have already been satisfied in the past period, but the corresponding revenue is only recognized in a later period.

(r) Cost of revenues

Cost of revenues consists primarily of material costs, warranty, consignment manufacturing cost, salaries and benefits for staff engaged in production activities and related expenses that are directly attributable to the production of products.

(s) Research and development expenses

Research and development expenses primarily consist of salaries and benefits as well as share-based compensation for research and development personnel, materials, general expenses and depreciation expenses associated with research and development activities.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Selling and marketing expenses

Selling and marketing expenses consist primarily of (i) advertising and market promotion expenses, (ii) shipping expenses and (iii) salaries and welfare for sales and marketing personnel. The advertising and market promotion expenses amounted to RMB106,540, RMB102,719 and RMB173,642 for the years ended December 31, 2019, 2020 and 2021. The shipping expenses amounted to RMB245,329, RMB247,417 and RMB248,609 for the years ended December 31, 2019, 2020 and 2021, respectively.

(u) General and administrative expenses

General and administrative expenses consist primarily of (i) share-based compensation for management and administrative personnel, and (ii) salaries and welfare for general and administrative personnel.

(v) Government subsidies

Government subsidies represent tax refund and government grants received from local government authorities to encourage the Group's technology and innovation. The Group records such government subsidies as other income in the consolidated statements of comprehensive income when it has fulfilled all of its obligation related to the subsidy. The Group recorded RMB35,988, RMB33,674 and RMB30,147 of subsidy income for the years ended December 31, 2019, 2020 and 2021, respectively.

(w) Employee benefits

PRC Contribution Plan

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to the employees. Chinese labor regulations require that the PRC subsidiary and VIEs of the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions made. The total amounts of such employee benefit expenses, which were expensed as incurred, were approximately RMB23,465, RMB 10,571 and RMB34,291 for the years ended December 31, 2019, 2020 and 2021, respectively.

(x) Share-based compensation

Share-based compensation expenses arise from share -based awards, mainly including share options for the purchase of ordinary shares for the periods presented. The Company accounts for share-based awards granted to the employees in accordance with ASC 718 Stock Compensation.

For share options for the purchase of ordinary shares granted to employees determined to be equity classified awards, the related share-based compensation expenses are recognized in the consolidated financial statements based on their grant date fair values which are calculated using the binomial option pricing model. The determination of the fair value is affected by the share price as well as assumptions regarding a number of complex and subjective variables, including the expected share price volatility, actual and projected employee share option exercise behavior, risk-free interest rates and expected dividends. The fair value of the ordinary shares is assessed using the income approach/discounted cash flow method, with a discount for lack of marketability, given that the shares underlying the awards were not publicly traded at the time of grant. Share-based compensation expenses are recorded net of estimated forfeitures using graded-vesting method during the service period requirement, such that expenses are recorded only for those share-based awards that are expected to ultimately vest.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) *Income taxes*

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are accounted for using an asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purpose. The effect on deferred taxes of a change in tax rates is recognized in statement of comprehensive income in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

Uncertain tax positions

The guidance on accounting for uncertainties in income taxes prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance was also provided on the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. Significant judgment is required in evaluating the Group's uncertain tax positions and determining its provision for income taxes. The Group recognizes interests and penalties, if any, under accrued expenses and other current liabilities on its balance sheet and under other expenses in its statement of comprehensive income. The Group did not recognize any interest and penalties associated with uncertain tax positions for the years ended December 31, 2019, 2020 and 2021. As of December 31, 2020 and 2021, the Group did not have any significant unrecognized uncertain tax positions.

(z) *Comprehensive income*

Comprehensive income consists of two components, net income and other comprehensive income, net of tax. Other comprehensive income refers to revenue, expenses, and gains and losses that are recorded as an element of shareholders' equity but are excluded from net income. The Group's other comprehensive income consists of foreign currency translation adjustments from its entities not using the RMB as their functional currency. Comprehensive income is reported in the consolidated statements of comprehensive income.

(aa) *Statutory reserves*

The Company's subsidiaries and VIEs established in the PRC are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Company's subsidiaries registered as wholly-owned foreign enterprise have to make appropriations from their annual after-tax profits (as determined under generally accepted accounting principles in the PRC ("PRC GAAP")) to reserve funds including general reserve fund, enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the annual after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the general reserve fund has reached 50% of the registered capital of the company. Appropriations to the enterprise expansion fund and staff bonus and welfare fund are made at the respective company's discretion.

In addition, in accordance with the PRC Company Laws, the Group's VIEs registered as Chinese domestic company must make appropriations from its annual after-tax profits as determined under the PRC GAAP to non-distributable reserve funds including statutory surplus fund and discretionary surplus fund. The appropriation to the statutory surplus fund must be 10% of the annual after-tax profits as determined under PRC GAAP. Appropriation is not required if the statutory surplus fund has reached 50% of the registered capital of the company. Appropriation to the discretionary surplus fund is made at the discretion of the company.

The use of the general reserve fund, enterprise expansion fund, statutory surplus fund and discretionary surplus fund are restricted to offsetting of losses or increasing of the registered capital of the respective company. The staff bonus and welfare fund are a liability in nature and is restricted to fund payments of special bonus to employees and for the collective welfare of all employees. None of these reserves are allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Statutory reserves (Continued)

During the years ended December 31, 2019, 2020 and 2021, appropriations to statutory reserve funds amounted to RMB1,047, RMB3,464 and RMB1,756, respectively. Statutory reserve funds amounting to RMB10,761 and RMB12,517 were recognized in additional paid-in capital as of December 31, 2020 and 2021, respectively.

(bb) Income per share

Basic income per share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period using the two-class method. Under the two-class method, net income is allocated between ordinary shares and other participating securities based on their participating rights. Net losses are not allocated to other participating securities if based on their contractual terms they are not obligated to share the losses.

Diluted income per share is calculated by dividing net income attributable to ordinary shareholders, as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of ordinary shares issuable upon the exercise of share options using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted income per share calculation when inclusion of such shares would be anti-dilutive.

(cc) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence, such as a family member or relative, shareholder, or a related corporation.

(dd) Segment reporting

Based on the criteria established by ASC 280 “Segment Reporting”, the Group's chief operating decision maker has been identified as the Chairman of the Board of Directors/CEO, who reviews consolidated results of the Group when making decisions about allocating resources and assessing performance. The Group has internal reporting of revenue, cost and expenses by nature as a whole. Hence, the Group has only one operating segment. The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC and earns a great majority of the revenues from external customers attributed to the PRC.

(ee) Current expected credit losses

In 2016, the FASB issued ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASC Topic 326”), which amends previously issued guidance regarding the impairment of financial instruments by creating an impairment model that is based on expected losses rather than incurred losses. The Group adopted this ASC Topic 326 and several associated ASUs on January 1, 2020 using a modified retrospective approach with a cumulative effect increase of RMB2,826, recorded in accumulated deficit.

The Group's accounts and notes receivable and other receivables from related parties and third parties are within the scope of ASC Topic 326. The Group has identified the relevant risk characteristics of its customers and the related accounts and notes receivable and other receivables based on their credit rating. Receivables with similar risk characteristics have been grouped into pools. For each pool, the Group considers the historical credit loss experience, current economic conditions, supportable forecasts of future economic conditions, and any recoveries in assessing the lifetime expected credit losses. Other key factors that influence the expected credit loss analysis include payment terms offered in the normal course of business to customers and industry-specific factors that could impact the Group's receivables. Additionally, macroeconomic factors are also considered. This is assessed at each quarter based on the Group's specific facts and circumstances. For the year ended December 31, 2020 and 2021, the Group recorded expected credit loss of RMB4,484 and RMB25,541, respectively in general and administrative expenses. As of December 31, 2020 and 2021, the expected credit loss provision for the accounts and notes receivable and other receivables is RMB9,316 and RMB34,857, respectively.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Current expected credit losses (Continued)

The following table summarizes the activity in the allowance for credit losses related to accounts and notes receivable and other receivables from related parties for the year ended December 31, 2021:

	Year ended December 31,	
	2020	2021
	RMB	RMB
Balance at beginning of the year	4,832	9,316
Current year provision	5,015	29,343
Reversals	(531)	(3,802)
Balance at end of the year	<u>9,316</u>	<u>34,857</u>

(ff) Recently issued accounting pronouncements

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): *Accounting for* Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06), which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. The amendments are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years, with early adoption permitted. The Group is currently evaluating the impact of the new guidance on our consolidated financial statements.

In May 2021, the FASB issued ASU No. 2021-04, Earnings Per Share (Topic 260), Debt — Modifications and Extinguishments (Subtopic 470-50), Compensation — Stock Compensation (Topic 718), and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40) to clarify and reduce diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments. The Group is currently evaluating the impact of the new guidance on our consolidated financial statements.

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (ASU 2021-08), which clarifies that an acquirer of a business should recognize and measure contract assets and contract liabilities in a business combination in accordance with Topic 606, Revenue from Contracts with Customers. The new amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The amendments should be applied prospectively to business combinations occurring on or after the effective date of the amendments, with early adoption permitted. The Group is currently evaluating the impact of the new guidance on our consolidated financial statements.

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3. CONCENTRATION AND RISKS

(a) Foreign exchange risk

The revenues and expenses of the Group's entities in the PRC are generally denominated in RMB and their assets and liabilities are denominated in RMB. The RMB is not freely convertible into foreign currencies. Remittances of foreign currencies into the PRC or remittances of RMB out of the PRC as well as exchange between RMB and foreign currencies require approval by foreign exchange administrative authorities and certain supporting documentation. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into other currencies.

(b) Credit risk

Financial instruments that potentially expose the Group to credit risk consist primarily of cash and cash equivalents, restricted cash, short-term investments, short-term deposits, accounts and notes receivable and amounts due from related parties. The Group places its cash and cash equivalents, restricted cash, short-term investments and short-term deposits with financial institutions with high credit ratings and quality. There has been no recent history of default in relation to these financial institutions and credit risk is immaterial.

The Group conducts credit evaluations of third-party customers and related parties, and generally does not require collateral or other security from its third-party customers and related parties. The Group establishes an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific third-party customers and related parties.

Concentration risk of accounts and notes receivable from third parties are presented as below:

	As of December 31,			
	2020		2021	
	RMB		RMB	
Company A	221,614	52%	161,785	54%
Company B	164,518	38%	37,776	12%

(b) Credit risk (Continued)

Concentration risk of accounts receivable from a related party are presented as below:

	As of December 31,			
	2020		2021	
	RMB		RMB	
Xiaomi	609,094	100%	320,939	100%

Concentration risk of other receivables from related parties are presented as below:

	As of December 31,			
	2020		2021	
	RMB		RMB	
Xiaomi	88,038	100%	88,367	100%

(c) Revenue concentration risk

	Year ended December 31,					
	2019		2020		2021	
	RMB		RMB		RMB	
Xiaomi	2,112,170	45%	2,889,441	50%	2,295,569	43%

The revenue generated from Xiaomi included sale of both Xiaomi-branded and Viomi-branded products. Revenue from sale of Viomi-branded products amounted to RMB250,593, RMB326,114 and RMB274,452 for the years ended December 31, 2019, 2020 and 2021, respectively.

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4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash on hand and demand deposits placed with banks or other financial institution. Cash and cash equivalents balance as of December 31, 2020 and 2021 primarily consist of the following currencies:

	As of December 31, 2020		As of December 31, 2021	
	Amount	RMB	Amount	RMB
		equivalent		equivalent
RMB	150,967	150,967	238,386	238,386
US\$	54,122	353,141	54,671	348,569
Total		504,108		586,955

5. RESTRICTED CASH

As of December 31, 2020 and 2021, the Group held restricted cash of RMB70,601 and RMB35,831 respectively in designated bank accounts for issuance of bank acceptance notes.

6. SHORT-TERM INVESTMENTS

Short-term investments represent structured deposits with maturities of less than one year. Short-term investments balance as of December 31, 2020 and 2021 is primarily denominated in the following currencies:

	As of December 31, 2020		As of December 31, 2021	
	Amount	RMB	Amount	RMB
		equivalent		equivalent
US\$	12,045	78,594	-	-
RMB	617,457	617,457	828,867	828,867
Total		696,051		828,867

7. INVENTORIES

Inventories consisted of the followings:

	As of December 31,	
	2020	2021
	RMB	RMB
Finished goods	311,316	422,627
Raw materials	128,059	153,724
Inventories	439,375	576,351

For the years ended December 31, 2019, 2020 and 2021, the Group recorded write-down of RMB15,661, RMB22,577 and RMB8,103 for obsolete inventories.

8. PREPAID EXPENSES AND OTHER ASSETS

	As of December 31,	
	2020	2021
	RMB	RMB
Advances to suppliers	66,421	106,666
Other receivables	17,732	48,322
Prepayment for equipment	13,870	18,493
Lease hold improvement	4,735	6,643
Expected return assets	4,106	3,189
Other current assets	219	135
Total	107,083	183,448
Less: non-current portion	(19,803)	(27,321)
Prepaid expenses and other assets-current portion	87,280	156,127

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9. LONG-TERM DEPOSITS

Long-term deposits balance as of December 31, 2020 and 2021 is primarily denominated in RMB.

10. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consisted of the following:

	As of December 31,	
	2020	2021
	RMB	RMB
Construction in progress	-	76,440
Computers and equipment	133,823	185,776
Vehicle	508	508
Total	134,331	262,724
Less: accumulated depreciation	(61,895)	(116,731)
Property, plant and equipment, net	72,436	145,993

The Group had recorded depreciation expense of RMB15,427, RMB42,470 and RMB55,124 for the years ended December 31, 2019, 2020 and 2021, respectively. No impairment was recorded for the years ended December 31, 2019, 2020 and 2021.

11. LAND USE RIGHTS, NET

In 2020, the Group obtained a land use right in Foshan from the local authorities. Amortization of the land use right is made over the remaining term of the land use right period from the date when the land was made available for use by the Group. The land use rights are summarized as follows:

	As of December 31,	
	2020	2021
	RMB	RMB
Land use rights	63,618	63,618
Less: Accumulated amortization	(636)	(1,896)
Land use right, net	62,982	61,722

The total amortization expense for the year ended December 31, 2020 and 2021 amounted to approximately RMB636 and RMB1,260.

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12. ACCRUED EXPENSES AND OTHER LIABILITIES

	As of December 31,	
	2020	2021
	RMB	RMB
Accrued payroll and welfare	83,190	95,816
Freight payable	70,656	68,197
Deposit from suppliers	30,755	27,483
Installation fee payables	25,714	18,957
Product warranty	22,420	28,796
Marketing and promotion expenses	18,476	25,709
Payment for purchase of property	15,624	17,647
Other tax payable	15,354	9,954
Professional fee payables	9,188	5,143
Refund liabilities	7,707	6,320
Other current liabilities	39,804	69,254
Total	338,888	373,276
Less: non-current portion	(3,400)	(7,558)
Accrued expenses and other liabilities-current portion	335,488	365,718

Product warranty activities were as follows:

	Product Warranty
	RMB
Balance at December 31, 2019	22,463
Provided during the year	88,375
Utilized during the year	(88,418)
Balance at December 31, 2020	22,420
Provided during the year	76,845
Utilized during the year	(70,469)
Balance at December 31, 2021	28,796

13. REVENUE

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Sales of product			
- IoT @ Home portfolio	2,522,189	3,671,717	3,400,966
- Home water solutions	1,065,166	883,325	742,912
- Consumables	265,844	382,896	367,021
- Small appliances and other products	741,290	792,965	708,260
Total of sales of products	4,594,489	5,730,903	5,219,159
Rendering of services	53,024	94,721	84,676
Total	4,647,513	5,825,624	5,303,835

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14. INCOME TAX EXPENSES

Cayman Islands

Under the current tax laws of the Cayman Islands, the Company and its subsidiaries are not subject to tax on income or capital gains. Besides, upon payment of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the subsidiaries of the Group in Hong Kong are subject to 8.25% and 16.5% Hong Kong profit tax on its taxable income within HKD\$2 million and beyond HKD\$2 million respectively, generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiary incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

PRC

In accordance with the Enterprise Income Tax Law (“EIT Law”), Foreign Investment Enterprises (“FIEs”) and domestic companies are subject to Enterprise Income Tax (“EIT”) at a uniform rate of 25%. The subsidiaries and VIEs of the Group in the PRC are subject to a uniform income tax rate of 25% for years presented except for the entities which are qualified to certified High and New Technology Enterprises (“HNTE”) that are entitled to a favorable statutory tax rate of 15%. According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged in research and development activities are entitled to claim an additional tax deduction amounting to 50% of the qualified research and development expenses incurred in determining its tax assessable profits for that year. The additional tax deduction has been increased from 50% of the qualified research and development expenses to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018. The additional tax deduction has been increased from 75% of the qualified research and development expenses to 100%, effective from 2021, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in May 2021 (“Super Deduction”).

Withholding tax on undistributed dividends

Under the CIT Law and its implementation rules, the profits of a foreign-invested enterprise arising in 2008 and thereafter that are distributed to its immediate holding company outside the PRC are subject to withholding tax at a rate of 10%. A lower withholding tax rate will be applied if there is a beneficial tax treaty between the PRC and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be eligible, with approval of the PRC local tax authority, to be subject to a 5% withholding tax rate under the Arrangement Between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital if such holding company is considered to be a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC foreign-invested enterprise distributing the dividends. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend will remain subject to withholding tax at a rate of 10%. Aggregate undistributed earnings of the Group entities located in the PRC that are available for distribution to the Company as of December 31, 2020 and 2021 are approximately RMB827,531 and RMB956,980, respectively. The Company does not intend to have any of its subsidiaries located in the PRC distribute any undistributed earnings of such subsidiaries in the foreseeable future, but rather expects that such earnings will be reinvested by such subsidiaries for their PRC daily operations. Accordingly, no withholding tax was recorded as of December 31, 2020 and 2021.

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14. INCOME TAX EXPENSES (Continued)

Composition of income tax expense

The current and deferred components of income taxes appearing in the consolidated statements of comprehensive income are as follows:

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Current tax expenses	52,232	44,813	26,854
Deferred tax benefit	(7,042)	(1,492)	(21,115)
Income tax expenses	<u>45,190</u>	<u>43,321</u>	<u>5,739</u>

Reconciliation between the income tax expenses computed by applying the PRC enterprise tax rate to income before income taxes and actual provision were as follows:

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Income from operations in the PRC	321,090	200,941	89,126
Income from overseas entities	17,930	16,826	5,504
Income before income tax	<u>339,020</u>	<u>217,767</u>	<u>94,630</u>
Tax expense at PRC enterprise income tax rate of 25%	84,755	54,442	23,658
Income tax on tax holiday ⁽¹⁾	(31,493)	(31,074)	(16,872)
Tax effect of permanent differences ⁽²⁾	(12,147)	(16,895)	(28,303)
Change in valuation allowance ⁽³⁾	1,592	29,780	22,153
Effect of share-based compensation	6,475	10,830	7,111
Effect of income tax in jurisdictions other than the PRC	(3,992)	(3,762)	(2,008)
Income tax expenses	<u>45,190</u>	<u>43,321</u>	<u>5,739</u>

- (1) The income tax on tax holidays represents the effect of preferential income tax rate enjoyed by Foshan Viomi, Guangdong Lizi and Yunmi Hulian. Foshan Viomi was qualified as an HNTE and enjoyed the beneficial tax rate of 15% for the three years ended December 31, 2019, 2020 and 2021. Foshan Viomi will need to re-apply for HNTE qualification renewal in 2022. The Company believed that Foshan Viomi can successfully obtain the renewal in 2022. Guangdong Lizi applied for the HNTE qualification and obtained approval in December 2020. It entitled to enjoy the preferential tax rate of 15% as an HNTE for three years starting from 2020 and should apply for HNTE qualification renewal in 2023. Yunmi Hulian applied for the HNTE qualification and obtained approval in December 2021. It entitled to enjoy the preferential tax rate of 15% as an HNTE for three years starting from 2021 and should apply for HNTE qualification renewal in 2024.
- (2) The permanent book-tax differences mainly consisted of R&D super deductions.
- (3) Valuation allowance for the years ended December 31, 2019, 2020 and 2021 are related to the deferred tax assets of certain group entities which reported loss. The Group believed that it is more likely than not that these the deferred tax assets of these entities will not be utilized. Therefore, valuation allowance has been provided.

The per share effect of the tax holidays are as follows:

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Net income per share effect – basic	0.13	0.14	0.02
Net income per share effect – diluted	0.13	0.13	0.02

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14. INCOME TAX EXPENSES (Continued)

Deferred tax assets and deferred tax liabilities

The significant components of the Group's deferred tax assets were as follows:

	As of December 31,	
	2020	2021
	RMB	RMB
Accrued expenses and others	12,466	18,567
Net operating loss carry forwards	32,985	69,852
Inventories write downs	1,463	985
Deferred income	201	161
Total deferred tax assets	47,115	89,565
Less: valuation allowance	(32,926)	(54,261)
Deferred tax assets, net	14,189	35,304

Movement of valuation allowance

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Balance at beginning of the year	1,554	3,146	32,926
Provided	1,592	29,780	21,335
Balance at end of the year	3,146	32,926	54,261

Uncertain tax positions

The Group evaluates the level of authority for each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measures the unrecognized benefits associated with the tax positions. As of December 31, 2019 and 2020, the Group did not have any significant unrecognized uncertain tax positions.

According to the PRC Tax Administration and Collection Law, the statute of limitations is generally three years and can be extended to five years under special circumstances.

15. ORDINARY SHARES

The Company's original Memorandum and Articles of Association authorizes the Company to issue 346,545,454 class A ordinary shares with a par value of US\$0.0001 per share. As of December 31, 2017, the Company had 25,363,636 class A ordinary shares outstanding. Each ordinary share is entitled to one vote. The holders of ordinary shares are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to prior rights of holders of all other classes of shares outstanding.

In June 2018, the Board of Directors and the shareholders approved a transfer and surrender of shares plan, pursuant to which, Mr. Chen, who holds 33,818,182 class A ordinary shares on behalf of certain key management founders through Viomi Limited, transferred 16,145,454 class A ordinary shares to key management founders and surrendered the remaining 17,672,728 class A ordinary shares to the Company.

On August 23, 2018, the Company issued 4,000,000 class A ordinary shares at par value to Mr. Chen's wholly-owned entity Viomi Limited to award his contribution to the Company's development. Such shares were immediately vested. The issuance of such shares is accounted for as a share-based compensation to Mr. Chen. The issuance date fair value was estimated to be approximately US\$3.30 per share.

On the same day, the Company effected a share split whereby each of the Company's then authorized and outstanding ordinary shares and preferred shares, par value of \$0.0001 each, was divided into ten ordinary shares and preferred shares of the same series, par value US\$0.00001 each, respectively. All shareholders then surrendered 90% of their after-share-split outstanding shares back to the Company for cancellation. After the share split and the surrender of shares for cancellation, the number of the Company's outstanding ordinary and preferred shares remained unchanged. The par value per ordinary share has been retroactively revised as if it had been adjusted proportion to the share split.

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15. ORDINARY SHARES (Continued)

Pursuant to the resolution of the shareholders of the Company on August 23, 2018, the Company's authorized share capital became US\$50,000 divided into 5,000,000,000 shares comprising of the (i) 4,800,000,000 Class A Ordinary Shares of a par value of US\$0.00001 each, (ii) 150,000,000 Class B Ordinary Shares of a par value of US\$0.00001 each and (iii) 50,000,000 shares of a par value of US\$0.00001 each of such class or classes (however designated) as the board of directors may determine in accordance with post-offering amended and restated memorandum and articles of association. Holders of Class A Ordinary Shares and Class B Ordinary Shares have the same rights, except for voting rights and conversion rights. Each Class A Ordinary Share is entitled to one vote, and each Class B Ordinary Share is entitled to ten (10) votes, voting together as one class. 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. Upon any transfer of Class B Ordinary Shares by a holder to any person or entity other than holders of Class B Ordinary Shares or their affiliates, such Class B Ordinary Shares shall be automatically and immediately converted into the equivalent number of Class A Ordinary Shares.

Immediately prior to the completion of the IPO, 16,145,454 issued Class A Ordinary Shares held by certain key management founders, 33,818,182 issued Pre-IPO Class B Ordinary Shares held by Red Better, and 67,636,364 issued Pre-IPO Class B Ordinary Shares held by Mr. Chen's wholly-owned entity Viomi Limited was automatically converted by way of re-designation and re-classification into Class B Ordinary Shares on a one-for-one basis, and the rest of the outstanding Class A Ordinary Shares, the rest of the outstanding Pre-IPO Class B Ordinary Shares, and all outstanding Series A Preferred Shares was automatically converted by way of re-designation and re-classification into Class A Ordinary Shares on a one-for-one basis.

Upon the completion of the Company's IPO in 2018, 34,200,000 Class A Ordinary Shares were issued and 18,181,818 Series A Preferred Shares have been converted into Class A Ordinary Shares.

As of December 31, 2018, the Company had 90,200,000 Class A Ordinary Shares and 117,600,000 Class B Ordinary Shares outstanding, respectively.

During the year ended December 31, 2019, 1,494,732 Class A Ordinary Shares were issued for the exercised share options. In addition, 6,750,000 Class B Ordinary Shares were converted into Class A Ordinary Shares.

As of December 31, 2019, the Company had 98,444,732 Class A Ordinary Shares and 110,850,000 Class B Ordinary Shares outstanding, respectively.

During the year ended December 31, 2020, 2,655,669 Class A Ordinary Shares were issued for the exercised share options. In addition, 7,295,454 Class B Ordinary Shares were converted into Class A Ordinary Shares.

In March 2020, the Company's Board of Directors authorized a share repurchase program under which the Company may repurchase up to US\$10,000 worth of its ADSs over the following 12 months. The share repurchase may be made in accordance with applicable laws and regulations through open market transactions, privately negotiated transactions or other legally permissible means as determined by the management.

During the year ended December 31, 2020, the Company had repurchased 1,410,723 ADSs (equal to 4,232,169 Class A ordinary shares) for a consideration of US\$8,030 on the open market, at a weighted average price of US\$5.69 per ADS. The Company accounts for repurchased ordinary shares under the cost method and includes such treasury stock as a component of the shareholders' equity.

As of December 31, 2020, the Company had 104,163,686 Class A Ordinary Shares and 103,554,546 Class B Ordinary Shares outstanding, respectively.

During the year ended December 31, 2021, 3,011,064 Class A Ordinary Shares were issued for the exercised share options. In addition, 339,999 Class B Ordinary Shares were converted into Class A Ordinary Shares. Moreover, 1,997,970 Class A Ordinary Shares were repurchased by the Group.

As of December 31, 2021, the Company had 105,516,779 Class A Ordinary Shares and 103,214,547 Class B Ordinary Shares outstanding, respectively.

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16. SHARE-BASED COMPENSATION

Compensation expense recognized for share-based awards was as follows:

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Share-based compensation expenses			
—Share options ^(a)	43,168	72,203	47,405

(a) Share options

On September 17, 2015, the Board of Directors of the Company approved the establishment of 2015 Share Incentive Plan, the purpose of which is to provide an incentive for employees contributing to the Group. The 2015 Share Incentive Plan shall be valid and effective for 10 years from the grant date. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under 2015 Share Incentive Plan shall be 12,727,272 shares.

In June 2018, the Board of Directors and shareholders of the Company approved the 2018 Share Incentive Plan. As of December 31, 2021, the maximum of shares that may be issued under the 2018 Share Incentive Plan was 23,920,828.

For the year ended December 31, 2019, no share options were granted to employees.

For the year ended December 31, 2020, the Company granted 19,175,500 share options to employees pursuant to the 2018 Share Incentive Plan. With respect to the share options granted, 40% of the options will be vested after 24 months of the grant date and the remaining 60% will be vested in three equal installments over the following 36 months.

For the year ended December 31, 2021, the Company granted 38,400,000 share options to employees pursuant to the 2018 Share Incentive Plan. Among which, with respect to the share options granted, 40% of the options will be vested after 24 months of the vesting commencement date and the remaining 60% will be vested in three equal installments over the following 36 months.

The Group calculated the estimated fair value of the options on the respective grant dates using the binomial option pricing model. Assumptions used to determine the fair value of share options granted during 2020 and 2021 are summarized in the following table:

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Numerator:			
Numerator for basic calculation - Net income attributable to ordinary shareholders of the Company	292,170	173,324	88,605
Denominator:			
Denominator for basic calculation - weighted average ordinary shares outstanding	208,156,507	208,812,049	209,551,821
Dilutive effect of share options	7,699,070	6,811,724	11,184,176
Denominator for diluted calculation	215,855,577	215,623,773	220,735,997
Basic net income per ordinary share	1.40	0.83	0.42
Diluted net income per ordinary share	1.35	0.80	0.40

	Year ended December 31,	
	2020	2021
Risk-free interest rate	2.20%~3.30%	2.88%~3.19%
Expected volatility	41.30%~43.62%	42.93%~43.41%
Expected life of option (years)	10	10
Expected dividend yield	-	-
Fair value per ordinary share	US\$1.04~US\$1.47	US\$0.84~US\$2.25

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16. SHARE-BASED COMPENSATION (Continued)

(1) Risk-free interest rate

Risk-free interest rate was estimated based on the yield to maturity of China Government Bond with a maturity period close to the contractual term of the options.

(2) Expected life of option (years)

Expected life of option (years) represents the expected years to vest the options.

(3) Volatility

The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical stock price volatility of comparable listed companies over a period comparable to the contractual term of the options.

(4) Dividend yield

The dividend yield was estimated by the Group based on its expected dividend policy over the contractual term of the options.

(5) Fair value per ordinary share

In determining the grant date fair value of the Company's ordinary shares for purposes of recording share-based compensation expenses in connection with Restricted Shares owned by the Founder, Restricted Shares owned by the Founder on behalf of certain key management founders, and share options under the 2015 Share Incentive Plan and 2018 Share Incentive Plan, the Company evaluated the use of three generally accepted valuation approaches: market, cost and income approaches to estimate the enterprise value of the Company and income approach (discounted cash flow, or DCF method) was relied on for value determination with market approach (guideline companies method, or GCM) taken as reference.

DCF method of the income approach involves applying appropriate weighted average cost of capital ("WACC"), to discount the future cash flows forecast, based on the Company's best estimates as of the valuation date, to present value. The WACC was determined based on a consideration of the factors including risk-free rate, comparative industry risk, equity risk premium, company size and non-systematic risk factors.

GCM under the market approach was adopted as reference of the equity valuation for the Company. GCM employs trading multiples method of selected public comparable companies including trailing and leading enterprise value/revenue multiples.

In deriving the equity value of each class of shares, the Company applied the option pricing method. The option pricing method treats different classes of shares as call options on the total equity value, with exercise prices based on the liquidation preference or redemption amount of the certain classes of shares. Under this method, the ordinary share has value only if the fund available for distribution to shareholders exceeds the value of liquidation preference or redemption amounts at the time of a liquidity event, assuming the enterprise has funds available to make liquidation preference or redemption. Given the nature of the different classes of shares, the modeling of different classes of capital as call options on company's enterprise value was analyzed and the values of different classes of shares were derived accordingly.

The Company also applied a discount for lack of marketability ("DLOM"), which was quantified by the black-Scholes option pricing model. Under this option-pricing method, which assumed that the put option is struck at the average price of the stock before the privately held shares can be sold, the cost of the put option was considered as a basis to determine the DLOM.

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16. SHARE-BASED COMPENSATION (Continued)

A summary of the stock option activity under the 2015 Share Incentive Plan and 2018 Share Incentive Plan for the years ended December 31, 2019, 2020 and 2021 is included in the table below.

	Number of options	Weighted average exercise price (US\$)	Weighted average remaining contractual life (years)	Aggregate intrinsic value (US\$)
Outstanding at January 1, 2019	13,260,000	0.43	8.40	18,705
Forfeited	(400,000)	0.96		
Exercised	(1,494,732)	0.17		
Outstanding at December 31, 2019	11,365,268	0.44	7.59	17,737
Granted	19,175,500	0.86		
Forfeited	(1,778,500)	0.60		
Exercised	(2,655,669)	0.48		
Outstanding at December 31, 2020	26,106,599	0.74	8.08	30,299
Granted	3,840,000	1.10		
Forfeited	(4,709,197)	0.81		
Exercised	(3,011,064)	0.43		
Outstanding at December 31, 2021	22,226,338	0.80	7.41	26,813
Exercisable as of December 31, 2021	7,801,637	0.47	6.02	9,928
Expected to vest as of December 31, 2021	13,046,881	0.97	8.16	15,362

The weighted average grant date fair value of options granted for the years ended December 31, 2020 and 2021 was RMB8.31 (US\$1.27) and RMB11.56 (US\$1.73) per option, respectively.

As of December 31, 2020 and 2021, there was RMB99,975 and RMB53,652 of unrecognized compensation expenses related to the options, respectively.

(b) Restricted shares to an investee

As described in note 1, the Group established Guangdong Lizi in July 2018 as a subsidiary of the Company. In November 2020, following the Group's restructuring plan on its water purifiers business, the Group entered into an agreement with Sunglow to sell 1% of equity interest of Guangdong Lizi for a consideration of RMB175. Sunglow has paid up the consideration in December 2021 but is not entitled to any shareholder's rights of Guangdong Lizi until the fulfilment of certain conditions pursuant to the supplemental agreement in November 2021.

Under the requirement of ASC 718, the Group should recognize share-based compensation if there is a difference between the fair value of Guangdong Lizi's 1% of equity interest and the consideration paid up by Sunglow on the date of capital injection. The Group calculated the estimated fair value of the options on the respective grant dates using the discounted cash flow model.

As of December 31, 2021, there were RMB10,284 of unrecognized compensation expenses related to restricted shares granted to Sunglow for which the performance conditions had not been met and are expected to be recognized when the performance conditions are achieved under the requirement of ASC 718.

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17. NET INCOME PER SHARE

Basic net income per share is the amount of net income available to each share of ordinary shares outstanding during the reporting period. Diluted net income per share is the amount of net income available to each share of ordinary shares outstanding during the reporting period adjusted to include the effect of potentially dilutive ordinary shares.

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Numerator:			
Numerator for basic calculation - Net income attributable to ordinary shareholders of the Company	292,170	173,324	88,605
Denominator:			
Denominator for basic calculation - weighted average ordinary shares outstanding	208,156,507	208,812,049	209,551,821
Dilutive effect of share options	7,699,070	6,811,724	11,184,176
Denominator for diluted calculation	215,855,577	215,623,773	220,735,997
Basic net income per ordinary share	1.40	0.83	0.42
Diluted net income per ordinary share	1.35	0.80	0.40

18. RELATED PARTY TRANSACTIONS

Name	Relationship with the Group
Mr. Chen	Founder
Xiaomi	Shareholder of the Group
Foshan Wanwuhulian Trade Co., Ltd. (“Foshan Wanwuhulian”)	Controlled by the Founder

The Group’s relationship with Xiaomi

Xiaomi is the Group’s strategic partner and shareholder.

The Group’s sales to Xiaomi are governed by a business cooperation agreement, pursuant to which Xiaomi is responsible for the distribution and sales of such products through their network and sales channels.

The Group also sells products through Xiaomi’s online e-commerce channel Xiaomiyupin.com, and is charged of commissions pursuant to a commission sales agreement.

Transaction with Xiaomi

Business cooperation agreement

The current business cooperation agreement entered into in 2019 with Xiaomi governs all the Group’s sales to Xiaomi. It expired in September 2021 and has been renewed up to September 2023.

Under the business cooperation agreement, (i) certain products sold to Xiaomi are exclusively designed for and can only be sold to Xiaomi, (ii) Xiaomi shall purchase these products at a price that covers all of the Group’s costs of raw materials, outsourcing manufacture, models, logistics and paid intellectual property licensing fees, in connection with the manufacture and delivery of these products, and (iii) Xiaomi and the Group shall share gross profits, derived from sales of these products, the retail prices of which were set by Xiaomi and the Group together.

In 2019, the Group has entered into a service arrangement with Xiaomi for a particular type of product under which the Group acts as the agent of Xiaomi. The Group charges Xiaomi with reference to market price. This service arrangement was terminated at the end of 2020.

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18. RELATED PARTY TRANSACTIONS (Continued)

Youpin commission sales agreement

The Group has entered into a commission sales agreement with Xiaomi for the sale of the Group's own branded products on an E-platform operated by Xiaomi, namely Youpin. The commission sales agreement expired on December 31, 2021. The agreement has been renewed in 2022 and the end date will be determined through further negotiations. Furthermore, this agreement may be terminated by Xiaomi with 30 days' written notice.

Under the commission sales agreement, the Group shall pay a service fee, calculated as certain portion of the sales price excluding customers' refunds or as otherwise agreed by the parties with respect to specific product lines, as well as a deposit to Xiaomi. The retail prices of the Group's products on Youpin's platform shall be no higher than the sales price from any other e-commerce merchants or the Group's official offline sales channel, including in the event of sales or promotion. Refer to Note 18 (5) to the consolidated financial statements for the commission expenses charged by Youpin for the years ended December 31, 2019, 2020 and 2021.

(1) *Amount due from/to related parties*

	As of December 31,	
	2020	2021
	RMB	RMB
Accounts receivable from a related party:		
Xiaomi(a)	609,094	320,939
Other receivables from related parties:		
Sales receivable from Xiaomi(b)	88,029	88,331
Other receivables from Xiaomi	9	36
Total	88,038	88,367
Amounts due to related parties:		
Purchase payable to Xiaomi(a)	2,463	3,537
Purchase payable to Foshan Wanwuhulian(c)	121,321	-
Research and development expenses payable to Xiaomi	408	715
Selling and marketing expenses payable to Xiaomi(d)	-	1,163
Total	124,192	5,415

(2) *Purchase from related parties*

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Xiaomi(a)	43,037	50,843	33,767
Foshan Wanwuhulian(c)	15,422	469,950	-
Total	58,459	520,793	33,767

(3) *Revenue from a related party*

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Xiaomi(a)	2,112,170	2,889,441	2,295,569

(4) *Research and development expenses*

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Xiaomi	657	1,915	3,484

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18. RELATED PARTY TRANSACTIONS (Continued)

(5) *Selling and marketing expenses*

	Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Commission expenses charged by Xiaomi(b)	58,874	77,163	82,617
Other expenses charged by Xiaomi(b)	22,977	20,060	24,312
Total	81,851	97,223	106,929

- (a) The Group both sells water purifiers and other products to and purchase Xiaomi branded products and certain raw materials from Xiaomi. The amount due from Xiaomi represents receivable arising from sales of water purifiers and other products. The balance due to Xiaomi represents payable arising from purchase of Xiaomi branded products and certain raw materials
- (b) The Group sells its own brand products on the E-platform of Xiaomi, which charges the Group commission and technical service fees, also Xiaomi provides advertising and promotion service. The amount due from Xiaomi represents sales receivable net of commission, advertising and promotion service.
- (c) The Group purchases products from Foshan Wanwuhulian for trading during the year ended December 31, 2020. The cooperation with Foshan Wanwuhulian was terminated at the end of 2020.
- (d) The Group sells its own brand products on the E-platform of Xiaomi, which charges the Group customer service fees.

19. FAIR VALUE MEASUREMENTS

Fair value reflects the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the assets or liabilities.

The Group applies a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. This guidance specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

Level 1—Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2—Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

Level 3—Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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19. FAIR VALUE MEASUREMENTS (Continued)

The fair value guidance describes three main approaches to measure 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.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates.

The Group did not have any other financial instruments that were required to be measured at fair value on a recurring basis as of December 31, 2020 and 2021 except for short-term investments (Note 6).

The following table summarizes the Group's assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy as of December 31, 2020 and 2021:

	Level 1	Level 2	Level 3	Total
As of December 31, 2021				
Short-term investments (i)	—	828,867	—	828,867
As of December 31, 2020				
Short-term investments (i)	—	696,051	—	696,051

(i) Short-term investments represent structured deposits, and the Company values these short-term investments based on quoted prices of similar products provided by banks at the end of each period, and accordingly, the Company classifies the valuation techniques that use these inputs as Level 2.

Apart from the short-term investments, the Company's other financial instruments consist principally of cash and cash equivalents, restricted cash, short-term deposits, accounts and notes receivable, other receivables, amounts due to/from related parties, accounts and notes payable and certain accrued expenses. They are recorded at cost which approximates fair value.

20. LEASES

The Group's operating leases are principally for office space, facilities and self-run offline stores. At December 31, 2021, The Group's operating leases had a weighted average discount rate of 4.75% and a weighted-average remaining lease term of 1.5 years.

The components of lease expense were as follows:

	Year ended December 31,	
	2020	2021
Lease cost		
Operating lease expense	9,472	12,065
Short-term lease expense (i)	876	2,382
Total lease cost	<u>10,348</u>	<u>14,447</u>

(i) Includes leases with a term of one year or less.

Supplemental cash flow information for leases was as follows:

	Year ended December 31,	
	2020	2021
Operating cash flows relating to operating leases	10,203	14,765
Lease liabilities arising from obtaining right-of-use assets	7,890	16,835

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20. LEASES (Continued)

As of December 31, 2021, the aggregate future minimum rental payments under non-cancelable agreement were as follows:

	Rental RMB
2022	15,619
2023	10,837
2024 and after	244
Total future minimum rental payment	26,700
Less amount representing imputed interest	(7,792)
Present value of future minimum rental payments	18,908
Less current portion, recorded in other current liabilities	(11,312)
Long-term lease liabilities, recorded in other long-term liabilities	7,596

21. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

As of December 31, 2021, future minimum commitments under non-cancelable agreements were as follows:

	Rental RMB
2022	484

The operating commitments as of December 31, 2021 presented above mainly consist of the short-term lease commitments and leases that have not yet commenced but that create significant rights and obligations for the Company, which are not included in operating lease right-of-use assets and lease liabilities.

(b) Capital and other commitment

Capital expenditures contracted for at the balance sheet dates but not recognized in the consolidated financial statements are as follows:

	Year ended December 31,	
	2020	2021
Property, plant and equipment	—	116,527

(c) Legal proceedings

From time to time, the Group is involved in claims and legal proceedings that arise in the ordinary course of business. Based on currently available information, management does not believe that the ultimate outcome of these unresolved matters, individually and in the aggregate, is likely to have a material adverse effect on the Group's financial position, results of operations or cash flows.

However, litigation is subject to inherent uncertainties and the Group's view of these matters may change in the future. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the Group's financial position and results of operations for the periods in which the unfavorable outcome occurs.

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22. RESTRICTED NET ASSETS

Relevant PRC laws and regulations permit payments of dividends by the Group's entities incorporated in the PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Company's entities in the PRC are required to annually appropriate 10% of their net after-tax income to the statutory general reserve fund prior to payment of any dividends, unless such reserve funds have reached 50% of their respective registered capital. As a result of these and other restrictions under PRC laws and regulations, the Company's entities incorporated in the PRC are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances, which restricted portion as calculated under PRC GAAP amounted to RMB61,852 and RMB112,603 as of December 31, 2010 and 2021. Even though the Company currently does not require any such dividends, loans or advances from the PRC entities for working capital and other funding purposes, the Company may in the future require additional cash resources from them due to changes in business conditions, to fund future acquisitions and development, or merely to declare and pay dividends or distributions to its shareholders. Except for the above, there is no other restriction on use of proceeds generated by the Group's subsidiaries and VIE to satisfy any obligations of the Company.

For the year ended December 31, 2021, the Company performed a test on the restricted net assets of subsidiaries and VIE in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3), "General Notes to Financial Statements" and concluded that the restricted net assets do not exceed 25% of the consolidated net assets of the Company as of December 31, 2021 and the condensed financial information of the Company are not required to be presented.

Cash transfers from the Company's PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may temporarily restrict the ability of the PRC subsidiaries and VIEs to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency denominated obligation.

Business Cooperation Agreement

Party A: Xiaomi Communications Co., Ltd.

Legal representative: Wang Chuan

Address: No. 019, 9/F, Building 6, Yard 33, Xierqi Middle Road, Haidian District, Beijing

Tel.: [****]

Fax: [****]

Party B: Foshan Yunmi Electric Appliances Technology Co., Ltd.

Legal representative: Chen Xiaoping

Address: No. 2, Xinxi Fourth North Road, Xiashi Village, Lunjiao Street, Shunde District, Foshan City, Guangdong Province (one of 2nd Floor in Building 1 and 4th Floor in Building 7)

Tel.: /

Fax: /

Whereas the cooperation willingness of both parties, this agreement aims at the ways of cooperation of customized Xiaomi products, both parties agree to abide by the following terms jointly through negotiation for the matters related to cooperation of both parties:

Article 1: Scope of Application

This agreement applies to all customized products that are provided or have been provided by Party B to Party A (hereinafter referred to as "customized Xiaomi products"). The specific products will be subject to Appendix *Approval Agreement of Customized Xiaomi Products* in this agreement signed by both parties before being released.

Article 2: Ways of Cooperation

- 2.1 Party A will assign the trademark, ID (industrial design) and package design scheme to be used for customized Xiaomi products (refer to Article 3.1 for definitions). Party B is responsible for the overall development, production and supply of customized Xiaomi products, and the production and delivery according to Party A's order.
- 2.2 According to the market judgment, Party A will provide Party B with order forecasting, and Party B shall arrange production referring to the order forecasting. The order forecasting will not legally bind Party A. Party B is responsible for producing customized Xiaomi products and delivering them to the warehouse assigned by Party A. Party A is responsible for promoting and selling products.
- 2.3 Party A has the right to sell and dispose customized Xiaomi products in all channels, including but not limited to domestic, global, online, offline and other channels; Customized Xiaomi products produced by Party B according to this agreement may be provided to Party A only. Without Party A's advance written approval, Party B shall not provide the customized Xiaomi products to any third party other than Party A in any form and any channel, including but not limited to domestic, global, online, offline and other channels. In case Party B violates this term, Party A has the right to terminate the agreement and request Party B to compensate all Party A's losses, and Party A has the right to take any possible measure to avoid further losses.

- 2.4 Party B promises that it will not produce and sell any bogus products of Xiaomi brand by itself or any other third party with its assistance.
- 2.5 Party B promises that it will not cooperate with consumer electronics manufacturer that has competitive relation with Xiaomi to develop, produce or outsource same or similar products of customized Xiaomi products. In case Party B violates this term, Party A has the right to terminate the agreement, and request Party B to pay USD 1 million as liquidated damages.
- 2.6 Based on the joint corporate values and consistent business concepts, both Party A and Party B will enter into a commercial cooperation relation of mutual complementary. Both parties sufficiently acknowledge that a friendly and close business cooperation relation has an important business, consensus and reputation value for both parties. Party B promises that, in case it causes any legal dispute with Party A, it shall negotiate with Party A's director at management layer to solve dispute matters. During negotiating with director at management layer of both parties, Party B shall not file a claim, lawsuit, ban or other legal procedures to Party A and its related company, other companies and suppliers within Xiaomi ecological chain system for products of Xiaomi brand; unless the legal action or claim will not impact the supply and production of products of Xiaomi brand. In case Party B violates this term, Party A has the right to request Party B to pay at least RMB 500,000 as liquidated damages according to specific violation. However, in case both parties fail to reach an agreement within the assigned period ("assigned period" here refers to 90 days for purified water, gas water heater and kitchen appliance products, and 30 days for small home appliances such as electric kettle) from the negotiated date submitted by Party B to the director at Party A's management layer. Party B will not be bound by the above agreements and/ or bear default liabilities.
- 2.7 Party B shall control the production and processing processes of customized Xiaomi products strictly. Party B shall sign relevant agreement of supplier's social liabilities with its authorized manufacturer if Party A requires.
- 2.8 Both parties agree to collect, save, transmit, use and disclose the user data generated in service provision of customized Xiaomi products according to Appendix *Terms about User Data of Customized Xiaomi Products* in this agreement.

Article 3: Definition

- 3.1 Customized Xiaomi products: Products produced and sold in the brands of Xiaomi, and products that use Party B's own brands and are determined as customized Xiaomi products with the written approval of both parties.
- 3.2 Cost and quotation
 - 3.2.1 Party A's cost refers to freight and other expenses (if any) generated from Party A's sales of customized Xiaomi products under this agreement.

Freight calculation method: The actual freight will prevail.

Other expenses: Expense from sales of products.
 - 3.2.2 Party B's costs include the following contents:

3.2.2.1 Raw material cost: Serial number, model and specification, unit, consumption, unit price, supplier/ agent's full name, contact information and other contents of all purchased materials shall be indicated in raw material cost.

3.2.2.2 OEM cost: All expense details shall be listed in manufacturer's OEM cost.

3.2.2.3 Mold amortization expense: If both parties confirm that the mold expense needs to be apportioned, the expense is limited to the first set of molds of customized Xiaomi products. The mold cost invested secondly will be borne by Party B.

The calculation formula of mold amortization expense:

Mold amortization expense of each product= total mold expenses/ amortization amount*

*Note: The amortization amount is not lower than the sales demand of products in six months, and is not greater than the sale demands of products in one year. The sales demands are subject to Party A's output when product samples are sealed. Specially customized products should be negotiated by both parties. In case negotiation fails, the first set of mold of specially customized products will prevail, and the amortization will be subject to the sales demand quantity of specially customized products within six months.

3.2.2.4 Logistics expenses: It refers to the logistics expenses converted or estimated from Party B's manufacturer to the place assigned by Party A (the reference template provided by Party A will prevail); the logistics expense for self-picking up by Party A at Party B's manufacture will not be included in Party B's cost.

3.2.3 Expenses that shall not be included in the quotation: Party B's profits and indirect cost (including but not limited to management fee, charge of water and electricity, depreciation cost, after-sales service fee and other indirect costs).

3.2.4 All quotations specified in this agreement are tax-inclusive price.

3.2.5 In case Party A is disagreed with Party B's costs, it has the right to purchase products in other methods, including but not limited to the following methods:

3.2.5.1 Party A will directly purchase products from the supplier, and Party B is responsible for acceptance, quantity counting, management and usage.

3.2.5.2 Party A will provide corresponding purchase channel to Party B, and Party B will sign the purchase agreement with manufacturer provided by Party A according to the conditions assigned by Party A.

Party B guarantees that it will use raw materials and auxiliary materials confirmed by Party A or purchased according to 3.2.5.1 or 3.2.5.2 in products provided to Party A in any method mentioned above.

3.2.6 Remarks: For the cooperation mode and profit sharing of both parties, both Party A and Party B will calculate direct cost only; Expense for one-time investment (such as research and development, trial production, certification*, selling and promotion activities) will be excluded from the cost.

*Note: This place aims to domestic markets only. Whether the certification expenses of overseas market are included into the cost or the methods for sharing the certification expenses of overseas market will be discussed independently according to conditions.

3.2.7 Both parties will bear respective expenses for management/ depreciation of water and electricity/ company operation.

3.2.8 Based on the compliance of Appendix *Framework Agreement of Customized Product Quality of Xiaomi Ecological Chain* in this agreement, both Party A and Party B will bear respective after-sales expense within the specified quality reject ratio for after-sales maintenance/ after-sales service expenses/ online and offline customer services. (The specific after-sales service agreement will be subject to Appendix *Framework Agreement of Customized Product After-sales Service of Xiaomi Ecological Chain* in this agreement signed by both parties)

3.3 Purchase and acceptance

3.3.1 BOM import: Party B will provide bill of material ("BOM") according to Party A's format requirements. After successful entry in Party A's system, Party B will provide effective quotation according to Party A's template.

3.3.2 Purchase price: The purchase price will be subject to the latest effective purchase order (refer to Article 3.2.2 for Party B's cost).

3.3.3 PO order: It refers to the *Purchase Order* ("PO order") confirmed by both parties through stamping seals within the validity period of this agreement.

3.3.4 Delivery cycle: It is started from the date when the commitment is made by Party B for the purchase order issued by Party A in an effective confirmation method, and is ended on the date when the receiver assigned by Party A signs the receipt.

3.3.5 Preliminary acceptance: After Party B delivers products in this order to the assigned place, the assigned receiver does not need to unpack the transport package of products and may check quantity, package, binding and other states of products without any inspection equipment.

Article 4: Order Execution

4.1 After receiving the purchase order issued by Party A, Party B shall sign on the order and stamp seal within 3 days and return the order to Party A; after which, the order will be an effective order of both parties; In case Party B fails to confirm and return the order to Party A within the above period, it will be deemed that Party B does not have any objection for the order information, and the order will be deemed as effective order. Party B shall fully perform all contents in the effective order and shall submit the shipping plan of effective orders that have not been executed to Party A regularly in written form.

4.2 Party B shall adopt packing mode that is suitable for product characteristics and delivery time for delivery and transportation. The logistics expenses and responsibilities for Party B's delivery to the place assigned by Party A should be shared by the following methods: The logistics expenses will be included into Party B's cost, and risk and other relevant responsibilities will be borne by Party B. The logistics expenses and responsibilities for Party A's self-picking up at Party B's manufacturer should be shared by the following

methods: The logistics expenses will be excluded from Party B's cost, and Party B bears relevant responsibilities caused by Party B such as inappropriate package and shipping.

- 4.3 Party B will deliver products to the delivery place assigned in the effective order, and the receiver assigned by Party A shall accept products preliminarily and sign the receipt to receive order products qualified in the preliminary acceptance. After products are qualified in the preliminary acceptance, Party A has the right to make further acceptance for products. In case products are disqualified in the further acceptance, Party B shall exchange or return at Party A's request.
- 4.4 In case Party B fails to deliver goods in time, Party B shall notify the modified delivery date and quantity to Party A in written form within 15 working days before the delivery date agreed in relevant order. After Party A's written approval is acquired, both parties may determine the specific delivery date and quantity additionally. However, Party A agrees that the modification will not exempt Party B's default liabilities for failure in delivery according to the original time. Party B shall bear compensation liabilities for losses caused to Party A. In case Party B cannot deliver goods according to the delivery quantity and date additionally confirmed by both parties, it shall pay the price amounting to 3 % of the total order amount to Party A per delayed day as liquidated damages. In case the delay is more than ten days, Party A has the right to terminate this order. In case losses are caused to Party A, Party B shall compensate the actual losses caused to Party A, except for conditions caused by force majeure.

Article 5: Settlement and Payment

- 5.1 For customized Xiaomi products sold through Party A's channel, the gross profits after deducting all Party A's costs and expenses will be executed by Party A and Party B according to the Appendix *Approval Agreement of Customized Xiaomi Products* in this agreement or quotation signed by both parties before the products are released.

Gross profit of one product= sales price- Party B's cost- Party A's cost

* Refer to Article 3.2 of this agreement for Party A and Party B's costs.

* Sales price is the average sales price of customized Xiaomi products at Party A's place.

Both parties determine to adopt the method agreed in Article 5.2 or 5.3 for settlement.

5.2 Profit share model

Party B's profit sharing amount = Party A's sales volume* gross profit of one product* Party B's dividend ratio.

5.2.1 Goods payment: It will be settled according to PO order.

5.2.2 Profit sharing amount: Party A will finish the shipment and profit sharing amount bank statement of the customized Xiaomi products in last month at the 10th working day in each month, and send them to Party B for confirmation. After confirming as errorless, Party B will issue equivalent special VAT invoice to Party A in the name of corresponding commodities according to the bank statement. After receiving the correct invoice issued by Party B, Party A will make payment to Party B's designated account within 10 working days.

5.2.3 The profit sharing amount will be calculated according to the actual sales volume of products within the settlement time.

5.3 Purchase and sales mode

5.3.1 Purchase and sales amount: Party A will finish the warehousing amount and bank statement of the customized Xiaomi products in last month at the 5th working day in each month, and send them to Party B for confirmation. After confirming as errorless, Party B will issue equivalent special VAT invoice to Party A in the name of corresponding commodities according to the bank statement. After receiving the correct invoice issued by Party B, Party A will make payment to Party B's designated account within 30 working days.

5.3.2 The settlement of purchase and sales amount will be subject to the warehousing amount and bank statement.

5.4 Party B's designated account:

Account Name: Foshan Yunmi Electric Appliances Technology Co., Ltd.

Bank of Deposit: [***]

Bank Account: [***]

Article 6: Rights and obligations of both parties

- 6.1 Party B shall ensure that the customized Xiaomi products enjoy the treatment of not lower than the production, processing and purchase conditions of Party B's self-brand products.
- 6.2 According to contents contained in Article 3.2 definition of cost, for the customized Xiaomi products, Party B shall provide the latest cost list to Party A within 3 working days after the BOM cost list changes. Party A has the right to request Party B to provide details such as cooperation contract signed with OEM manufacturer/ supplier, invoice and receipt of both parties. In case of any adjustment of prices of product raw materials, OEM manufacturer, freight or other expenses, Party B shall indicate the price and execution date before and after the adjustment in details in BOM, and adjust the above prices in the new order correspondingly after acquiring Party A's approval. At the same time, Party B is obligated to guarantee Party A's right to contact supplier directly for audit. As an appendix of this agreement, *Agreement of Equivalent Right to Know and Audit* will be signed when this agreement is signed.
- 6.3 In case the prices of product raw materials, OEM, freight or other expenses have actually changed, but Party B fails to notify such change to Party A, or fails to indicate in the provided BOM and make corresponding adjustment, Party A has the right to terminate any issued order (to avoid doubt, Party A has the right to cancel the order no matter whether the order is confirmed by Party B) and stop cooperation in case of finding any. Besides, Party A will impose a fine for Party B's fault. The formula for calculating fines is as below:

Fine limit= purchase unit price before depreciation* highest depreciation ratio* accumulative sales volume of the product* 10;

Remarks: The highest depreciation ratio refers to the ratio of single piece of raw material of which the price is depreciated the most in the list of BOM cost.

- 6.4 Party A shall purchase products from Party B according to the purchase order agreed by both parties. The purchase order will bind both parties. In case either party causes losses to another party due to failure in performance of purchase plan, it ("defaulting party") shall bear compensation liabilities, and the

compensation amount is subject to the actual loss of opposite party ("observant party"), excluding any indirect, excepted losses and losses that cannot be forecast by the defaulting party in advance. Despite the above agreement, in case Party A finds out the change in cost after order is effective, it has the right to cancel the order or change order contents.

- 6.5 When replacing spare parts and suppliers of products, Party B needs to notify Party A in advance. The change management is subject to Appendix *Framework Agreement of Customized Product Quality of Xiaomi Ecological Chain* in this agreement.
- 6.6 Party B promises that it is qualified to provide commodities and perform services, and has acquired all permissions, approvals and certifications (in case Party B is responsible for certifying customized Xiaomi products) required by Chinese laws and regulations, and laws and regulations of Party A's sales target country for provision and performance of commodities/ services. These permissions, approvals and certifications are comprehensively effective during the term of the agreement.
- 6.7 Party B guarantees that the manufacturing process, product quality, performance indexes and other contents involved in the test of products provided to Party A are consistent with the products certified and tested.
- 6.8 Party A has the right to carry out compliance audit for customized Xiaomi products according to company policies combined with the laws and regulations of sales target country. Party B shall provide cooperation according to Party A's compliance audit requirements, timely provide information or materials complying with requirements, and correct customized Xiaomi products according to Party A's compliance audit results.
- 6.9 Party B shall guarantee that the packing material information such as specifications, warnings and statements of customized Xiaomi products comply with compliance requirements of sales target country. Party A has the right to request Party B to correct packing material information according to laws and regulations of sales target country. The expenses caused thereby will be borne by Party B.
- 6.10 Party B guarantees that product quality and mass comply with Party A's requirements, and shall provide customized Xiaomi products according to Appendix *Framework Agreement of Customized Product Quality of Xiaomi Ecological Chain* in this agreement. Party B has acknowledged and agreed to unconditionally accept and abide by relevant policies of after-sales, exchange or return updated by Party A at any time.
- 6.11 When Party A sells customized Xiaomi products without gross profit or with negative profit, the losses will be borne by both Party A and Party B according to the profit distribution ratio or the ratio additionally agreed by both parties in written form.
- 6.12 In case customized Xiaomi products have potential safety hazards and endanger the personal and property safety of terminal users due to Party B, Party B will fully bear all expenses and all legal liabilities generated thereby. The specific details are shown in Appendix *Framework Agreement of Customized Product Quality of Xiaomi Ecological Chain* and Appendix *Framework Agreement of Customized Product After-sales Service of Xiaomi Ecological Chain* in this agreement signed by both Party A and Party B.
- 6.13 Party B shall collect, use and transmit user data according to the Appendix *Terms About User Data of Customized Xiaomi Products* in this agreement.
- 6.14 In case both parties decide to adopt direct delivery mode for cooperation, Party B or assigned third-party logistics carrier will directly deliver goods to the delivery address or recipient assigned by Party A, and

both parties shall sign Appendix *Special Agreements for Directly-delivery Products* and relevant data protection Appendix *Annex of Data Protection* (the appendix name may be adjusted) additionally.

- 6.15 Party B shall purchase product liability insurance complying with Party A's requirements for the customized Xiaomi products at Party A's requirements, and Party A will be the joint insured or additional insured. Relevant expenses will be borne by Party B. Copies or scanning copies of relevant insurance certificates shall be submitted to Party A for keeping.

Article 7: Intellectual Property

7.1 Authorization of Party B's trademark and copyright

7.1.1 Party B authorizes Party A and its related party entity, in an irrevocable, free and sub-licensable methods, to use Party B's trademark, identification and enterprise name on customized Xiaomi products for the purposes of, including but not limited to, manufacturing, promotion and publicity, selling, offering for sale and export and import. Relevant contents for use of Xiaomi identification will be subject to the Appendix *Brand Management* in this agreement.

7.1.2 Party B shall ensure the originality of product station (including but not limited to publicity materials, official documents and correspondence, pictures, videos, H5 pages and other contents) materials designed and manufactured. In case the provided materials are from a third party, Party B needs to acquire the legal authorization of relevant third party. Party B agrees to authorize Party A and its related party entity to use the all materials above in the world. The specific usage mode and channel are decided by Party A.

Article 8: Confidentiality Terms

Both parties agree that: the confidential information involved in the cooperation between both parties includes but is not limited to any materials provided by both parties to the opposite party according to this agreement, correspondences in cooperation process and other materials or information related to business or technology that are not published. The recipient shall bear confidentiality obligations for the confidential information of disclosing party. The recipient shall not disclose the disclosing party's confidential information acquired in oral, written, visual or other forms to any third party or use such information for the purpose other than the cooperation of both parties; unless the disclosing party has authorized such third party to acquire the disclosed confidential information in written form in advance. The specific agreement of confidentiality is subject to Appendix *Confidentiality Agreement* in this agreement.

Article 9: Default Liabilities and Contract Termination

- 9.1 Any behavior violating this agreement and appendixes of this agreement and PO order will be deemed as violation of this agreement. Unless otherwise agreed in this agreement or appendixes, in case either party violates this agreement, it ("defaulting party") shall pay RMB five hundred thousand (RMB 500,000) to the opposite party ("observant party") as liquidated damages. In case the above liquidated damages are insufficient to recover the observant party's losses, the defaulting party shall compensate the insufficient part, including but not limited to the expenses and expenditures generated for observant party's handling of default events, including legal expenses for investigation, arbitration, lawsuit and lawyer. In case Party B or its related company has any payables for Party A (including but not limited to expenses, fines and liquidated damages that shall be paid by Party B), Party A has the right to freeze corresponding amount or directly offset the amount in the Party A's payables to Party B.

9.2 In case of one or several conditions below due to Party B's violation of this agreement, Party A has the right to adopt or request Party B to take all measures to solve this problem to maintain its brand reputation, including but not limited to taking public relation measures, responding to suits, reaching an accommodation with third party and/or compensating the third party in advance. All expenses generated for solving the dispute or problem (including but not limited to expenses for Party A to engage a lawyer and other third party, expenses for responding a lawsuit and expenses and fines compensated to the third party) shall be borne by Party B. In case Party A compensates such expenses in advance, it has the right to claim compensation from Party B:

- (1) Products will cause events or disputes that will lead to personal and property losses to consumers;
- (2) Party B causes intellectual property rights of customized Xiaomi products (including but not limited to disputes of infringement of intellectual property rights);
- (3) Party B fails to acquire relevant certification, permission or qualification required in laws of China and sales target country, or the products provided do not comply with product compliance requirements of China and sales target country, which causes the conditions including but are not limited to failure in normal sales of products, customer complaints, consumer dispute, administrative punishment, retention and punishment of customs or market regulatory authority, and court injunction;
- (4) Controversy, dispute, complaint and other problems are caused by provision of illegal or wrong product after-sales service by Party B or Party B cooperating with authorized distributor;
- (5) User data is collected, disposed, disclosed, saved, used and transmitted by Party B through violating laws and regulations about data privacy protection of product sales places or other application laws and regulations about data privacy protection of product sales places.

In case the third party files a claim or lawsuit to Party A or its related company, distributor and agent ("damaged party") due to the above causes, Party B shall cooperate with Party A for defending, to ensure that the interests of damaged party will not be damaged, and Party B shall compensate the damaged party (including but not limited to the expense for the damaged party to engage a lawyer and other third party, expenses for responding a lawsuit and expenses and fines compensated to the third party).

9.3 In case of the following conditions, Party A has the right to terminate this agreement and specific order in advance after sending written notice:

- (1) Party B seriously violates the obligations in this agreement and specific order;
- (2) Except for conditions forbidden by applicable bankruptcy law, Party B is declared as bankrupt, is unable to pay matured debt, losses performance ability due to other causes, or its assets are transferred or received by other creditors;
- (3) Products delivered by Party B cannot satisfy the agreed acceptance standards or quality requirements, and Party A deems that there is no correction value or the standards still cannot be satisfied after three times of correction;
- (4) Party B delays the delivery unconditionally without Party A's advance written approval;

- (5) Party B fails to abide by the Appendix *Terms about User Data of Customized Xiaomi Products* in this agreement, and fails to save data to the Cloud server assigned by Xiaomi, causes dispute about infringement of user's personal information protection, and discloses the user data to a third party without Party A's permission.

Article 10: Export Control

Both parties promise and guarantee to abide by applicable laws and regulations about export control and economic sanctions (including but not limited to those of China, the U.S., European Union and Japan) strictly. Either party promises that, for any technology, technical data, software code or other information, hardware, equipment or its component ("deliverables") provided to another party, the disclosure or provision to such party will not violate any applicable laws and regulations about export control. Either party guarantees that it will not directly or indirectly disclose or provide any deliverables to the following places within its known scope: (1) Any country or region where the American government executes comprehensive economic sanctions (including Crimea, Cuba, Iran, South Korea and Syria) and other relevant regions sanctioned by America (including Sultan and Venezuela); or (2) Any individuals or entities that are listed in (a) Specially Designated Nationals and Blocked Persons List ("SDN List") of America or other sanction list, or entities that are owned or controlled by entities in the above list; or (b) "List of Denied Persons", "Entity List" or any other export control or tied transaction list; or (3) Final military users or final military purpose specified in *Export Control Regulations* of America; (4) Deliverables cannot be used for supporting terrorism, nuclear technology, chemical and biological weapon, guided missile and weapons of mass destruction. In case either party violates this term, the observant party has the right to stop performance of this agreement and relevant contract.

Article 11: User Data

Party B shall guarantee to collect, dispose, disclose, save, use and transmit the user data according to applicable data protection laws and regulations. In case Party B violates any applicable data protection laws and regulations, it shall bear all legal liabilities independently. In case of causing losses to Party A, Party B shall make compensation. In case of causing adverse effect to Party A, Party B shall announce and clear relevant conditions through public channels or by cooperating with Party A. Other specific agreements will be subject to the Appendix *Terms about User Data of Customized Xiaomi Products* in this agreement.

Article 12: Integrity Terms

- 12.1 Party B or its worker shall not directly or indirectly bribe or provide other illegal tangible or intangible profits to Party A's personnel and their relatives for any reason and in any form, or impose undue influence Party A's personnel and their relatives in any form, including but not limited to:
 - (1) Bribe or gift (including but not limited to cash, cash gift, negotiable securities, valuables and other properties, provision of loans and dividends) Party A's personnel and their relatives;
 - (2) Provide entertainment, vacation, outbound trip and activities at commercial entertainment venues to Party A's personnel and their relatives;
 - (3) Bribe Party A's personnel and their relatives with agent or any third party;
 - (4) Propose other illegal requirements unrelated to works to Party A's personnel in any form;
 - (5) Take other briberies forbidden in laws.

12.2 In case Party B violates one or more agreements in this term, Party A has the right to select one or more measures below:

- (1) Cancel Party B's supplier qualification, and terminate relevant contracts with Party B unilaterally without bearing default liabilities;
- (2) Deduct all deposits (if any) paid by Party B;
- (3) Party B shall pay ten percent (10%) of the business contract or order amount (the contract amount includes amount that has been paid+ amount that has not been paid) or RMB five hundred thousand to Party A in a lump sum as liquidated damages, whichever higher will prevail.

In case the above relief measures cannot recover Party A's losses, Party B shall compensate Party A's actual losses. For the above liquidated damages or damage compensations, Party A has the right to deduct them from Party B's receivables directly. At the same time, Party A reserves the right to investigate legal liabilities according to national laws and regulations.

12.3 In case Party A's relevant personnel violates one or more agreements in this term, Party B shall immediately report it to Party A's leader or supervisory department. Besides, Party B shall actively cooperate with Party A's investigation and works, actively provide relevant information that may influence Party A's interests or required by Party A. In case Party B finds out that other suppliers cooperating with Party A violate the above terms, Party B promises to report them to Party A and provide evidence.

Reporting manner: Email: [***]

Article 13: Force majeure

13.1 In case either party cannot perform obligations under this agreement due to force majeure events, including but not limited to fire, flood, earthquake, typhoon, natural disasters and other unforeseeable or inevitable and uncontrollable conditions, it will not bear any liabilities. The performance time of such party specified in this agreement will be prolonged automatically. The prolonged time shall be equivalent to the time when the party cannot perform this agreement due to force majeure events directly or indirectly. The party influenced by force majeure events shall notify such event to the opposite party through telegraph or telex within the rational time, and submit the proof of relevant force majeure event issued by authorities to the opposite party within 15 days after the events occur.

13.2 In case the performance cannot be continued, Party A has the right to terminate this agreement and specific order unilaterally.

Article 14: Scope of validity

14.1 This agreement is signed by both Party A and Party B in Haidian District, Beijing. The validity period of this agreement is 2 years, which is from September 10, 2021 to September 10, 2023.

14.2 Except for conditions agreed in Article 9.3 of this agreement, in case Party B fails to abide by any content in this agreement, Party A has the right to request Party B to stop violation behavior immediately in case of finding; In case Party A finds out that Party B does not stop the violation behavior thereafter, Party A has the right to terminate this agreement immediately.

- 14.3 Within the validity period of this agreement, either party cannot change and terminate this agreement without the written approval of opposite party. However, either party may execute its unilateral termination right to terminate or suspend this agreement according to this agreement.
- 14.4 Both Party A and Party B confirm that, in case the performance of this agreement is unnecessary or impossible due to force majeure, termination of this agreement may be negotiated.
- 14.5 When this agreement expires, the outstanding debts and debts of both parties incurred will not be impacted by termination of this agreement, and both parties shall continuously perform respective obligations.
- 14.6 The warranty, intellectual property rights, confidentiality, default liabilities and other terms that shall be existed as per natures agreed in this agreement and specific order shall be effective if this agreement and specific order are terminated or suspended in advance for any reason.

Article 15: Dispute resolution

Any disputes arising from the execution of, or in connection with cooperation according to this agreement shall be solved by both parties through negotiation. In case both parties cannot reach an agreement through negotiation, the dispute shall be submitted to the jurisdictional people's court at Party A's place for arbitration. In the process of dispute resolution, except for the part under arbitration, other parts hereof shall continue to be performed.

Article 16: Supplementary provisions of the contract

- 16.1 Contract change: All contract changes (including supplementation and revision) may be valid after being effectively signed by both parties.
- 16.2 Appendixes *Approval Agreement of Customized Xiaomi Products, Agreement of Equivalent Right to Know and Audit, Terms about Intellectual Property, Terms about User Data of Customized Xiaomi Products, Framework Agreement of Customized Product Quality of Xiaomi Ecological Chain, Framework Agreement of Customized Product After-sales Service of Xiaomi Ecological Chain, Confidentiality Agreement, Brand Management, Customized Products of Xiaomi Ecological Chain_ Framework Agreement of International After-sales Service and Product Change (PCN) Agreement* of this agreement as well as PO order signed by both parties shall be indivisible parts of this agreement, which shall have the same legal effects.
- 16.3 A written supplementary agreement may be signed by both parties for matters uncovered in this agreement through negotiation, which shall have the same legal effects as this agreement.
- 16.4 For any right waiver expressed in this agreement or failure in timely execution of any right granted in this agreement, it will not constitute continuous right waiver or mean the waiver of any right under this agreement.
- 16.5 In case any term or part in this agreement is judged as illegal or non-coercive, relevant contents will be separated from this agreement, and will not influence, damage or relieve the effectiveness of other terms or parts in this agreement. The above terms that are judged as illegal or non-coercive will be replaced by other effective or legal terms or parts in this agreement that have the most similar meaning and content.
- 16.6 Notice: All notices shall be issued in written form. In case Party A sends the written notice to Party B through fax or similar methods, it will be deemed as delivered on the delivery date; in case the mail is

adopted, it will be deemed as delivered on the date when the mail is sent to Party B's receiver; in case airmail is adopted, it will be deemed as delivered on the fifth (5th) day after the airmail is sent; in case the express is adopted, it will be deemed as delivered after the express is signed by the receiver for confirmation. In case the email or message data is adopted, it will be deemed as delivered on the date when the email or data is sent to Party B's electronic system. In case of any change in Party B's contact person, such change shall be notified to Party A three (3) days in advance.

Contact person of Party B: [***]

16.7 Titles and descriptions of terms contained in this agreement are for reference only. The above titles cannot limit, restrict, expand or describe the scope of this agreement or contents of any terms in any form.

16.8 This agreement will be made in duplicate, which will be valid after being stamped with official seal or special seal for contract by both parties. Each party holds one copy with the same legal effects.

(Signature page to follow)

Xiaomi Communications Co., Ltd. (Seal)

Foshan Yunmi Electric Appliances Technology Co., Ltd. (Seal)

(Seal of Xiaomi Communications Co., Ltd. affixed)

(Seal of Foshan Yunmi Electric Appliances Technology Co., Ltd. affixed)

Signature of authorized representative: /s/ Xiaomi Communications Co., Ltd.

Signature of authorized representative: /s/ authorized representative

September 23, 2021

September 22, 2021

Appendix 1: *Terms about Intellectual Property*

Appendix 2: *Agreement of Equivalent Right to Know and Audit*

Appendix 3: *Terms about User Data of Customized Xiaomi Products*

Appendix 4: *Approval Agreement of Customized Xiaomi Products*

Appendix 5: *Brand Management*

Appendix 6: *Framework Agreement of Customized Product Quality of Xiaomi Ecological Chain*

Appendix 7: *Framework Agreement of Customized Product After-sales Service of Xiaomi Ecological Chain*

Appendix 8: *Confidentiality Agreement*

Appendix 9: *Customized Products of Xiaomi Ecological Chain_ Framework Agreement of International After-sales Service*

Appendix 10: *Product Change (PCN) Agreement*

List of Significant Subsidiaries and Consolidated Variable Interest Entities of Viomi Technology Co., Ltd

Subsidiaries	Place of Incorporation
Codream Ltd.	Cayman Island
Codream Co., Ltd.	British Virgin Island
Codream HK Co., Limited	Hong Kong
Viomi HK Technology Co., Limited	Hong Kong
Yunmi Hulian Technology (Guangdong) Co., Ltd.	People's Republic of China
Lequan Technology (Beijing) Co., Ltd.	People's Republic of China
Zhumeng Hulian Technology (Guangdong) Co. Ltd.	People's Republic of China
Guangdong Lizi Technology Co., Ltd.	People's Republic of China
Guangzhou Interconnect Electric Appliances Technology Co. Ltd	People's Republic of China
Consolidated Variable Interest Entities	Place of Incorporation
Foshan Yunmi Electric Appliances Technology Co., Ltd	People's Republic of China
Beijing Yunmi Technology Co., Ltd	People's Republic of China
Subsidiaries of Consolidated Variable Interest Entities	Place of Incorporation
Foshan Xiaoxian Hulian Electric Appliances Technology Co. Ltd.	People's Republic of China
Zhuawa Technology (Guangdong) Co. Ltd.	People's Republic of China
Guangdong AI Touch Technology Co., Ltd.	People's Republic of China

**Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Xiaoping Chen, certify that:

1. I have reviewed this annual report on Form 20-F of Viomi Technology Co., Ltd;
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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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(s) 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 (or persons performing the equivalent functions):
 - (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 27, 2022

By: /s/ Xiaoping Chen
Name: Xiaoping Chen
Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Xiaoping Chen, certify that:

1. I have reviewed this annual report on Form 20-F of Viomi Technology Co., Ltd;
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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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(s) 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 (or persons performing the equivalent functions):
 - (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 27, 2022

By: /s/ Xiaoping Chen
Name: Xiaoping Chen
Title: Chief Executive Officer (Principal Financial 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 Viomi Technology Co., Ltd (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, Xiaoping Chen, 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 27, 2022

By: /s/ Xiaoping Chen
Name: Xiaoping Chen
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 Viomi Technology Co., Ltd (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, Xiaoping Chen, Chief Executive Officer (Principal 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 27, 2022

By: /s/ Xiaoping Chen
Name: Xiaoping Chen
Title: Chief Executive Officer (Principal Financial Officer)

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HANKUN
汉坤律师事务所
Han Kun Law Offices

April 27, 2022

To: Viomi Technology Co., Ltd (the “Company”)

Wansheng Square, Rm 1302 Tower C, Xingang East Road, Haizhu District
Guangzhou, Guangdong, 510220
People’s Republic of China

Dear Sir/Madam:

We hereby consent to the reference of our name under the headings “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure” and “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Our VIEs and Their Shareholders” in the Company’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**”) in the month of April 2022. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report, and further consent to the incorporation by reference of the summaries of our opinions under these captions into the Company’s registration statement on Form S-8 (File No.333-230431) that was filed on March 22, 2019.

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.

Very truly yours,

/s/ Han Kun Law Offices

Han Kun Law Offices

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-230431) of Viomi Technology Co., Ltd of our report dated April 27, 2022 relating to the financial statements, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Guangzhou, the People's Republic of China
April 27, 2022