

**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, 2023.
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
Guangzhou, Guangdong, 510220
People's Republic of China**
(Address of Principal Executive Offices)

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(Name, Telephone, E-mail 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, 2023, there were 204,667,094 ordinary shares issued and outstanding, being the sum of (i) 101,902,544 Class A ordinary shares, par value US\$0.00001 per share (excluding 12,831,249 Class A ordinary shares that were issued to our depositary bank and reserved for future grants under our share incentive plans and 11,427,510 Class A ordinary shares that were repurchased by us), and (ii) 102,764,550 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

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

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

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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
Non-accelerated filer

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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:

- “ADSs” are to our American depositary shares, each of which represents three Class A ordinary shares of par value US\$0.00001 each;
- “AI” are to artificial intelligence;
- “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” are to our Class A ordinary shares of par value US\$0.00001 per share;
- “Class B ordinary shares” are to our Class B ordinary shares of par value US\$0.00001 per share;
- “household users” 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 that can communicate with one another through the internet;
- our “home water solutions” are to portfolio of our smart water purification systems with intelligent interconnectivity and communication capabilities;
- our “IoT@Home platform” are to our IoT@Home portfolio products, home water solutions, together with a suite of complementary consumable products and value-added businesses, powered by AI, proprietary software and data analytics systems;
- our “IoT@Home portfolio products” are to our portfolio of smart home products with intelligent interconnectivity and communication capabilities, including our smart kitchen products and other smart products;
- our “IoT products” are to our portfolio of smart home water solutions and IoT@Home portfolio products;
- “ordinary shares” are to Class A ordinary shares and Class B ordinary shares;
- “VIEs” are to variable interest entities, and “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” or “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;
- “WFOEs” are to wholly foreign-owned enterprises, and “our WFOEs” are to our WFOE I and our WFOE II;
- “RMB” or “Renminbi” are to the legal currency of China;
- “US\$” or “U.S. 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 operations and business prospects;
- our future business development, financial conditions and results of operations;
- our expectations regarding the IoT products market and the home appliances market in China;
- our expectations regarding the development of our overseas business;
- our expectations regarding the development of our water purification system business;
- our expectations regarding the 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 for, among other things, capital, technology and skilled personnel;
- our dividend policy;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate; and
- all other risks and uncertainties described in “Item 3. Key Information—D. Risk Factors.”

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 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 91.6%, 86.8% and 85.2% of our total revenues for the years ended December 31, 2021, 2022 and 2023, 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, including 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 laws and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC laws 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. Changes in the regulatory environment in China may 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 laws. 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 operational 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 applicable 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 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—Failure to respond to changes in the regulatory environment 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. Pursuant to the Holding Foreign Companies Accountable Act, which was enacted on December 18, 2020 and further amended by the Consolidated Appropriations Act, 2023 signed into law on December 29, 2022, or HFCAA, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the PCAOB for two consecutive years, the SEC will prohibit our shares or the ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 16, 2021, 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 Hong Kong, including our auditor. In May 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of this annual report on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we were not identified as a Commission-Identified Issuer under the HFCAA after we filed our annual report on Form 20-F for the fiscal year ended December 31, 2022 and do not expect to be so identified after we file this annual report on Form 20-F for the fiscal year ended December 31, 2023. Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we continue to use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the Securities and Exchange Commission, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. There can be no assurance that we would not be identified as a Commission-Identified Issuer for any future fiscal year, and if we were so identified for two consecutive years, we would become subject to the prohibition on trading under the HFCAA. 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.”

Changes in the regulatory environment in China, including risks and challenges 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—Failure to respond to changes in the regulatory environment 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 accumulated profits, 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 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 and its implementation rules, undistributed profits earned by foreign-invested enterprises prior to January 1, 2008 are exempted from any withholding tax, while profits of a foreign-invested enterprise 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 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%. 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 laws, 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, 2021, 2022 and 2023, Viomi Technology Co., Ltd extended loans with outstanding principal amount of RMB350.7 million, RMB383.1 million and RMB390.5 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 2021, 2022 and 2023, our WFOE did not collect service fees from our VIEs in China under the exclusive consultation and service agreements.

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For asset/cash flows other than the cash flows discussed above transferred through our organization in the years ended December 31, 2021, 2022 and 2023, please refer to “Item 3. Key Information—A. Selected Financial Data—Selected Financial Information Related to the VIEs—Selected Condensed Consolidated Cash Flow Data.”

In the year ended December 31, 2021, 2022 and 2023, no dividends or distributions were made to U.S. investors. 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 expect 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, 2021, 2022 and 2023, 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 Enterprise Income Tax Law of the PRC imposes a withholding income tax of 10% on dividends distributed by a foreign invested enterprise 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 permits for products related to hygiene and safety of potable water and the operating permit for value-added telecommunications services. Given the uncertainties of interpretation and implementation of laws and regulations and the enforcement practice by 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 or complete filings with 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 comprehensive income (loss) data and selected consolidated statements of cash flow data for the years ended December 31, 2021, 2022 and 2023 and selected consolidated balance sheets data as of December 31, 2022 and 2023 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. Our selected consolidated statements of comprehensive income (loss) data and selected consolidated statements of cash flow data for the years ended December 31, 2019 and 2020 and selected consolidated balance sheets data as of December 31, 2019, 2020 and 2021 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 accounting principles generally accepted in the United States of America, or 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.

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The following table presents our selected consolidated statements of comprehensive income (loss) data for the years ended December 31, 2019, 2020, 2021, 2022 and 2023.

	For the Year Ended December 31,					
	2019	2020	2021	2022	2023	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands, except for share and per share data)						
Selected Consolidated Statements of Comprehensive Income (Loss) Data:						
Net revenues⁽¹⁾	4,647,513	5,825,624	5,303,835	3,232,731	2,493,386	351,186
Cost of revenues	(3,565,109)	(4,742,668)	(4,105,767)	(2,495,638)	(1,923,866)	(270,971)
Gross profit	1,082,404	1,082,956	1,198,068	737,093	569,520	80,215
Operating expenses⁽²⁾:						
Research and development expenses ⁽²⁾	(204,942)	(265,680)	(311,786)	(299,950)	(222,911)	(31,396)
Selling and marketing expenses ⁽²⁾	(529,212)	(597,176)	(751,011)	(614,887)	(401,766)	(56,588)
General and administrative expenses ⁽²⁾	(73,061)	(68,914)	(97,730)	(121,702)	(81,508)	(11,480)
Total operating expenses	(807,215)	(931,770)	(1,160,527)	(1,036,539)	(706,185)	(99,464)
Other income, net	35,880	32,795	27,128	22,135	17,510	2,466
Income (loss) from operations	311,069	183,981	64,669	(277,311)	(119,155)	(16,783)
Interest income and short-term investment income, net	26,109	31,968	28,589	10,368	29,893	4,210
Income (loss) before income tax expenses	339,020	217,767	94,630	(264,456)	(87,598)	(12,339)
Income tax expenses	(45,190)	(43,321)	(5,739)	(18,174)	(1,735)	(244)
Net income (loss)	293,830	174,446	88,891	(282,630)	(89,333)	(12,583)
Net income (loss) attributable to ordinary shareholders of the Company	292,170	173,324	88,605	(275,515)	(84,674)	(11,927)
Net income/(loss) attributable to the Company	292,170	173,324	88,605	(275,515)	(84,674)	(11,927)
Net income (loss) per share attributable to ordinary shareholders of the Company:						
Ordinary share—basic	1.40	0.83	0.42	(1.32)	(0.41)	(0.06)
Ordinary share—diluted	1.35	0.80	0.40	(1.32)	(0.41)	(0.06)
Weighted average number of ordinary shares used in calculating net income per share:						
Ordinary shares—basic	208,156,507	208,812,049	209,551,821	208,341,011	206,360,586	206,360,586
Ordinary shares—diluted	215,855,577	215,623,773	220,735,997	208,341,011	206,360,586	206,360,586

Notes:

- (1) Included RMB2,112.2 million, RMB2,889.4 million, RMB2,295.6 million, RMB1,403.4 million and RMB1,317.3 million (US\$185.5 million) from sales to Xiaomi for the year ended December 31, 2019, 2020, 2021, 2022 and 2023, respectively.
- (2) Share-based compensation expenses were allocated as follows:

	For the Year Ended December 31,					
	2019	2020	2021	2022	2023	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Research and development expenses	23,564	49,996	32,609	14,645	121	17
Selling and marketing expenses	12,322	10,904	5,666	500	(1,566)	(221)
General and administrative expenses	7,282	11,303	9,130	4,415	1,551	218
Total	43,168	72,203	47,405	19,560	106	14

The following table presents our selected consolidated balance sheet data as of December 31, 2019, 2020, 2021, 2022 and 2023.

	For the Year Ended December 31,					
	2019	2020	2021	2022	2023	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Selected Consolidated Balance Sheet Data:						
Current assets:						
Cash and cash equivalents	972,438	504,108	586,955	737,139	491,715	69,257
Amounts receivable from a related party, net	707,947	609,094	320,939	360,497	324,223	45,667
Short-term investments	316,201	696,051	828,867	197,058	70,369	9,911
Total current assets	2,907,615	2,931,899	2,945,773	2,494,977	2,282,702	321,512
Total assets	3,022,473	3,179,519	3,276,714	2,885,694	2,754,388	387,947
Total current liabilities	1,632,840	1,634,107	1,594,528	1,326,942	1,266,571	178,392
Total liabilities	1,648,026	1,649,200	1,625,787	1,456,531	1,410,751	198,700
Class A ordinary shares	6	6	6	6	6	1
Class B ordinary shares	6	6	6	6	6	1
Total shareholders' equity	1,374,447	1,530,319	1,650,927	1,429,163	1,343,637	189,247

The following table presents our selected consolidated cash flow data for the years ended December 31, 2019, 2020, 2021, 2022 and 2023.

	For the Year Ended December 31,					
	2019	2020	2021	2022	2023	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Selected Consolidated Cash Flow Data:						
Net cash provided by/(used in) operating activities	245,484	185,196	308,968	(284,169)	(103,228)	(14,540)
Net cash (used in)/provided by investing activities	(268,956)	(433,083)	(265,321)	314,547	(198,926)	(28,019)
Net cash provided by/(used in) financing activities	48,542	(146,375)	17,133	113,563	115,657	16,290
Effect of exchange rate changes on cash and cash equivalents	8,087	(34,034)	(12,703)	46,482	9,643	1,360
Net increase/(decrease) in cash and cash equivalents and restricted cash	33,157	(428,296)	48,077	190,423	(176,854)	(24,909)
Cash and cash equivalents and restricted cash at the beginning of the year	969,848	1,003,005	574,709	622,786	813,209	114,538
Cash and cash equivalents and restricted cash at the end of the year	1,003,005	574,709	622,786	813,209	636,355	89,629

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 RMB7.0999 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 29, 2023.

Selected Financial Information Related to the VIEs

Set forth below are the condensed consolidated schedule showing the financial position as of December 31, 2021, 2022 and 2023, and results of operations and cash flows for the years ended December 31, 2021, 2022 and 2023 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, 2023					
	The Company	Equity Subsidiaries	Primary Beneficiaries of VIEs and their Subsidiaries	VIEs and their Subsidiaries	Eliminations	Consolidated
	(RMB in thousands)					
Inter-company revenues ⁽¹⁾	—	796,695	287,127	114,889	(1,198,711)	—
Related-party and third-party revenues	—	348,267	21,539	2,123,580	—	2,493,386
Total revenues	—	1,144,962	308,666	2,238,469	(1,198,711)	2,493,386
Cost of revenues	—	(919,663)	(287,546)	(1,833,302)	1,116,645	(1,923,866)
Research and development expenses	—	(50,511)	(33,349)	(139,051)	—	(222,911)
Selling and marketing expenses ⁽¹⁾	—	(134,981)	(12,884)	(333,748)	79,847	(401,766)
General and administrative expenses ⁽¹⁾	(6,540)	(15,425)	(8,916)	(52,727)	2,100	(81,508)
Total operating expenses	(6,540)	(200,917)	(55,149)	(525,526)	81,947	(706,185)
Other income	—	7,770	3,495	6,245	—	17,510
Equity in (loss)/gain of subsidiaries/VIEs ⁽³⁾	(74,290)	(102,412)	(76,533)	—	253,235	—
Loss from operations	(80,830)	(70,260)	(107,067)	(114,114)	253,116	(119,155)
Interest (expenses)/income and investment income-net ⁽⁴⁾	(6,152)	(2,295)	4,637	34,557	(854)	29,893
Other non-operating income/(loss)	3,164	—	—	(1,500)	—	1,664
Loss before income tax expenses	(83,818)	(72,555)	(102,430)	(81,057)	252,262	(87,598)
Income tax expenses	—	(1,735)	—	—	—	(1,735)
Net Loss	(83,818)	(74,290)	(102,430)	(81,057)	252,262	(89,333)
Less: Net loss attributable to the non-controlling interest shareholders	—	—	—	(4,659)	—	(4,659)
Net loss attributable to the Company	(83,818)	(74,290)	(102,430)	(76,398)	252,262	(84,674)

For the Year Ended December 31, 2022						
The Company	Equity Subsidiaries	Primary Beneficiaries of VIEs and their Subsidiaries (RMB in thousands)	VIEs and their Subsidiaries	Eliminations	Consolidated	
Inter-company revenues ⁽¹⁾	946,656	378,286	220,607	(1,545,549)	—	
Related-party and third-party revenues	418,093	9,081	2,805,557	—	3,232,731	
Total revenues	1,364,749	387,367	3,026,164	(1,545,549)	3,232,731	
Cost of revenues	(1,099,769)	(364,926)	(2,405,077)	1,374,134	(2,495,638)	
Research and development expenses	(62,955)	(47,255)	(189,740)	—	(299,950)	
Selling and marketing expenses ⁽¹⁾	(193,743)	(41,241)	(551,575)	171,672	(614,887)	
General and administrative expenses	(6,601)	(12,447)	(3,653)	(99,001)	(121,702)	
Total operating expenses	(6,601)	(269,145)	(92,149)	(840,316)	(1,036,539)	
Other income	4,928	1,781	15,426	—	22,135	
Equity in (loss)/gain of subsidiaries/VIEs ⁽²⁾	(288,409)	(291,876)	(230,240)	810,525	—	
Loss from operations	(295,010)	(291,113)	(298,167)	(203,803)	(277,311)	
Interest income/(expenses) and investment income-net ⁽³⁾	18,438	(6,842)	6,197	(5,993)	10,368	
Other non-operating income/(loss)	2,488	—	—	(1)	2,487	
Loss before income tax expenses	(274,084)	(297,955)	(291,970)	(209,797)	(264,456)	
Income tax expenses/(credit)	—	9,546	—	(27,720)	(18,174)	
Net loss	(274,084)	(288,409)	(291,970)	(237,517)	(282,630)	
Less: Net loss attributable to the non-controlling interest shareholders	—	—	—	(7,115)	(7,115)	
Net loss attributable to the Company	(274,084)	(288,409)	(291,970)	(230,402)	(275,515)	

For the Year Ended December 31, 2021						
	The Company	Equity Subsidiaries	Primary Beneficiaries of VIEs and their Subsidiaries	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 ⁽⁴⁾	—	(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 ⁽²⁾	78,366	(101,065)	(61,780)	—	84,479	—
Income/(Loss) from operations	72,060	105,799	(100,160)	(96,657)	83,627	64,669
Interest income/(expenses) and investment income-net ⁽³⁾	14,280	(3,782)	(640)	18,886	(155)	28,589
Other non-operating income/(loss)	2,421	—	—	(1,049)	—	1,372
Income/(Loss) before income tax expenses	88,761	102,017	(100,800)	(78,820)	83,472	94,630
Income tax (credit)/expenses	—	(23,651)	—	17,912	—	(5,739)
Net income/(loss)	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/(loss) attributable to the Company	88,761	78,366	(100,800)	(61,194)	83,472	88,605

Notes:

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

VIEs sell certain products and provide marketing services to other subsidiaries. For the years ended 31 December, 2021, 2022 and 2023, the inter-company sales recognized by VIEs to equity subsidiaries are RMB131.3 million, RMB195.8 million and RMB99.4 million, respectively. Additionally, the inter-company sales recognized by VIEs to primary beneficiaries of VIEs and their subsidiaries for the year ended 31 December, 2021, 2022 and 2023 are RMB0.1 million, RMB24.8 million and RMB15.5 million, respectively.

In 2021, 2022 and 2023, primary beneficiaries of VIEs and their subsidiaries did not charge any service fee from our VIEs in China under the exclusive consultation and service agreements.

- (2) It represents the elimination of the investment in VIEs and subsidiaries by the Company.

- (3) It represents the elimination of finance costs of loans among the Company, the VIEs and our subsidiaries charged at the consolidation level.

- (4) WFOE I collected research and development fees from our VIEs in China and recognized as revenue in amounts of RMB3.1 million, nil and nil for the year ended December 31, 2021, 2022 and 2023, respectively, under the research and development agreements. No amount of such transaction is unsettled.

Selected Condensed Consolidated Balance Sheets Data

For the Year Ended December 31, 2023						
The Company	Equity Subsidiaries	Primary Beneficiaries of VIEs and their Subsidiaries (RMB in thousands)	VIEs and their Subsidiaries	Eliminations	Consolidated	
Assets						
Current assets						
Cash and cash equivalents	13,343	182,045	10,989	285,338	—	491,715
Short-term investments	—	17,709	796	51,864	—	70,369
Accounts receivable from third parties	—	35,633	1,186	189,983	—	226,802
Accounts receivable from a related party	—	4,381	—	319,842	—	324,223
Inventories	—	147,585	46,667	248,614	(647)	442,219
Amounts due from Group companies ⁽¹⁾	640,828	625,635	80,512	725,171	(2,072,146)	—
Investments in subsidiaries ⁽²⁾	668,202	584,744	—	—	(1,252,946)	—
Investments in VIEs ⁽²⁾	—	—	586,239	—	(586,239)	—
Other assets	122,529	122,422	450,686	503,423	—	1,199,060
Total assets	1,444,902	1,720,154	1,177,075	2,324,235	(3,911,978)	2,754,388
Liabilities						
Accounts and notes payable	—	309,950	7,507	348,876	—	666,333
Accrued expenses and other liabilities	3,396	49,244	96,961	165,379	—	314,980
Amounts due to Group companies ⁽¹⁾	85,703	657,430	326,578	1,002,435	(2,072,146)	—
Other liabilities	—	31,326	161,133	236,979	—	429,438
Total Liabilities	89,099	1,047,950	592,179	1,753,669	(2,072,146)	1,410,751
Total equity attributable to shareholders of the Company						
	1,355,803	668,201	584,896	578,818	(1,839,832)	1,347,886
Non-controlling interests	—	4,003	—	(8,252)	—	(4,249)
Total shareholders' equity	1,355,803	672,204	584,896	570,566	(1,839,832)	1,343,637
Total liabilities and shareholders' equity	1,444,902	1,720,154	1,177,075	2,324,235	(3,911,978)	2,754,388

For the Year Ended December 31, 2022						
The Company	Equity Subsidiaries	Primary Beneficiaries of VIEs and their Subsidiaries (RMB in thousands)	VIEs and their Subsidiaries	Eliminations	Consolidated	
Assets						
Cash and cash equivalents	90,775	222,784	88,104	335,476	—	737,139
Short-term investments	—	7,431	352	189,275	—	197,058
Accounts receivable from third parties	—	85,544	5,422	150,686	—	241,652
Accounts receivable from a related party	—	—	—	360,497	—	360,497
Inventories	—	176,787	44,450	281,649	(595)	502,291
Amounts due from Group companies ⁽¹⁾	659,249	692,497	54,864	707,458	(2,114,068)	—
Investments in subsidiaries ⁽²⁾	766,287	708,660	—	—	(1,474,947)	—
Investments in VIEs ⁽²⁾	—	—	684,277	—	(684,277)	—
Other assets	13,043	110,640	295,776	427,598	—	847,057
Total assets	1,529,354	2,004,343	1,173,245	2,452,639	(4,273,887)	2,885,694
Liabilities						
Accounts and notes payable	—	458,924	7,295	377,839	—	844,058
Accrued expenses and other liabilities	13,028	41,385	31,352	231,325	—	317,090
Amounts due to Group companies ⁽¹⁾	83,570	698,024	289,417	1,043,056	(2,114,067)	—
Other liabilities	—	39,723	136,349	119,311	—	295,383
Total Liabilities	96,598	1,238,056	464,413	1,771,531	(2,114,067)	1,456,531
Total equity attributable to shareholders of the Company	1,432,756	766,287	708,832	684,701	(2,159,820)	1,432,756
Non-controlling interests	—	—	—	(3,593)	—	(3,593)
Total shareholders' equity	1,432,756	766,287	708,832	681,108	(2,159,820)	1,429,163
Total liabilities and shareholders' equity	1,529,354	2,004,343	1,173,245	2,452,639	(4,273,887)	2,885,694

For the Year Ended December 31, 2021						
The Company	Equity Subsidiaries	Primary Beneficiaries of VIEs and their Subsidiaries	VIEs and their Subsidiaries	Eliminations	Consolidated	
(RMB in thousands)						
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	1,662,660	1,930,966	1,226,861	2,677,763	(4,221,536)	3,276,714
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	15,255	889,859	252,085	1,785,166	(1,316,578)	1,625,787
Total equity attributable to shareholders of the Company						
	1,647,405	1,041,107	974,776	889,075	(2,904,958)	1,647,405
Non-controlling interests	—	—	—	3,522	—	3,522
Total shareholders' equity	1,647,405	1,041,107	974,776	892,597	(2,904,958)	1,650,927
Total liabilities and shareholders' equity	1,662,660	1,930,966	1,226,861	2,677,763	(4,221,536)	3,276,714

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 Flow Data

	For the Year Ended December 31, 2023					
	The Company	Equity Subsidiaries	Primary Beneficiaries of VIEs and their Subsidiaries	VIEs and their Subsidiaries	Eliminations	Consolidated
	(RMB in thousands)					
Sales of goods and services to Group companies ⁽¹⁾	—	629,195	62,832	94,460	(786,487)	—
Purchases of goods and services from Group companies ⁽¹⁾	—	(90,330)	(4,343)	(691,814)	786,487	—
Other operating activities	(93,378)	(568,621)	(73,464)	632,235	—	(103,228)
Net cash (used in)/provided by operating activities	(93,378)	(29,756)	(14,975)	34,881	—	(103,228)
Loans to Group companies	—	—	—	16,866	(16,866)	—
Repayment of loans from Group companies	35,845	—	—	—	(35,845)	—
Receipt of advances repayment from Group companies	—	44,574	—	—	(44,574)	—
Investment in subsidiaries	—	—	—	—	—	—
Other investing activities	(14,600)	(33,420)	(68,871)	(82,035)	—	(198,926)
Net cash provided by/(used in) investing activities	21,245	11,154	(68,871)	(65,169)	(97,285)	(198,926)
Repayment for advances from Group companies	—	—	—	(44,574)	44,574	—
Repayment for loans from Group companies	—	(35,845)	—	—	35,845	—
Borrowings under loans from Group companies	—	—	(16,866)	—	16,866	—
Other financing activities	(6,421)	115	21,963	100,000	—	115,657
Net cash (used in)/provided by financing activities	(6,421)	(35,730)	5,097	55,426	97,285	115,657
Effect of exchanges rates on cash and cash equivalents	1,122	6,005	1,634	882	—	9,643
Net increase in cash and cash equivalents	(77,432)	(48,327)	(77,115)	26,020	—	(176,854)
Cash and cash equivalents and restricted cash at beginning of year	90,775	249,294	88,104	385,036	—	813,209
Cash and cash equivalents and restricted cash at end of year	13,343	200,967	10,989	411,056	—	636,355

For the Year Ended December 31, 2022						
The Company	Equity Subsidiaries	Primary Beneficiaries of VIEs and their Subsidiaries	VIEs and their Subsidiaries	Eliminations	Consolidated	
(RMB in thousands)						
Sales of goods and services to Group companies ⁽¹⁾	812,854	154,247	5,804	(972,905)	—	
Purchases of goods and services from Group companies ⁽¹⁾	(6,060)	(2,744)	(964,101)	972,905	—	
Other operating activities	(17,055)	(626,675)	(177,507)	—	(284,169)	
Net cash (used in)/provided by operating activities	(17,055)	180,119	(26,004)	(421,229)	—	
Loans to Group companies	—	—	—	3,680	(3,680)	
Repayment of loans from Group companies	94,621	—	—	3,600	(98,221)	
Receipt of advances repayment from Group companies	—	60,361	—	—	(60,361)	
Investment in subsidiaries	—	—	—	—	—	
Other investing activities	—	(59,143)	(87,630)	461,320	—	
Net cash provided by/(used in) investing activities	94,621	1,218	(87,630)	468,600	(162,262)	
Repayment for advances from Group companies	—	—	—	(60,361)	60,361	
Repayment for loans from Group companies	—	(94,621)	(3,600)	—	98,221	
Borrowings under loans from Group companies	—	—	(3,680)	—	3,680	
Other financing activities	(5,099)	—	118,662	—	—	
Net cash (used in)/provided by financing activities	(5,099)	(94,621)	111,382	(60,361)	162,262	
Effect of exchanges rates on cash and cash equivalents	7,287	17,023	5,886	16,286	—	
Net increase in cash and cash equivalents	79,754	103,739	3,634	3,296	—	
Cash and cash equivalents and restricted cash at beginning of year	11,021	145,555	84,470	381,740	—	
Cash and cash equivalents and restricted cash at end of year	90,775	249,294	88,104	385,036	—	

For the Year Ended December 31, 2021						
	The Company	Equity Subsidiaries	Primary Beneficiaries of VIEs and their Subsidiaries (RMB in thousands)	VIEs and their Subsidiaries	Eliminations	Consolidated
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

Note:

(1) Cash flows within our group in operating activities

	For the Year Ended December 31,		
	2021	2022	2023
Cash paid by VIEs to equity subsidiaries for purchasing of goods and service	(740,939)	(812,854)	(629,195)
Cash paid by VIEs to primary beneficiaries of VIEs and their subsidiaries for purchasing of goods and service	(106,185)	(151,247)	(62,619)
Cash received by VIEs from equity subsidiaries for rendering of goods and service	52,131	3,060	90,117
Cash received by VIEs from primary beneficiaries of VIEs and their subsidiaries for rendering of goods and service	57	2,744	4,343

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;
- 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 products market in China, which may develop more slowly or differently than we expect. If the IoT 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 operational 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 had historically been 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 in the past has deprived our investors with the benefits of such inspections;
- Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the 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;
- Failure to respond to changes in the regulatory environment 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 IoT @Home portfolio products, 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.

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.

We strive 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, and devote other resources to our business expansions, among others. In addition, we have expanded our business overseas primarily through international franchises and agents. We expect that managing our business will become more complicated as we develop a wider product, service, sales channel and customer mix, sometimes in areas where we may have less experience. In addition, as we expand our product and service offerings, further diversify our sales channels and extend our global footprint, we will need to collaborate with a larger number of partners, maintain and expand mutually beneficial relationships with our existing and new partners, adapt our business management to the local corporate cultures and customs, and provide training, management and motivation for our employee base or network of cooperating partners, especially in case of our 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 strategies 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. 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. We recorded RMB2,295.6 million, RMB1,403.4 million and RMB1,317.3 million (US\$185.5 million) in net revenues from sales to Xiaomi in the years ended December 31, 2021, 2022 and 2023, respectively, which represented 43.3%, 43.4% and 52.8% 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 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 kettles, among others. We may discuss with Xiaomi to expand the product categories on which we collaborate, which may lead to increased revenues from Xiaomi. However, there is no assurance that these discussions and expansion of cooperation will materialize.

Our cooperation with Xiaomi is provided in a series of contracts, all of which are subject to early termination by Xiaomi under specific circumstances. When any of such circumstances arise, Xiaomi may early terminate cooperation with us. 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 certain categories of products to Xiaomi, 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 Viomi-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 that they have received thus far. If Xiaomi dedicates fewer 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. Furthermore, Xiaomi is also a shareholder of our company. When exercising its rights as our shareholder, Xiaomi may consider not only the interests of our company and our other shareholders but also its own interests, the interests of its own 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 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. Additionally, we advertise across various channels, such as 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 RMB401.8 million (US\$56.6 million) for the year ended December 31, 2023, representing 16.1% 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.

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 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. Consequently, 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 continually 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 products market in China, which may develop more slowly or differently than we expect. If the IoT 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 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 economy, disposable income growth, 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 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 offerings, 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 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. Therefore, to comply with the laws and regulations, including the cybersecurity requirements of CAC and other authorities, and to ensure systematic cybersecurity, data and privacy protection, we periodically update our privacy policies, security policies and technologies, including encryption technology, firewall policies, virtual private cloud and host-based intrusion detection systems. As of the date of this annual report, we have not been involved in any formal investigations on cybersecurity review made by the CAC. Nonetheless, we still face inherent risks in managing and safeguarding personal data, with our website, Viomi mobile app, e-commerce platform, IoT@Home platform and information systems being potential targets for various cyber threats, such as viruses, malware or phishing attacks. Given the development of techniques used to sabotage or obtain unauthorized access to systems and the fact that these techniques generally are not recognized until they are launched against a target, we may not be able to anticipate or implement effective preventative measures against these evolving threats. Furthermore, the growing sophistication and diversity of our products and services, along with the increasing expertise of hackers and advancements in cryptography, may lead to compromises or breaches of our website, app, platforms or information systems.

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; and
- 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 changes in regulatory requirements and interpretation as well as requests from regulatory and government authorities relating to such data.

Regulatory authorities in China have enhanced regulatory requirements related to data security, personal information protection and cybersecurity, 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. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Information Security and Privacy Protection.” We expect that compliance with data security, personal information protection and cybersecurity will receive greater attention and focus from regulators, both domestically and globally, as well as continued or greater public scrutiny and attention going forward. This trend would increase our compliance costs, result in our adjustments to business practices, and subject us to heightened risks and compliance challenges associated with these matters. We may be required to adopt stricter measures for protecting and managing the data and information we possess, and we may be required to complete cybersecurity review or take other specific actions. However, we face uncertainties as to whether we can complete these additional procedures in a timely manner, or at all. These uncertainties may subject us to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, or removal of our app from the application stores, which could materially and adversely affect our business and results of operations. In addition, pursuant to our business cooperation agreement with Xiaomi, we share with Xiaomi all the user data collected in relation to the respective Xiaomi-branded products. Any leak or abuse of user data by Xiaomi may cause our users to lose trust in us and could expose us to legal claims. If our security measures are compromised because of third-party actions, employee errors, malfeasance, any violation of laws and regulations by our business partners pertaining to personal information protection and data security, or any failure in full compliance with the agreements with us, it could result in the theft or misuse of user data. If we are unable to manage these risks, or if we are accused of failing to comply with such laws and regulations timely, or at all, we could become subject to government enforcement actions, investigations, disputes and litigation, negative publicity, penalties, such as fines, suspension of business, websites, or applications, and revocation of required licenses, or even criminal liabilities, and our reputation and results of operations could be materially and adversely affected.

Further, as we 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, the United States and other jurisdictions that could impose new obligations affecting our business. Additionally, a growing number of legislative and regulatory bodies have implemented consumer notification requirements in the event of unauthorized data access. These breach notification laws are evolving and may vary across jurisdictions, posing potential challenges, especially with our international expansion plans.

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 COVID-19 outbreak widely and negatively impacted supply chains in China especially between 2020 and 2022. Our contract manufacturers' operations were disrupted during this period, which in turn to some degree adversely affected our business and results of operations. Starting in December 2022, most of the travel restrictions and quarantine requirements in China were lifted, and the situation has been significantly improved and normalized since January 2023. However, in the event of any resurgence of the COVID-19 or other similar pandemic, we may be unable to pass potential cost increases resulting from disruptions experienced by us or our contract manufacturers to our customers and 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 JD.com, Tmall, Youpin and Pinduoduo, 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 market, together with the broader consumer products and home appliances market, is known for its fast-paced technological advancements, frequent launches of new products and changing industry standards, including 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, such as Series Master that include the Master 3 Pro formaldehyde-removing AI vertical air conditioner, the Master 3 ultra-thin built-in refrigerator and the Master 3 Pro gas-electric hybrid water heater, the Super 2 Pro AI vertical air conditioner and other new AI products with technology upgrades unveiled in 2023. Although we are acting proactively to keep pace with the trends of AI and 5G 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 was completed in the second half of 2023 and our two facilities, namely Guangdong Lizi and Guangdong AI Touch, have moved into the campus. Currently, the campus includes our multi-functional headquarters, including an exhibition center, research and development center, smart manufacturing center mainly for water purification products, and centralized hub for sales and customer service functions. The second phase of campus development will prioritize the upgrading of water purification supply chain capabilities and the integration of additional facilities for our IoT products. 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. 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.

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.

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 contracts with leading e-commerce platforms provides, among others, return or discount clearance of certain slow-moving products and potential payment of various consideration to these platforms including payment for gross margin guarantee on certain products, monthly compensation for promotion and marketing activities, and advertising fees. For more details, please see “Item 5. Operating and Financial Review and Prospects—E. Critical Accounting Estimates—Critical Accounting Policies, Judgments and Estimates—Sales returns and sales incentives.”

Meanwhile, in-house manufacturing subjects us to various PRC environmental laws and regulations that are evolving and subject to further implementation and interpretation, potentially leading to higher compliance costs for 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 all such permits, approval and registrations for our facilities 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 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 and overseas distribution 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 43.3%, 43.4% and 52.8% of our net revenues in 2021, 2022 and 2023, 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 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 8.4 million as of December 31, 2023, 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 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 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 consumer willingness to purchase our products and increase the challenge of attracting 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 laws 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 Huawei, Tencent Cloud, Alibaba, Xiaomi and Volcengine 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 Vimoi-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 AI, 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 relevant jurisdictions. All of these occurrences are beyond our control, and could result in our inability to continue to use the technologies and our incurrances of potential liabilities for our cooperation with such licensors. We believe 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 “—Risks 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 in the future, 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. We generally expect to experience higher sales in the second and fourth quarters, primarily attributable to the major shopping festivals such as “618,” “Double Eleven” and “Double Twelve,” which are popular among Chinese consumers. Certain of our product categories can be affected by weather due to the nature of the products, such as air conditioners, electric fans and heaters. Given the impact of this seasonality, our interim results of operation and financial position at the end of a particular period may not necessarily be representative of the results we expect at year end or in other period 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.

If labor costs in China increase substantially, our business and costs of operations may be adversely affected.

The Chinese economy had experienced labor cost increases in the wave of inflation in previous years. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2021, 2022 and 2023 were an increase of 1.5%, an increase of 1.8% and a decrease of 0.3%, respectively. Given that substantially all of our contract manufacturers are currently located in China, rising labor costs in China will increase our personnel expenses. If we are unable to control our labor costs or pass on these increased labor costs, our financial condition and results of operations may be adversely affected. There can be no assurance that we will not be negatively affected in the future by the reoccurrence of inflation in China. As we procure most of our raw materials from China, the potential reoccurrence of inflation may 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.

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 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 the following 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 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. Based on its evaluation, our management concludes that our internal control over financial reporting as of December 31, 2023 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 requirements differently from us. 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 plans, 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 42,856,054 ordinary shares underlying all awards may be issued. As of December 31, 2023, there were 14,518,426 ordinary shares issuable upon exercise of outstanding share options under these two plans at a weighted average price of US\$0.83 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 business and 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, prospective 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.

A severe or prolonged downturn in the Chinese or global economy could materially and adversely affect our business and results of operations.

Our business could be adversely affected by health epidemics, 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. COVID-19 had a severe and negative impact on the Chinese and the global economy from 2020 through 2022, and the global macroeconomic environment still faces numerous challenges. In light of ongoing inflationary pressure in many countries, the Federal Reserve and other central banks outside of China have raised interest rates, and a series of banks underwent failures in 2023. The Russia-Ukraine conflict, the Hamas-Israel conflict and the attacks on shipping in the Red Sea have heightened geopolitical tensions across the world. The impact of the Russia-Ukraine conflict on Ukraine food exports has contributed to increases in food prices and thus to inflation more generally. There have also been concerns about the relationship between China and other countries which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to a wide range of issues including trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

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 securities offering, 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, or be materially and adversely affected on our ability to raise or utilize funds from future oversea offerings.

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 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 laws. 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 91.6%, 86.8% and 85.2% of our revenues in 2021, 2022 and 2023, 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) subject to the disclosure in this annual report, the contractual arrangements between our WFOEs, our VIEs and their shareholders governed by PRC laws 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 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, placing restrictions on our right to collect revenues, 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, or to re-apply for the necessary licenses, or to relocate our business, staff and assets;
- 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 the nullification or termination of 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, any of the assets under the name of the shareholders of our VIEs, including their shares in our VIEs, may be put under court custody in connection with litigation, arbitration or other judicial or dispute resolution proceedings against such shareholder. We cannot ensure that such shares will be disposed of in accordance with the contractual arrangements between our WFOEs, our VIEs and its shareholders. Furthermore, 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.

In addition, on February 17, 2023, the CSRC released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies and five supporting guidelines (collectively, the “Trial Measures for Overseas Listing”), which became effective on March 31, 2023. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on M&A rules and overseas listings” for details. If we fail to complete the filing with the CSRC in a timely manner or at all, for any future offerings, listing or any other capital raising activities, which are subject to the filings under the Trial Measures for Overseas Listing, due to the contractual arrangements between our WFOEs, our VIEs and its shareholders, our ability to raise or utilize funds could be materially and adversely affected, and we may even need to unwind our contractual arrangements with our VIEs and its shareholders or restructure our business operations to rectify the failure to complete the filings. However, given that the Trial Measures for Overseas Listing are relatively new, their interpretation, application, and enforcement and how they will affect our operations and our future financing are still uncertain.

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 laws and arbitration, litigation and other legal proceedings and therefore will be subject to uncertainties as to the outcome of any such legal proceedings. 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 laws, including seeking specific performance or injunctive relief, and contractual remedies, which we cannot assure you will be sufficient or effective under PRC laws. 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 laws and stipulate the resolution of disputes through arbitration in China. The arbitration provisions relate to the claims arising out of the contractual relationship established 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 laws and any disputes arising from these contracts would be resolved in accordance with PRC legal procedures. We cannot guarantee that we could successfully enforce these contractual arrangements in a timely manner, or at all. See “—Risks Related to Doing Business in China—Failure to respond to changes in the regulatory environment 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 laws. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC laws, 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 99.78% of the equity interests in Foshan Viomi, one of our VIEs, with the remaining 0.22% equity interests held by a limited partnership controlled and managed by Mr. Chen. Mr. Chen also holds 60% of equity interests in the other VIE, Beijing Viomi, the remaining 40% equity interests of which 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 laws. 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 had historically been 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 in the past has deprived 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 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. The auditor is located in mainland China, a jurisdiction where the PCAOB was historically unable to conduct inspections and investigations completely before 2022. As a result, we and investors in the ADSs are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China in the past had made 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. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. However, if the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong, and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the Securities and Exchange Commission, we and investors in our ADSs would be deprived of the benefits of such PCAOB inspections again, which could cause investors and potential investors in the ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.

Pursuant to the HFCAA, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections for the PCAOB for two consecutive years, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States.

On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong and our auditor is subject to that determination. In May 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we were not identified as a Commission-Identified Issuer under the HFCAA after we filed our annual report on Form 20-F for the fiscal year ended December 31, 2022 and do not expect to be so identified after we file this annual report on Form 20-F for the fiscal year ended December 31, 2023.

Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the Securities and Exchange Commission, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. In accordance with the HFCAA, our securities would be prohibited from being traded on a national securities exchange or in the over-the-counter trading market in the United States if we are identified as a Commission-Identified Issuer for two consecutive years in the future. 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. A prohibition of being able to trade in the United States 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.

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 over the conduct of our business, and may regulate or influence our operations. 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. Also, the PRC government has recently indicated an intent to exert more oversight over offerings that are conducted overseas and foreign investment in China-based issuers. 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 in the China operations of an offshore holding company, such as us. 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. 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 regulate a China-based company, such as us, to conduct its business. Therefore, investors of our company and our business face regulatory challenges 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.

Any 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.

Failure to respond to changes in the regulatory environment 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 from time to time. The interpretations of many laws, regulations and rules are subject to further implementation and clarification. For example, the PRC Foreign Investment Law, which took effect on January 1, 2020, embodies a 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, it may be difficult to predict the outcome of a judicial or administrative proceeding and the level of legal protection we may enjoy. Furthermore, the PRC legal system is based, in part, on government policies and internal rules, which are continually evolving. As a result, we may not always be aware of any potential violation of these policies and rules until sometime after the violation. 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 constantly evolving, and their interpretation and enforcement may be subject to changes from time to time. 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 the 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.

Furthermore, future interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the internet industry may create 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 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, it is unlikely that the courts of the Cayman Islands would (a) recognize or enforce judgments of the United States courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state, and (b) in original actions brought in the Cayman Islands to impose liabilities against us or our directors or officers that are predicated upon the civil liability provisions of federal securities laws of the United States or the securities laws of any state in the United States so far as the liabilities imposed by those provisions are penal in nature. Although there is no statutory recognition in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments), the courts of the Cayman Islands will at common law, recognize and enforce a foreign money judgment of a foreign court of competent jurisdiction without any re-examination of the merits of the underlying dispute based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the liquidated sum for which such judgment has been given, provided such judgment (1) is given by a foreign court of competent jurisdiction, (2) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given, (3) is final and conclusive, (4) is not in respect of taxes, a fine or a penalty, (5) is not inconsistent with a Cayman Islands judgment in respect of the same matter, and (6) is not impeachable on the grounds of fraud and was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from the United States courts under the civil liability provisions of the securities laws if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

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, 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. In addition, on February 24, 2023, the CSRC, the PRC Ministry of Finance, National Administration of State Secrets Protection and National Archives Administration of China jointly issued the Provisions on Strengthening Confidentiality and Archives Management of Overseas Securities Issuance and Listing by Domestic Enterprises, which became effective on March 31, 2023. The provisions require, among others, that PRC domestic enterprises seeking to offer and list securities in overseas markets, either directly or indirectly, shall establish the confidentiality and archives system, and shall complete approval and filing procedures with competent authorities, if such PRC domestic enterprises or their overseas listing entities provide or publicly disclose documents or materials involving state secrets and work secrets of PRC government agencies to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals. It further stipulates that providing or publicly disclosing documents and materials which may adversely affect national security or public interests, and accounting files or copies of important preservation value to the state and society shall be subject to corresponding procedures in accordance with the laws and regulations. While detailed interpretation of or implementation rules under the provisions and 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 rules in January 2021 to counter restrictions imposed by foreign countries on Chinese citizens and companies. On August 9, 2023, the Biden administration released an executive order directing the Department of Treasury to create an outbound FDI review program that will require reporting on or (in more narrow circumstances) will prohibit investments by U.S. persons involving “covered national security technologies and products,” which is defined to include “sensitive technologies and products in the semiconductors and microelectronics, quantum information technologies, and AI sectors that are critical for the military, intelligence, surveillance, or cyber-enabled capabilities” of China. The Department of Treasury issued an advance notice of proposed rulemaking, which provided a conceptual framework for outbound investment controls focused on China. As of the date of this annual report, the final rules implementing the administrative order has not become effective yet, and the scope of the outbound FDI review program may be materially different from what is currently contemplated by the advance notice of proposed rulemaking. 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.

As we plan to further 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. Furthermore, as we depend on parts and components from suppliers, some of which are overseas, tariffs and export control measures by the PRC, U.S., or any other government or other trade tensions or unfavorable trade policies may affect the costs of our products. The current international trade tensions and political tensions between the United States and China, and any escalation of such tensions, may have a negative impact on our ability to secure the supply of raw materials and key components necessary for our operations. For example, as the Entity List and other U.S. export control laws and regulations continue to expand and evolve, future U.S. export controls may materially affect or target some of our significant suppliers or customers, in which event our business may be affected if we fail to promptly secure alternative sources of supply or demand on terms acceptable to us.

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—Regulations—Regulations 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 nonresident 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 State Administration of Taxation issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises. Pursuant to this notice, 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 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 State Administration of Taxation issued a Public Notice of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, which clarifies the tax withholding methods in respect of income of non-resident enterprises. In addition, this notice abolished certain provisions stipulated in the Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises. 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 the notices mentioned above. 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 these notices. As a result, we may be required to expend valuable resources to comply with these notices 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 within the validity period of its High and New Technology Enterprise status, 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.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, adopted by six PRC regulatory agencies in 2006 and amended by Ministry of Commerce in 2009, and other regulations and rules concerning mergers and acquisitions, such as the Anti-Monopoly Law last amended on June 24, 2022 and becoming effective on August 1, 2022, the Rules of the State Council on Declaration Threshold for Concentration of Undertakings last amended on December 29, 2023 and becoming effective on January 22, 2024 and the Provisions on the Review of Concentrations of Undertakings issued on March 10, 2023 and becoming effective on April 15, 2023, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. These regulations require, 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 Rules of the State Council on Declaration Threshold for Concentration of Undertakings were triggered. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on M&A rules and overseas listings.” Moreover, the PRC Anti-Monopoly Law 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, the Provisions of Ministry of Commerce on Implementation of Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors effective in September 2011 and the Measures for the Security Review of Foreign Investment 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 laws and 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. 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 effective on June 1, 2015, which mandates that 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 laws 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 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 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. 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 laws. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations 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 have paid the social insurance and housing fund contributions for all of our employees, though the amount of such social insurance or housing fund contributions we paid for certain employees was lower than the requirements of the PRC regulations. If local authorities determine that we failed to make adequate contributions to any employee benefits as required by the 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 laws. 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 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, 2023, 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 under PRC laws, are subject to foreign exchange loan registrations. In addition, a foreign-invested enterprise shall use its capital pursuant to the principle of authenticity and self-use within its business scope. According to the PRC regulations on foreign-invested enterprises in China, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings or reports in the Foreign Investment Comprehensive Management Information System, and registration with a local bank authorized by SAFE. Any medium or long-term loan to be provided by us to our consolidated affiliated entities must be filed with the National Development and Reform Commission and recorded by SAFE or its local branches through the online filing system of SAFE pursuant to applicable PRC regulations.

The Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises, which was issued by the SAFE and was most recently amended on March 23, 2023, allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC, provided that such usage shall fall into the scope of business of the foreign-invested enterprise, which will be regarded as the reinvestment of foreign-invested enterprise. In addition, the Circular Regarding Further Promotion of the Facilitation of Cross-Border Trade and Investment, which was promulgated by the SAFE and was most recently amended on December 4, 2023, allows foreign-invested enterprises whose business scope does not include investment, or non-investment foreign-invested enterprises, to use their capital funds to make equity investments in China, subject to certain conditions. As of the date of this annual report, its interpretation and implementation in practice remained subject to further explanations and elaborations. As the government authorities have discretion in interpreting the regulation, it is unclear whether SAFE will permit such capital funds to be used for equity investments in the PRC in practice.

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 filings 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 Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which were adopted by six PRC regulatory agencies in 2006 and amended by Ministry of Commerce in 2009, require 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 from 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 are subject to further clarification, 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 February 17, 2023, the CSRC promulgated the Trial Measures for Overseas Listing effective on March 31, 2023. According to the Trial Measures for Overseas Listing, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfill the filing procedure with and report relevant information to the CSRC. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on M&A rules and overseas listings" for details. In the event that a PRC domestic company fails to fulfill the filing procedure or conceals any material fact or falsifies any major content in its filing documents, this domestic company may be subject to administrative penalties, such as orders to rectify, warnings, fines, and its controlling shareholders, actual controlling beneficial owners, the person directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines. The CSRC also held a press conference and clarified that even though PRC domestic companies already listed overseas on or prior to March 31, 2023, the effective date of the Trial Measures for Overseas Listing, shall be deemed as existing issuers and are not required to complete the filing procedures immediately, they shall still be required to file with the CSRC when subsequent matters such as refinancing are involved. Therefore, we are deemed as existing issuers according to the measures, and are required to file with the CRRC for our refinancing activities as required by the measures.

In addition, pursuant to the Provisions on Strengthening Confidentiality and Archives Management of Overseas Securities Issuance and Listing by Domestic Enterprises, which was released on February 24, 2023 and became effective on March 31, 2023, PRC domestic enterprises seeking to offer and list securities in overseas markets, either directly or indirectly, shall establish and improve the system of confidentiality and archives work, and shall complete approval and filing procedures with competent authorities, if such PRC domestic enterprises or their overseas listing entities provide or publicly disclose documents or materials involving state secrets and work secrets of state organs to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on M&A rules and overseas listings” for details. The Trial Measures for Overseas Listing and the Provisions on Strengthening the Confidentiality and Archives Administration Concerning the Overseas Securities Offering and Listing of by Domestic Enterprises are subject to further implementation and interpretation, and there remains uncertainties as to how these provisions will affect our listing status and future financing. If we fail to complete the filing with or approval of the CSRC or other PRC government authorities in a timely manner or at all, for any future offering or any other activities which are subject to the filing or approval requirements under the aforesaid provisions, our ability to raise or utilize funds and our financial conditions, business operation, 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 or filing with the CSRC or other regulatory authorities or other procedures, including the cybersecurity review under the Cybersecurity Review Measures and the Regulations on the Network Data Security (Draft for Comments), 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. 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. Xiaoping Chen 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 91.0% and 60.9%, respectively, of the aggregate voting power of our company as of February 29, 2024. 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.

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 depositary in accordance with the provisions of the deposit agreement. Upon receipt of your voting instructions, the depositary 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 depositary will try to vote the underlying Class A ordinary shares in accordance with these instructions. If we do not instruct the depositary to ask for your instructions, the depositary 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 depositary will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We have agreed to give the depositary 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 depositary to vote the underlying Class A ordinary shares represented by your ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct how the 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.

Going forward, we intend to retain most, if not all, of our available funds and any future earnings to fund the development 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 depository 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 depository 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 depository 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 depository 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 depository 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 depository may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of 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.

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, with respect to Cayman Islands companies, plaintiffs may face special obstacles, including but not limited to those relating to jurisdiction and standing, in attempting to assert derivative claims in state or federal courts 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 Class A 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 depository 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 depository. If a lawsuit is brought against us and/or the depository 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 depository of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

In addition, the depository 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, such judgments against our assets or the assets of our directors and officers are further subject to recognition and enforcement proceedings under the laws of the Cayman Islands and the laws of China.

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 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 a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. A non-U.S. corporation, such as our company, will be 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, or the Asset Test. For purposes of determining our PFIC status, 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 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 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 believe that we were not a PFIC for the taxable year ended December 31, 2023.

There can be no assurance, however, regarding our PFIC status for the current taxable year or future taxable years, because our PFIC status is a factual determination made annually that will depend, in part, on 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 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 future taxable years may be affected by our market capitalization. Recent fluctuations in our market capitalization create a material risk that we may be a PFIC for the current taxable year and 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 these 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 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 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 to develop, design, manufacture and sell IoT products, including smart water purification systems. 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.”

In October 2020, we established Zhumeng Hulian Technology (Guangdong) Co. Ltd. as a wholly-owned subsidiary of Codream HK Co., Limited, one of our subsidiaries. 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.

In order to comply with PRC laws and regulations regarding restrictions and prohibitions on foreign ownership of internet and other related business in China, we carry out our business primarily through the VIEs. We have two WFOEs in China, namely Lequan Technology (Beijing) Co., Ltd., or our WFOE I, and Yunmi Huliaan Technology (Guangdong) Co., Ltd., or our WFOE II, to direct the activities of our VIEs and their subsidiaries. Our WFOE I has a series of contractual arrangements with Beijing Viomi and its shareholders. Our WFOE II has a series of contractual arrangements with Foshan Viomi and its shareholders. See “—C. Organizational Structure—Contractual Arrangements with Our VIEs and Their Shareholders” below. Revenues contributed by our VIEs accounted for 91.6%, 86.8% and 85.2% of our total revenues for the years ended December 31, 2021, 2022 and 2023, respectively.

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, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

You can find the information that we file with the SEC on www.sec.gov. You can also find information on our website ir.viomi.com. This website is not part of this annual report.

B. Business Overview

We have developed a unique IoT@Home platform, consisting of IoT@Home portfolio products, 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, 2023, our IoT@Home platform had approximately 8.4 million household users.

Our IoT@Home platform comprises of two main parts, our Viomi business, which includes our Viomi-branded products, and our Xiaomi business, which involves 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 56.7%, 56.6% and 47.2% of our net revenues in 2021, 2022 and 2023, 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 43.3%, 43.4% and 52.8% of our net revenues in 2021, 2022 and 2023, 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 system, which combines technology, AI algorithms, 5G IoT chip modules, sensors, smart hardware and cloud storage. This system encourages the expansion of our one-stop IoT home solutions, offering users smart home appliances, devices and software services for various home scenarios. 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.

At our strategic new product launch event in March 2022, we introduced our upgraded one-stop IoT home solution, ‘1=N44,’ which includes (i) our whole-home product portfolio; (ii) four major smart home capabilities: automatic networking, active intelligence, spatial awareness and natural interactions; and (iii) four additional services for our users, namely smart home solution design, over-the-air (OTA) update, a membership system and value-added services. Our upgraded one-stop IoT home solution has already achieved solid initial results, thanks to our focus on product innovation, service system improvements, and our expanded sales channels for whole-home intelligence. We also 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 Home Pad 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. We also introduced a series of new smart home devices, such as EyeLink, our smart lock with upgraded 3D facial recognition technology, as well as HomePad Plus, our AI screen-based control interface for managing all smart home appliances across scenarios.

In October 2022, we hosted ‘AI: Helpful 2.0,’ our autumn online software launch event, which focused on our software upgrades and product iteration across four dimensions, including health care, energy conservation and environmental protection, active intelligence, and natural interaction, further improving our one-stop IoT home solutions from the software side. At the same time, on the hardware side, we launched a series of new smart home appliances, including Alpha, our AI range hood with AI smart eye suction; Master Pro, our 1200G Quaxian AI water purifier with integrated heat purification; Alpha 3 Pro, our AI sweeping robot equipped with an all-purpose base station; and Super 2 Max, our AI gas water heater with intelligent temperature control. In the category of smart home products, we introduced Super 2 AI smart door locks with an ultra-wide-angle digital peephole.

In November 2022, our one-stop IoT home solution platform, HomeMap app, was awarded the Precision Science and Technology Award by the Ministry of Science and Technology of China and the National Office for Science and Technology Awards of China. Furthermore, during the year of 2022, we received approvals to establish both our Doctoral Workstation of Guangdong Province and our Foshan Enterprise Postdoctoral Workstation, which will facilitate talent cultivation and project incubation of us.

At our new product launch event in April 2023, we introduced our further upgraded one-stop IoT home solution, “AI: Helpful 2.0,” which includes (i) our whole-home AI product portfolio and (ii) three major intelligence capabilities: spatial awareness, environment awareness and AI voice interaction. With the popularization of new energy vehicles and the intelligentization of terminal devices, we have AI better integrated into our whole-home AI product portfolio, which not only allows users to have a disruptive experience but also provides unlimited imagination space for the entire smart home industry. We also introduced a series of upgraded smart home products, Series Master 3, with better integration of AI application and technology innovation, including the Master 3 Pro formaldehyde-removing AI vertical air conditioner, the Master 3 ultra-thin built-in refrigerator and the Master 3 Pro gas-electric hybrid water heater, among others. We also introduced other products, such as the Super 2 Pro AI vertical air conditioner equipped with a fresh-air system. We strive to provide the industry-leading one-stop IoT home solution to consumers across markets. Currently, we have built a broad AI-integrated product portfolio with Series Super, Series Master, Series Space and Series Royal Pro targeting different markets.

At our new product launch event in October 2023, we introduced our new home water solution, which mainly includes our 1200G Super 2 AI water purifier equipped with bamboo charcoal filters, our 2000G Space AI Water Purifier with the main RO filter of 10-year durable life, and our Super 2 Max AI water purifier integrated with ultra-microbubble technology. In November 2023, we announced the elevation of our water purification business to a strategic business unit, which supports the implementation of our strategy of focusing on water purification, leverages our leading R&D and manufacturing capabilities, and further enhances our commitment to high-quality and sustainable development. With our unwavering commitment to bring smarter products and solutions to consumers, we ranked the 443rd in the 20th edition of “2023 China’s Top 500 Brands” list released by World Brand Lab on June 15, 2023, with a brand value of approximately RMB13.4 billion.

In March 2024, we hosted our Spring New Home Water Solution Product and AIoT@Home Solution Product Launch Events. For our home water solution line, we introduced the Kunlun AI mineral water purifier, which is empowered by our selected high-quality mineral resources and advanced techniques for intelligent system adjustments based on various factors, facilitating a steady and durable release of beneficial minerals. Regarding our AIoT@Home solution line, we unveiled the Alpha X cardiorespiratory detection radar, the Super 3 All-space AI air conditioner, the Master 3 Max intelligent door lock, and several other innovative products.

Our IoT @Home platform

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

Our products are grouped under the following four business lines: “IoT@Home portfolio products,” which comprise 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.

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

	For the Year Ended December 31,						
	2021		2022		2023		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Net revenues:							
IoT@Home portfolio products	3,400,966	64.1	1,619,941	50.1	1,220,852	171,954	49.0
Home water solutions	742,912	14.0	681,054	21.1	604,012	85,073	24.2
Consumables	367,021	6.9	358,442	11.1	314,372	44,278	12.6
Small appliances and others ⁽¹⁾	792,936	15.0	573,294	17.7	354,150	49,881	14.2
Total	5,303,835	100.0	3,232,731	100.0	2,493,386	351,186	100.0

Note:

(1) Including sales of small appliances and rendering of services. For more details, see note 13 to our consolidated financial statements at the end of this annual report.

Our IoT@Home portfolio products

We generate a significant portion of our revenues through sales of products under our IoT@Home portfolio products. Our innovative IoT products, the core of our IoT@Home portfolio products, target at China's young, modern "new middle-class" consumers. We have successfully introduced an extensive range of IoT@Home products, which cater to various essential daily activities and create new consumption scenarios for home. We strive to realize broad home-wide adoption of our products and long-term customer loyalty by enhancing the synergies and network effects within our IoT@Home portfolio products. As a result, the percentage of our household users possessing at least two of our IoT products increased from 3.5% as of March 31, 2016 to 14.3% as of December 31, 2018 and further to 23.0% as of December 31, 2023.

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

Smart kitchen products

Our smart kitchen products include refrigerators, oven steamers, 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 complement our IoT@Home portfolio products and addresses users' needs in 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.

Home water solutions

The core of our home water solutions is our Viomi-branded and Xiaomi-branded smart water purifiers, which are complemented by our easy-to-install replaceable water filter consumable products. In general, our smart water purifiers feature precision sensors that enable real-time monitoring of the water purification process, facilitating data analysis and automatic adjustments with AI technology, innovative water purification technologies such as high-flow reverse osmosis membrane, and mobile application connectivity that allows users to monitor the status of the water purifier and receive reminders to replace filters. We also introduced a series of large-flux water purifier products and our high-end water purifier sub-brand, Quaxian, 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 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. In October 2023, we introduced the 1200G Super 2 AI water purifier, featuring bamboo charcoal filters designed to preserve nutrient elements, such as silicic acid. In addition, in March 2024, we unveiled the Kunlun AI mineral water purifier, which is empowered by our selected high-quality mineral resources and advanced techniques for intelligent system adjustments based on various factors, facilitating a steady and durable release of beneficial minerals.

Consumables

We offer a range of consumable products that are complementary, and often essential, to our IoT products. These products generate additional, recurring revenue streams throughout the life cycle of our IoT products. Consumers can purchase these products through our sales channels or the e-commerce platforms integrated to our IoT products. The consumables mainly 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 easily 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

We offer certain installation services for our products. In addition, together with our diverse partner ecosystem, we also offer other services that cater to various consumption need in the home, such as allowing users to easily and directly access media and entertainment content and purchase various household goods as needed, all from the comfort of their home. We achieve this through integrated e-commerce platforms within 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 specific combination of location, timing and user that leads to a user's ultimate decision to make a purchase. Depending on the scenario, a user's willingness to buy and the factors influencing the purchase decision can vary. When a household need arises in a particular scenario, our products can address that need instantly. Moreover, because our products can collect extensive household behavior data, analyze the data with AI technology and deep learning algorithm, and create detailed household profiles, they can meet the consumption need even before the user is aware of it. Once the need is identified, the user can interact with our IoT products operating in that particular scenario and place an 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 an 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.

Sales Channels

Our key sales channel network consists of (i) online e-commerce platforms, (ii) Viomi offline experience stores, (iii) third-party offline channels, through which we predominantly sell Viomi-branded products, and (iv) Xiaomi, through which we predominantly sell Xiaomi-branded products.

Online

Our products are sold across a number of leading e-commerce channels in China, including JD.com, Tmall, Youpin and Pinduoduo, 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.

Since 2022, we have established a strategic cooperation relationship with Tmall concerning a portfolio of one-stop smart home solutions. Together, we and Tmall promote a whole-home smart ecology, with an AI smart kitchen, living room, balcony, restroom and bedroom.

Since 2022, we have deepened our cooperation with JD Logistics to access a broader range of services including planning, logistics, warehousing and installation, which we believe improves efficiency throughout our cycle, from solution design and delivery to installation, as well as provide our customers with more enjoyable after-sale service experience. In 2023, we closely cooperated with JD.com to ensure a smooth and differentiated consumer experience by introducing our new water purifiers on its platform.

Offline

Our offline sales channels comprise of our Viomi offline experience stores and online-to-offline (O2O) outlets of major e-commerce retailers. These O2O outlets complement our online channels, expanding our market access and increasing our 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. Some of our large experience stores opened since 2021 encompass over 200 square meters or 300 square meters each, offering a full scene immersive experience of our one-stop AIoT@Home solutions, along with the capability of installation and after-sale services, as a supplement of our unified national after-sale service system. In 2022, we continued to execute our “larger store, better merchant” channel strategy. We cooperated with our newly signed offline merchants and opened additional Viomi 4S and 5S flagship stores in provinces across China. These flagship stores enhanced our “trending technology” branding positioning through unified storefront decoration and immersive scenario experience, and helped implement our one-stop IoT home solutions.”

Third-party offline channels

To further diversify and strengthen our overall channel penetration and presence, 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 leading domestic home design enterprises such as KUKA, 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 optimize our overseas business operation by leveraging their local resources, channel development, online and offline marketing and after sale service. In September 2022, we showcased a number of our new products at IFA 2022 in Berlin, marking our first appearance at one of the world's most significant technology marketplaces for the consumer and electronic industries. We further expanded product categories, such as air conditioners, washing machines, and refrigerators to Northern Europe, and water purifiers, smart door locks, gas stove, and range hood to Southeast Asia.

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 a long-term strategy, we are committed to provide industry-leading water solutions. Recently, we moved Guangdong Lizi's smart water purification system facility to the Viomi IoT Technology Park, to seamlessly integrate both upstream and downstream segments of water purification product manufacturing. As of December 31, 2023, our total research and development staff consisted of approximately 289 employees across multiple R&D centers and product groups teams, representing 38.5% 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 Microsoft, LG, Samsung and AO Smith. We incurred RMB311.8 million, RMB300.0 million and RMB222.9 million (US\$31.4 million) in research and development expenses in 2021, 2022 and 2023, respectively.

Our R&D achievements have also been recognized by industry and professional institutions. In April 2022, our AI range hoods' visual detection module technology won the Excellence Award at the 23rd China Patent Awards. Also, in the same month, we took the silver at the 8th Guangdong Patent Awards with one of our water purifiers and its integrated waterway module technology. Further, the Viomi brand was added to the key trademark protection list in Guangdong province. We were officially listed as Guangdong PhD Work Station by the government and have obtained the selection qualification to establish the Guangdong Postdoctoral Work Station. In July 2023, through its outstanding R&D efforts and innovative capabilities in the water purification industry, Guangdong Lizi Technology Co. Ltd., one of our subsidiaries, was honored with a national-level specialized and innovative "Little Giant" enterprise, which is one of the highest-level and most authoritative evaluation ratings for domestic enterprises in China. In December 2023, we ranked the second in the Technology Progress Awards by the Guangdong Artificial Intelligence Industry Association. Our one-stop IoT@Home solutions was recognized as the application project on the List of 2023 Guangdong Artificial Intelligence Star Projects.

Software, AI and Data Analytics Systems

We rely on our advanced software, innovative AI technology and powerful data analytics capability to develop, operate, and continually 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 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.

AI

We intend to leverage ongoing advancements in AI by incorporating them into our products and services. Our AI technology team develops and refines our proprietary, AI-based algorithms, and leverages third-party AI components to build a more effective system. AI 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 Huawei, Tencent, Alibaba, Xiaomi and Volcengine 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, 2023, we had 3,926 patents registered with the State Intellectual Property Office of China.

Globally, as of December 31, 2023, we had 57 patents registered and 23 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, 2023, we had registered 681 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 2023, included Xiaomi-branded water purification systems, water purifier filters, range-hoods and gas stoves, dishwashers, water heaters as well as other small products such as kettles, small kitchen products and water quality meters.

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 addition, to support the release of premium new products and our high-end brand transformation, we reached more targeted young groups by partnering with Tmall and becoming the co-sponsor of the well-known variety show 'Design Ideal Future' broadcasted on the Mango TV platform, exposing a growing audience to our immersive smart home experience across whole-home scenarios and bringing an intelligent lifestyle to more young consumers.

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 key opinion leaders, or 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 suggestions for improvements for our products and services. Our customer service 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 925 Appliance Refresh Day” campaign includes online promotions, as well as offline marketing efforts such as product launch events. 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 2023, we hosted an offline Spring IoT new products launch event during the Appliances and Electronics World Expo in Shanghai, and also jointly hosted a new home water solution products launch event with JD in Beijing.

Customer service

User experience is a key focus for our business. We strive to provide personalized support for our users, including support from customer service representatives through real-time online chat, our toll-free customer service phone number, or visiting our Viomi offline experience stores. To improve our overall customer service capability, we keep upgrading our service network across China and have implemented a customer satisfaction system, which integrates the call center, service task and customer relation management.

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 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, excluding water purification products and filters, 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, commenced commercial operations in the first half of 2019 and were integrated into our Viomi platform. Guangdong Lizi is 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 serves 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.

We acquired land use rights to a parcel of land of approximately 36,000 square meters from the local government in Shunde, Guangdong Province in June 2020, 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. We have completed the first phase in the second half of 2023 and relocated two facilities of the group into the park, which currently include our multi-functional headquarters, namely a product experience center, a research and development center, a smart manufacturing center, and a centralized hub for sales and customer service functions. The second phase is expected to focus on and accommodate additional facilities for our IoT products, especially water purification products, serving as a focal point of our expanded supply chain capabilities, while attracting more upstream and downstream corporate and business opportunities. We are committed to strengthening our supply chain resources to provide the necessary foundation for supporting our manufacturing and R&D capabilities, so that we will be able to thrive in the 5G and IoT era.

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 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 continually 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 continually 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 Xiaomi, Huawei, Alibaba, Tencent and Volcengine 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 market. The home appliances market have a large number of participants, including traditional appliances companies, consumer electronics companies and AI and consumer internet companies that are moving into the hardware space. 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."

We believe the success of our growth strategy depends on many factors, including brand recognition, value, user experience, breadth of product and service offerings, product functionality and quality, sales and distribution, and supply chain management.

Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased product liability insurance for Viomi branded products, 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 inability 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.

Regulations

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.

Regulations 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 Ministry of Industry and Information Technology 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. These measures 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, which was promulgated by the Ministry of Industry and Information Technology in July 2017 and became effective on September 1, 2017, provide that a commercial operator of value-added telecommunications services must first obtain a VATS License from the Ministry of Industry and Information Technology 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 last amended in 2022, foreign investors are prohibited from holding more than 50% of the equity interests of a telecom enterprise operating value-added telecom services unless otherwise provided by the laws and regulations. In addition, the establishment of a foreign-invested telecom enterprise operating value-added telecom services needs to seek approval from the Ministry of Industry and Information Technology.

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 launched on our IoT@Home platform.

Regulations on catalogue relating to foreign investment

Investment activities in the PRC by foreign investors are subject to the Catalogue Industries for Encouraging Foreign Investment 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 National Development and Reform Commission. The latest version of the Catalogue Industries for Encouraging Foreign Investment, which was amended and issued on October 26, 2022 and became effective on January 1, 2023, indicates the encouraged industries for foreign investments. The latest version of the Negative List, which was amended and issued on December 27, 2021 and became effective on January 1, 2022, divides the industries listed therein into two categories: restricted industries and prohibited industries. Any industry not listed in any of the latest version of the Catalogue Industries for Encouraging Foreign Investment or the latest version of the 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 National People's Congress 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 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 effective on January 1, 2020, which further require that foreign-invested enterprises and domestic enterprises shall be treated equally with respect to policy making and implementation.

On December 30, 2019, the Ministry of Commerce and the State Administration for Market Regulation jointly issued the Measures for Foreign Investment Information Reporting effective on January 1, 2020. Since then, for foreign investors engaging in investment activities, either directly or indirectly, in the PRC, the foreign investors or foreign-invested enterprises shall submit investment information through the Enterprise Registration System and the National Enterprise Credit Information Publicity System, both 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 submitted information will be shared by the competent market regulation department to the competent commercial department, and therefore the foreign-invested enterprise is not required 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.

Regulations on M&A rules and overseas listings

Foreign investors shall comply with the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by six PRC regulatory agencies in 2006 and amended by Ministry of Commerce in 2009, when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, changing the nature of the domestic company into a foreign-invested enterprise; when they establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the assets; or when they purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets and operate the assets. The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors include provisions that mandate offshore special purpose vehicles established for overseas listing through acquisitions of PRC domestic companies and controlled by PRC companies or individuals to seek approval from the CSRC before publicly listing their securities on an overseas stock exchange.

On July 6, 2021, the General Office of the State Council, together with another regulatory authority, jointly promulgated the Opinions on Strictly Scrutinizing Illegal Securities Activities in Accordance with the Law, which emphasize the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies. These opinions propose 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, and provide that the special provisions of the State Council on overseas offering and listing by those companies limited by shares will be revised and therefore the duties of domestic industry competent authorities and regulatory authorities will be clarified.

According to the Trial Measures for Overseas Listing, (1) domestic companies that seek to offer or list securities in overseas markets, either in direct or indirect means, should fulfill the filing procedure with and report relevant information to the CSRC; if a domestic company fails to complete the filing procedure or conceals any material fact or falsifies any major content in its filing documents, such domestic company may be subject to administrative penalties, such as order to rectify, warnings, fines, and its controlling shareholders, actual controlling beneficial owners, the person directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines; (2) if the issuer meets both of the following criteria, the overseas offering and listing shall be determined as an indirect overseas offering and listing by a domestic company: (i) 50% or more of any of the issuer's operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year is accounted for by domestic companies; (ii) the main parts of the issuer's operation activities are conducted in mainland China, or the principal operation premises are located in mainland China, or the majority of senior management staff in charge of its business operations and management are PRC citizens or have habitual residences located in mainland China; and (3) an overseas offering and listing of securities of a domestic company is prohibited under any of the following circumstances: (i) such securities offering and listing is explicitly prohibited by provisions in laws, administrative regulations and state rules; (ii) the intended securities offering and listing may endanger national security as reviewed and determined by competent authorities under the State Council in accordance with law; (iii) the domestic company(ies) intending to make the securities offering and listing, or its controlling shareholder(s) and the actual controlling beneficial owner, have committed relevant crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years; (iv) the domestic company(ies) intending to make the securities offering and listing is currently under investigations for suspicion of criminal offenses or major violations of laws and regulations, and no conclusion has yet been made thereof; or (v) there are material ownership disputes over equity held by the PRC domestic company's controlling shareholder(s) or by other shareholder(s) that are controlled by the controlling shareholder(s) and/or actual controlling beneficial owner. Furthermore, the Trial Measures for Overseas Listing also provide that (1) where a domestic company seeks to indirectly offer and list securities in overseas markets, the issuer shall designate a major domestic operating entity, which shall, as the domestic responsible entity, fulfill the filing procedures with the CSRC; (2) an initial public offering and listing shall be filed with the CSRC within three business days after the relevant application is submitted overseas; (3) subsequent securities offerings of an issuer in the same overseas market where it has previously offered and listed securities shall be filed with the CSRC within three business days after the offering is completed; (4) subsequent securities offerings and listings of an issuer in overseas markets other than where it has offered and listed shall be filed pursuant to provisions as stipulated for initial public offerings and listings.

On February 17, 2023, the CSRC held a press conference for the release of the Trial Measures for Overseas Listing and issued the Notice on Administration for the Filing of Overseas Offering and Listing by Domestic Companies, which, among others, clarify that (1) domestic companies that have already been listed overseas on or prior to the effective date of the Trial Measures for Overseas Listing (i.e., March 31, 2023) shall be deemed as existing issuers and are not required to complete the filing procedures immediately, and they shall be required to file with the CSRC when subsequent matters such as refinancing are involved; (2) on or prior to the effective date of the Trial Measures for Overseas Listing, domestic companies that have already submitted valid applications for overseas offering and listing but have not obtained approval from overseas regulatory authorities or stock exchanges may reasonably arrange the timing for submitting their filing applications with the CSRC, and shall complete the filing before the completion of their overseas offering and listing; (3) a six-month transition period will be granted to domestic companies which, prior to the effective date of the Trial Measures for Overseas Listing, have already obtained the approval from overseas regulatory authorities or stock exchanges (such as the completion of registration in the market of the United States or the completion of hearing in the market of Hong Kong), but have not completed the indirect overseas listing; if domestic companies fail to complete the overseas listing within such six-month transition period, they shall file with the CSRC according to the requirements; and (4) the CSRC will solicit opinions from the regulatory authorities and complete the filing of the overseas listing of companies with contractual arrangements which duly meet the compliance requirements, and support the development and growth of these companies by enabling them to utilize two markets and two kinds of resources.

On February 24, 2023, the CSRC released the Provisions on Strengthening Confidentiality and Archives Management of Overseas Securities Issuance and Listing by Domestic Enterprises effective on March 31, 2023. The provisions require, among others, that PRC domestic enterprises seeking to offer and list securities in overseas markets, either directly or indirectly, shall establish and improve the system of confidentiality and archives work, and shall complete approval and filing procedures with competent authorities, if such PRC domestic enterprises or their overseas listing entities provide or publicly disclose documents or materials involving state secrets and work secrets of state organs to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals. It further stipulates that (1) providing or publicly disclosing documents and materials which may adversely affect national security or public interests, and accounting records or photocopies thereof to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals shall be subject to corresponding procedures in accordance with the laws and regulations; and (2) any working papers formed in the territory of the PRC by securities companies and securities service agencies that provide domestic enterprises with securities services relating to overseas securities issuance and listing shall be stored in the territory of the PRC, the outbound transfer of which shall be subject to corresponding procedures in accordance with the laws and regulations.

Regulations 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 manner. Any producer or seller engaging in the production or sale of products that do not adhere to national standards or trade standards aimed at ensuring human health and personal or property safety shall be ordered to cease the production or sale of the products. Additionally, the illegally produced or sold products shall be confiscated and a fine equivalent to, but not more than three times, the value of the products illegally produced or sold (including those already sold and those not yet sold) shall be imposed concurrently. If there are illegal proceeds, such proceeds shall be confiscated concurrently. Furthermore, the business license shall be revoked in the severe circumstances. 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, which was amended in October 2013 and became 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 infringed 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.

Regulations 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 December 11, 2023 and becoming effective on January 20, 2024, 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, utility models are effective for ten years, and designs are effective for fifteen 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 the invention or the utility model does not fall under the existing technology, and no other person has 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 State Intellectual Property Office of China. 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 State Intellectual Property Office of China 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 agency 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 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 or 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.

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As of December 31, 2023, we had 3,926 patents granted and 1,169 patents applications pending in China, 57 patents granted and 23 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 calculated as the losses suffered by the right holder as a result of the infringement, and if the loss suffered by the right holder arising from the infringement cannot be determined, will be calculated as the gains obtained by the infringing party. 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. The compensation amount shall include reasonable expenses incurred by the right holder for stopping the infringement. If the losses, gains or license fee are difficult to determine, the court may render a judgment awarding damage of no more than RMB5 million.

As of December 31, 2023, we had registered 681 trademarks in China.

Software copyright law

The PRC Copyright Law (2020 Revision) 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, 2023, we had registered 87 pieces of software copyright in China.

Regulations on domain name

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

As of December 31, 2023, we had registered 16 domain names.

Regulations 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 July 2023, 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, 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 promulgated by the State Administration for Market Regulation in August 2023, 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 Commission) of the PRC, and the Ministry of Construction (currently, the Ministry of Housing and Urban-Rural Development) in 1997, and most recently amended by the Ministry of Housing and Urban-Rural Development and the National Health Commission 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 National Health Commission) and effective on September 20, 2007, and most recently amended on September 22, 2011, entities or individuals are required to obtain hygiene license from hygiene administration authorities before producing or importing any products relating to drinking water.

In July 2011, the Ministry of Health (currently, the National Health Commission) 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 hygiene and health department at the provincial level.

Energy Label Management Rules, jointly promulgated by the National Development and Reform Commission, and the General Administration of Qualification Supervision, Inspection and Quarantine, in 2004 and most recently amended in February 2016, provide that the products listed in the Catalogue Industries for Encouraging Foreign Investment 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 General Administration of Qualification Supervision, Inspection and Quarantine and the China National Institute of Standardization authorized by the National Development and Reform Commission.

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.

Regulations on mobile internet

Pursuant to the Provisions on the Administration of Mobile Internet Applications Information Services promulgated by the CAC in June 2016 and lastly amended on June 14, 2022, application providers shall obtain the relevant qualifications prescribed by laws and regulations, strictly implement their information content administrator responsibilities and carry out the duties including to authenticate the real identity information of users, establish and complete information content inspection and management mechanisms, fulfill the data security protection obligations and regulate personal information processing activities. Application distribution platform shall, within 30 days of the business going online and starting operations, conduct filing procedures with the local cybersecurity and information department. Furthermore, application providers and registered users shall sign service agreements to determinate both sides' rights and obligations.

Furthermore, on December 16, 2016, the Ministry of Industry and Information Technology issued the Interim Measures on the Administration of Pre-Installation and Distribution of Applications for Mobile Smart Terminals effective on July 1, 2017. These measures require internet information service providers to ensure that a mobile application, as well as its ancillary resource files, configuration files and user data can be uninstalled by a user on a convenient basis, unless it is a basic function software, which refers to a software that supports the normal functioning of hardware and operating system of a mobile smart device.

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.

Regulations on Information Security and Privacy Protection

PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. The PRC laws do 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 January 8, 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 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. On December 29, 2011, the Ministry of Industry and Information Technology promulgated the Several Provisions on Regulating the Market Order of Internet Information Services effective on March 15, 2012. These provisions stipulate 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 National People's Congress 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 Ministry of Industry and Information Technology 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, the Ministry of Industry and Information Technology 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 National People's Congress promulgated the Ninth Amendment to the Criminal Law, which became effective in November 2015. The Ninth Amendment to the Criminal Law amends 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 May 28, 2020, the National People's Congress approved the Civil Code of the PRC, which came into effect on January 1, 2021. Pursuant to the Civil Code, the collection, storage, use, process, transmission, provision and disclosure of personal information should follow the principles of legitimacy, properness and necessity.

The Cybersecurity Law of the PRC, which was promulgated on November 7, 2016 by the Standing Committee of the National People's Congress 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 Cybersecurity 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 governmental agencies. In addition, the Cybersecurity 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 Ministry of Public Security, the Beijing Internet Industry Association 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 Ministry of Industry and Information Technology, the General Office of the Ministry of Public Security and the General Office of the State Administration of Market Regulation 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. Pursuant to the Notice on Promulgation of the Rules on the Scope of Necessary Personal Information for Common Types of Mobile Internet Applications, which was promulgated jointly by the CAC, the Ministry of Industry and Information Technology, the Ministry of Public Security and the State Administration of Market Regulation on March 12, 2021 and became effective on May 1, 2021, "necessary personal information" refers to personal information necessary for ensuring the normal operation of an application's basic functional services. Specifically, it refers to the personal information of the consumers, excluding the personal information of the suppliers. Any mobile internet application shall not refuse users to use its basic functional services on the ground that users disagree to provide unnecessary personal information.

On June 10, 2021, the Standing Committee of the National People's Congress 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, the administration departments of each critical industry and sector 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 National People's Congress 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 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 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 Regulations on the Network Data Security (Draft for Comments), 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. The Draft Regulations 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. However, there have been no clarifications from the 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 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 were released for public comment only, and their respective provisions and anticipated adoption or effective date may be subject to change with uncertainty.

December 28, 2021, the CAC and multiple government authorities jointly released the Cybersecurity Review Measures effective on February 15, 2022. The Cybersecurity Review Measures stipulate that, critical information infrastructure operators that procure internet products and services and network platform operators that carry out data processing activities are subject to a cybersecurity review if their activities affect or may affect national security, and that 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. As of the date of this annual report, no further detailed rules or implementation rules related to the identification of “critical information infrastructure operators” 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 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 laws. 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. The Cybersecurity Review Measures and Regulations on the Network Data Security (Draft for Comments) are subject to further clarification on whether relevant requirements will be applicable to companies that are already listed in the United States, such as our company. We cannot predict the impact of the Cybersecurity Review Measures and the Regulations on the Network Data Security (Draft for Comments) at this stage, and we will closely monitor and assess any developments in the rulemaking process.

On December 31, 2021, the CAC, the Ministry of Industry and Information Technology, the Ministry of Public Security, and the State Administration of Market Regulation jointly promulgated the Administrative Provisions on Internet Information Service Algorithm Recommendation effective 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.

On June 27, 2022, the CAC promulgated the Administrative Provisions on the Account Information of Internet Users, which became effective on August 1, 2022, setting out guidelines on the provision the account information of internet users. Internet-based information service providers shall perform their responsibilities as the administrative subjects of the account information of internet users, have in place professionals and technical capacity appropriate to the scale of services, and establish, improve and strictly implement the authentication of real identity information, verification of account information, security of information content, ecological governance, emergency responses, protection of personal information and other management systems.

On July 7, 2022, the CAC promulgated the Outbound Data Transfer Security Assessment Measures, which became effective on September 1, 2022. On March 22, 2024, the CAC released the Provisions on Facilitating and Regulating Cross-border Data Transfer. These rules specify the circumstances in which data processors must apply for outbound data transfer security assessment with the CAC. Pursuant to these rules, a data processor is required to apply for a CAC security assessment when: (i) a critical information infrastructure operator is transferring personal information or important data abroad, (ii) a data processor other than a critical information infrastructure operator transferring important data abroad, or is transferring abroad personal information (excluding sensitive personal information) of over one million individuals or sensitive personal information of over 10,000 individuals on a cumulative basis starting from January 1 of the current year; or (iii) other circumstances where the security assessment of data cross-border transfer is required as prescribed by the CAC. In addition, if a data processor other than a critical information infrastructure operator transfers abroad personal information (excluding sensitive personal information) of more than 100,000 but less than one million individuals, or the sensitive personal information of less than 10,000 individuals on a cumulative basis starting from January 1 of the current year, it must conclude a standard contract with the overseas recipient or undergo the authentication on the protection of personal information pursuant to the laws and regulations. The Provisions on Facilitating and Regulating Cross-border Data Transfer also set out exemptions from the security assessment, the conclusion of the standard contract, and the authentication for protection of personal information. These exemptions apply when the outbound transfer of personal information by a data processor falls within any of the following circumstances: (i) where it is truly necessary to transfer personal information abroad for the purpose of executing and performing a contract to which the individual is a concerned party, such as cross-border shopping, cross-border consignment, cross-border remittance, cross-border payment, cross-border account opening, air ticket and hotel reservation, visa application, and examination services; (ii) where it is truly necessary to provide employees' personal information abroad for the purpose of cross-border human resources management under lawfully established labor rules and regulations and pursuant to a lawfully executed collective contract; (iii) where it is truly necessary to transfer any personal information abroad in an emergency for the purpose of protecting the health, life, and property safety of a natural person; or (iv) where a data processor other than a critical information infrastructure operator transfers abroad the personal information (excluding sensitive personal information) of less than 100,000 individuals on a cumulative basis starting from January 1 of the current year. However, since the Outbound Data Transfer Security Assessment Measures and the Provisions on Facilitating and Regulating Cross-border Data Transfer were newly promulgated, these rules will be subject to further implementation and interpretation. The identification of "outbound data transfer" and "important data" is subject to further clarification. These bring more uncertainties with respect to the application and enforcement of the measures, and we may be subject to such outbound data security assessment with the CAC.

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.

Regulations on employment

The PRC Labor Law, which became effective in 1995 and was most recently amended on December 29, 2018, and the PRC Employment Contract Law, which became effective on January 1, 2008 and was most recently amended on December 28, 2012 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, which became effective on July 1, 2011 and was 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, which became effective on April 3, 1999 and was most recently amended on March 24, 2019, 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.

Regulations on tax

PRC enterprise income tax

Pursuant to the PRC Enterprise Income Tax Law, which became effective on January 1, 2008 and was 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, which became effective on January 1, 2008 and was 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 foreign-invested enterprises, 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%. The Administrative Rules for the Certification of High and New Technology Enterprises, which became effective on January 1, 2008 and was amended on January 29, 2016, specify the criteria and procedures for the certification of High and New Technology Enterprises and stipulate that the certificate of a high and new technology enterprise is valid for three years.

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, the tax authorities shall adopt means such as examination of declarations of related party transactions, management of contemporaneous documentation and monitoring of profit level, to implement monitoring and administration of special tax adjustment for enterprises; 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 provisions in regard to enterprises that adjust and pay taxes at their own discretion.

PRC value added tax

Pursuant to the Provisional Regulations on Value-Added Tax of the PRC, promulgated by the State Council on December 13, 1993, and most recently amended on November 19, 2017, and its implementation regulations, any entities and individuals that sell goods or labor services for processing, repair or replacement, sell services, intangible assets, or immovables, or import goods are taxpayers of value-added tax and are required to pay value-added tax. Unless provided otherwise, the value-added tax rate is 6% for general taxpayers selling services and intangible assets. On March 20, 2019, the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs promulgated the Announcement on Policies to Deepen Value-Added Tax Reform, which provides that the applicable value-added tax rate for taxable sales or imports by a general taxpayer of value-added tax shall be 13% and 9%, 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 and the Announcement of the State Administration of Taxation on the Revision to Certain Taxation Regulatory Documents effective on June 15, 2018, 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 Local 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 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 State Administration of Taxation, if the 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, which was issued on February 3, 2018 and became 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.

Regulations 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 March 30, 2015, the SAFE issued the Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises, which took effective on June 1, 2015 and was amended on December 30, 2019 and March 23, 2023. Although this circular 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 foreign-invested enterprises' 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 effective on June 9, 2016, which reiterates some of the rules set forth in the Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises, 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 circulars above 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 a foreign-invested enterprise 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, which took effect on June 1, 2015 and was amended on December 30, 2019. The circular delegates the authority to enforce the foreign exchange registration in connection with the inbound and outbound direct investment under the SAFE rules to certain banks and therefore further simplifies the foreign exchange registration procedures for inbound and outbound direct investment.

Regulations 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. 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. See "Item 6. Directors, Senior Management and Employees—E. Share Ownership." for a summary of the trust arrangements.

Regulations on employee share incentive plan of overseas publicly listed company

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, pursuant to which, 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 Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Companies. If we or our PRC grantees fail to comply with these notices and the Individual Foreign Exchange Rule, 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 laws. 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 the 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 the laws and regulations, we may face sanctions imposed by the tax authorities or other PRC government authorities.

Regulations on dividend distributions

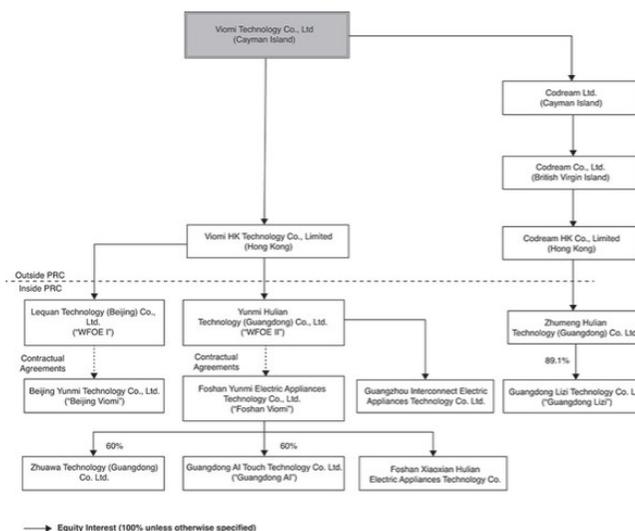
The principal regulations governing the distribution of dividends paid by wholly foreign-owned enterprises include:

- The PRC Company Law (1993), as amended in 1999, 2004, 2005, 2013 and 2018, with the most recent amendment adopted in 2023 to become effective on July 1, 2024;
- The PRC Foreign Investment Law (2020); and
- The Implementation Regulations on the PRC Foreign Investment Law (2020).

Under these laws and regulations, foreign-invested enterprises 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 99.78% of the equity interests in Foshan Viomi, with the remaining 0.22% 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 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 laws 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 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 securities offering, 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, or be materially and adversely affected on our ability to raise or utilize funds from future oversea offerings" and "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Failure to respond to changes in the regulatory environment 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 2,918 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 4,060 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. The phase one of the construction has been completed by the second half of 2023.

As of December 31, 2023, we leased and occupied approximately 2,918 square meters of office space in Guangzhou, approximately 474 square meters of office space in Beijing. 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 trend and 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 and consumer disposable income conditions, overall consumption trends, and in particular public knowledge, acceptance and adoption of new and innovative technology such as IoT technology.

In recent years, China has experienced varied economic performance, which has influenced consumer behavior and expectations for living standards. While there have been periods of economic growth, recent trends suggest a more complex economic environment, with the middle class potentially facing more economic pressures than in previous years. Chinese consumers, particularly those from the emerging middle class, who are a key demographic for our products, have shown a preference for higher-quality and innovative products. However, the extent of this preference can vary, influenced by broader economic conditions and individual financial stability. Interest in products integrating AI and IoT technologies remains, reflecting a desire for advanced, modern living solutions.

The broader acceptance of advanced technologies like voice- and motion-activated controls is growing as these features become more mainstream. However, the adoption of such technologies is not uniform and can be impacted by economic factors and consumer education regarding the benefits and applications of these technologies.

While these macroeconomic and industry trends have historically supported demand for our products, their influence can be both positive and negative, reflecting the dynamic nature of the market and economic conditions. As such, while these trends have potential to drive demand, they also pose risks that could affect consumer behavior and, consequently, our business operations. Awareness of these dual potentials is essential in understanding the current and future landscape in which we operate.

Brand recognition and user base

Our products and services, together with targeted marketing and promotional efforts, as well as our strategic partnership with Xiaomi, have contributed to positive word-of-mouth and media coverage. These factors have supported our brand recognition and helped to expand our user base. For instance, our cumulative household users grew from approximately 7.7 million at the end of 2022 to about 8.4 million by the end of 2023.

As we continue to invest in and develop our brand, we anticipate that our recognition in the market may increase, potentially leading to greater demand for our products and an expansion of our user base. This could open up further monetization opportunities and positively impact our business growth. However, the realization of these outcomes is subject to market conditions and consumer preferences, which could also pose challenges to our anticipated growth.

New product launches

The introduction and sales of new products, both under Viomi and Xiaomi brands, have been key elements in our strategy for our business. Over the past several years, we have launched a variety of new products and plan to continue introducing more items that incorporate advanced technologies such as 5G and AI. In 2023, we released a series of upgraded smart home products that featured enhanced AI integration and technological innovations. These products included the Master 3 Pro formaldehyde-removing AI vertical air conditioner, the Master 3 ultra-thin built-in refrigerator, and the Master 3 Pro gas-electric hybrid water heater, among others. Additionally, we launched the Super 2 Pro AI vertical air conditioner, which comes equipped with a fresh-air system. We also introduced new home water solutions, such as the 1200G Super 2 AI water purifier with bamboo charcoal filters, the 2000G Space AI Water Purifier with a long-lasting main RO filter, and the Super 2 Max AI water purifier that features ultra-microbubble technology. Additionally, in March 2024, during our Spring New Home Water Solution Product and AIoT@Home Solution Product Launch Events, we unveiled several products including the Kunlun AI mineral water purifier, which utilizes high-quality mineral resources and advanced technology for intelligent system adjustments, and the Alpha X cardiorespiratory detection radar, among other items.

As we continue to expand our product offerings and enhance connectivity and synergies across our IoT@Home platform, we aim to promote the IoT@Home lifestyle experience. Our strategy includes fostering growth through repeat customer purchases, bundled sales, and the monetization of our consumable products and value-added services. However, the success of these strategies is contingent upon market reception, consumer preferences, and the competitive landscape, which may, in turn, affect our business performance and results of operations.

Performance of our offline sales network

An integral component of our sales channel strategy is the network of Viomi offline experience stores located across China. These stores play a role in enhancing our brand awareness and increasing our market presence, which in turn supports our pricing strategies as part of our broader sales and go-to-market efforts.

Depending on market conditions, we may consider expanding our network of experience stores and continue investing in in-store training to improve the customer experience. These efforts are in collaboration with our network partners and aim to contribute to the growth of our revenues and operational results. We are also focused on initiatives to boost store operating efficiency and productivity, such as partnering with more experienced and better-resourced network partners.

Additionally, to diversify and strengthen our channel penetration, we have increased cooperation with various O2O outlets of major e-commerce retailers and have formed strategic partnerships with leading domestic home design companies such as KUKA. These initiatives are designed to expand our sales endpoints and enhance consumer awareness of our brand, products, and concepts.

While these strategies are aimed at expanding our market reach and enhancing consumer engagement, the success of these strategies is subject to market conditions and consumer preferences, which could also pose challenges to our anticipated outcome. We do not anticipate that our approach to expanding the Viomi offline experience store network or our other channel diversification efforts will materially impact our gross margin. This assessment is based on current market trends and our operational efficiencies, although it is subject to change with shifting market dynamics and consumer behavior.

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, 2021, 2022 and 2023, sales of our IoT products accounted for 78.1%, 71.2% and 73.2% 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 develop 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, 2021, 2022 and 2023, research and development expenses were RMB311.8 million, RMB300.0 million and RMB222.9 million (US\$31.4 million), accounting for 5.9%, 9.3% and 8.9% 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, 2021, 2022 and 2023, our selling and marketing expenses were RMB751.0 million, RMB614.9 million and RMB401.8 million (US\$56.6 million), accounting for 14.2%, 19.0% and 16.1% 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 43.3%, 43.4% and 52.8% of our net revenues in 2021, 2022 and 2023, 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 expect the absolute amount of our revenues generated from our sales to Xiaomi to retain stable or increase going forward, since 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) our IoT@Home portfolio products, (ii) home water solutions, (iii) consumables, and (iv) small appliances and others. Our IoT@Home portfolio products include 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 complementary 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,					
	2021		2022		2023	
	RMB	%	RMB	%	RMB	US\$
Net revenues:						
IoT@Home portfolio products	3,400,966	64.1	1,619,941	50.1	1,220,852	171,954
Home water solutions	742,912	14.0	681,054	21.1	604,012	85,073
Consumables	367,021	6.9	358,442	11.1	314,372	44,278
Small appliances and others ⁽¹⁾	792,936	15.0	573,294	17.7	354,150	49,881
Total	5,303,835	100.0	3,232,731	100.0	2,493,386	351,186

Note:

(1) Including sales of small appliances and rendering of services. For more details, see note 13 to our consolidated financial statements at the end of this annual report.

IoT@Home portfolio products

We generate a significant portion of our revenues through sales of products under our IoT@Home portfolio products, 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 in this business line, and sales of these products have contributed a material portion of our historical revenues.

As we concentrate on water purification as part of our strategy, the proportion of revenues attributable to the sales of smart water purification systems has increased in recent years and we expect this upward trend to level off as our product portfolio becomes more stable.

In addition, 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.

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 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 third-party channels as well as Viomi Store, our proprietary e-commerce platform, which constitute the vast majority of our Viomi-branded products business, accounted for 56.7%, 56.6% and 47.2% of our net revenues in 2021, 2022 and 2023, respectively.

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 43.3%, 43.4% and 52.8% of our net revenues in 2021, 2022 and 2023, 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 RMB4,105.8 million, RMB2,495.6 million and RMB1,923.9 million (US\$271.0 million) for the years ended December 31, 2021, 2022 and 2023, 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,						
	2021		2022		2023		
	RMB	%	RMB	%	RMB	US\$	%
Gross profit and gross profit margin	1,198,068	22.6	737,093	22.8	569,520	80,215	22.8

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,						
	2021		2022		2023		
	RMB	%	RMB	%	RMB	US\$	%
Operating expenses:							
General and administrative	97,730	1.8	121,702	3.8	81,508	11,480	3.3
Research and development	311,786	5.9	299,950	9.3	222,911	31,396	8.9
Selling and marketing	751,011	14.2	614,887	19.0	401,766	56,588	16.1
Total	1,160,527	21.9	1,036,539	32.1	706,185	99,464	28.3

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, 2021, 2022 and 2023, RMB9.1 million, RMB4.4 million and RMB1.6 million (US\$0.2 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.

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 mainly the advertising and marketing expenses for our Viomi-branded products. We have heightened expense control to improve our operational performance, as reflected in the decrease in our selling and marketing expenses in absolute amount and as a percentage of our net revenues.

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 governmental authorities, and there is no assurance that we will receive such grants in future periods.

Taxation

Cayman Islands

We are an exempted company incorporated in the Cayman Islands. The Cayman Islands currently levies no taxes on corporations based upon profits, income, gains or appreciation.

Hong Kong

Our subsidiary incorporated in Hong Kong is subject to Hong Kong profit tax at a rate of 8.25% on assessable profits up to 2,000,000 Hong Kong dollars and 16.5% on any part of assessable profits over that amount. 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 tax authority. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the 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.”

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,						
	2021		2022		2023		
	RMB	%	RMB	%	RMB	US\$	
Net revenues⁽¹⁾	5,303,835	100.0	3,232,731	100.0	2,493,386	351,186	100.0
Cost of revenues	(4,105,767)	(77.4)	(2,495,638)	(77.2)	(1,923,866)	(270,971)	(77.2)
Gross profit	1,198,068	22.6	737,093	22.8	569,520	80,215	22.8
Operating expenses ⁽²⁾ :							
Research and development expenses ⁽²⁾	(311,786)	(5.9)	(299,950)	(9.3)	(222,911)	(31,396)	(8.9)
Selling and marketing expenses ⁽²⁾	(751,011)	(14.2)	(614,887)	(19)	(401,766)	(56,588)	(16.1)
General and administrative expenses ⁽²⁾	(97,730)	(1.8)	(121,702)	(3.8)	(81,508)	(11,480)	(3.3)
Total operating expenses	(1,160,527)	(21.9)	(1,036,539)	(32.1)	(706,185)	(99,464)	(28.3)
Other income, net	27,128	0.5	22,135	0.7	17,510	2,466	0.7
Income (loss) from operations	64,669	1.2	(277,311)	(8.6)	(119,155)	(16,783)	(4.8)
Interest income and short-term investment income, net	28,589	0.5	10,368	0.3	29,893	4,210	1.2
Income (loss) before income tax expenses	94,630	1.8	(264,456)	(8.2)	(87,598)	(12,339)	(3.5)
Income tax expenses	(5,739)	(0.1)	(18,174)	(0.5)	(1,735)	(244)	(0.1)
Net Income (loss)	88,891	1.7	(282,630)	(8.7)	(89,333)	(12,583)	(3.6)

Notes:

(1) Includes RMB2,295.6, RMB1,403.4 million and RMB1,317.3 million (US\$185.5 million) from sales to Xiaomi for the year ended December 31, 2021, 2022 and 2023, respectively.

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

	For the Year Ended December 31,			
	2021	2022	2023	
	RMB	RMB	RMB	US\$
General and administrative expenses	9,130	4,415	1,551	218
Research and development expenses	32,609	14,645	121	17
Selling and marketing expenses	5,666	500	(1,566)	(221)
Total	47,405	19,560	106	14

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

Net revenues

Our net revenues decreased by 22.9% from RMB3,232.7 million in 2022 to RMB2,493.4 million (US\$351.2 million) in 2023, primarily due to a decrease in revenues from the IoT@Home portfolio products as well as small appliances and others.

IoT@Home portfolio products. Revenues from IoT@Home portfolio products decreased by 24.6% from RMB1,619.9 million in 2022 to RMB1,220.9 million (US\$172.0 million) in 2023, primarily due to the streamlining of product offerings, which was achieved by reducing certain SKUs of smart white goods, mostly in smart refrigerators, smart air conditioners, and smart washing machines.

Home water solutions. Revenues from home water solutions decreased by 11.3% from RMB681.1 million in 2022 to RMB604.0 million (US\$85.1 million) in 2023, primarily due to the lower volume of water purifiers sold to Xiaomi Corporation.

Consumables. Revenues from consumables decreased by 12.3% from RMB358.4 million in 2022 to RMB314.4 million (US\$44.3 million) in 2023, primarily due to decreased demands for purifier filter products.

Small appliances and others. Revenues from small appliances and others decreased by 38.2% from RMB573.3 million in 2022 to RMB354.2 million (US\$49.9 million) in 2023, primarily due to the ongoing product portfolio adjustment within this category.

Cost of revenues

Our cost of revenues decreased by 22.9% from RMB2,495.6 million in 2022 to RMB1,923.9 million (US\$271.0 million) in 2023, which is in line with the overall decreased revenue scale.

Gross profit

As a result of the foregoing, our gross profit decreased by 22.7% from RMB737.1 million in 2022 to RMB569.5 million (US\$80.2 million) in 2023.

Our gross margin remained stable at 22.8% in 2022 and 2023.

Operating Expenses

Our operating expenses decreased by 31.9% from RMB1,036.5 million in 2022 to RMB706.2 million (US\$99.5 million) in 2023.

General and administrative. General and administrative expenses decreased by 33.0% from RMB121.7 million in 2022 to RMB81.5 million (US\$11.5 million) in 2023, primarily because a significant amount of additional expected credit loss allowance was made against a third party customer in the second half of 2022.

Research and development. Research and development expenses decreased by 25.7% from RMB300.0 million in 2022 to RMB222.9 million (US\$31.4 million) in 2023, primarily due to a decrease in R&D experts and related salaries and expenses.

Selling and marketing. Selling and marketing expenses decreased by 34.7% from RMB614.9 million in 2022 to RMB401.8 million (US\$56.6 million) in 2023. This decrease was primarily due to a decrease in online platform service fees, logistic expenses, and sales-related personnel costs.

Income tax expenses

We had an income tax expenses of RMB1.7 million (US\$0.2 million) in 2023, compared to RMB18.2 million in 2022.

Net loss

As a result of the foregoing, we recorded a net loss of RMB89.3 million (US\$12.6 million) in 2023, compared to the net loss of RMB282.6 million for 2022. Excluding the impact of share-based compensation expenses, our net loss was RMB89.2 million (US\$12.6 million) in 2023, compared to the net loss of RMB263.1 million for 2022.

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Net revenues

Our net revenues decreased by 39.0% from RMB5,303.8 million in 2021 to RMB3,232.7 million in 2022, primarily due to a decrease in revenues from IoT@Home portfolio products and small appliances and others.

IoT@Home portfolio products. Revenues from IoT@Home portfolio products decreased by 52.4% from RMB3,401.0 million in 2021 to RMB1,619.9 million in 2022, primarily due to the complete cutoff of sales of Xiaomi-branded sweeper robots, as well as SKU adjustments for smart kitchen products.

Home water solutions. Revenues from home water solutions decreased by 8.3% from RMB742.9 million in 2021 to RMB681.1 million in 2022, primarily due to our product portfolio adjustment involving a decrease in small-flux water purifiers sales, partially offset by an increase in revenues from larger flux water purifiers.

Consumables. Revenues from consumables decreased by 2.3% from RMB367.0 million in 2021 to RMB358.4 million in 2022.

Small appliances and others. Revenues from small appliances and others decreased by 27.7% from RMB792.9 million in 2021 to RMB573.3 million in 2022, primarily due to the streamline of SKUs within this category.

Cost of revenues

Our cost of revenues decreased by 39.2% from RMB4,105.8 million in 2021 to RMB2,495.6 million in 2022, which is in line with the overall decreased revenue scale.

Gross profit

As a result of the foregoing, our gross profit decreased by 38.5% from RMB1,198.1 million in 2021 to RMB737.1 million in 2022.

Our gross margin increased from 22.6% to 22.8% for the same periods. The increase in gross margin was primarily driven by our continued efforts to shift the product mix toward higher profit margin products, partially offset by a decrease in the selling prices of certain clean-up products in 2022.

Operating Expenses

Our operating expenses decreased by 10.7% from RMB1,160.5 million in 2021 to RMB1,036.5 million in 2022.

General and administrative. General and administrative expenses increased by 24.6% from RMB97.7 million in 2021 to RMB121.7 million in 2022, primarily due to an increase in the estimated allowance for accounts and notes receivables from a third-party client.

Research and development. Research and development expenses decreased by 3.8% from RMB311.8 million in 2021 to RMB300.0 million in 2022, primarily due to a decrease in the share-based compensation expenses, as well as the our continued efforts in improving out research and development efficiency.

Selling and marketing. Selling and marketing expenses decreased by 18.1% from RMB751.0 million in 2021 to RMB614.9 million in 2022. This decrease was primarily due to a decrease in logistics and staff related expenses.

Income tax expenses

We had an income tax expenses of RMB18.2 million in 2022, compared to RMB5.7 million in 2021.

Net loss

As a result of the foregoing, we recorded a net loss of RMB282.6 million in 2022, compared to the net income of RMB88.9 million for 2021. Excluding the impact of share-based compensation expenses, our net loss was RMB263.1 million in 2022, compared to the net income of RMB136.3 million for 2021.

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, 2021, 2022 and 2023, we had cash and cash equivalents and restricted cash of RMB622.8 million, RMB813.2 million and RMB636.4 million (US\$89.6 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 they have no present plan to pay any dividends to us in the foreseeable future, since they intend to retain all of their available funds and any future earnings to operate and expand our business. 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 RMB112.6 million, RMB115.8 million and RMB110.7 million (US\$15.6 million) as of December 31, 2021, 2022 and 2023, respectively. The unrestricted portion, or amounts otherwise available for transfer in the form of dividends, loans or advances amounted to RMB1,022.0 million, RMB748.4 million and RMB695.4 million (US\$97.9 million) as of December 31, 2021, 2022 and 2023, respectively.

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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 through loans, subject to the approval of government authorities and limits on the amount, or we may make additional capital contributions to our wholly foreign-owned subsidiary in China. 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,			
	2021	2022	2023	
	RMB	RMB	RMB	US\$
Selected Consolidated Cash Flow Data:				
Net cash provided by/(used in) operating activities	308,968	(284,169)	(103,228)	(14,540)
Net cash (used in)/provided by investing activities	(265,321)	314,547	(198,926)	(28,019)
Net cash provided by financing activities	17,133	113,563	115,657	16,290
Effect of exchange rate changes on cash and cash equivalents	(12,703)	46,482	9,643	1,360
Net increase/(decrease) in cash and cash equivalents and restricted cash	48,077	190,423	(176,854)	(24,909)
Cash and cash equivalents and restricted cash at the beginning of the year	574,709	622,786	813,209	114,538
Cash and cash equivalents and restricted cash at the end of the year	<u>622,786</u>	<u>813,209</u>	<u>636,355</u>	<u>89,629</u>

Operating activities

Net cash used in operating activities was RMB103.2 million (US\$14.5 million) in 2023. The difference between net cash used in operating activities and our net loss of RMB89.3 million (US\$12.6 million) was primarily due to RMB124.2 million used for working capital, partially offset by the adjustment of RMB64.9 million in depreciation and amortization, RMB13.9 million in allowance for doubtful accounts, and RMB31.1 million in inventory write-down.

Net cash used in operating activities was RMB284.2 million in 2022. The difference between net cash used in operating activities and our net loss of RMB282.6 million was primarily due to RMB210.7 million used for working capital, partially offset by the adjustment of RMB88.5 million in depreciation and amortization, RMB 53.0 million in allowance for doubtful accounts, and RMB32.8 million in inventory write-down.

Net cash provided by operating activities was RMB309.0 million in 2021. The difference between net cash provided by operating activities and our net income of RMB88.9 million was primarily due to changes in working capital of RMB94.6 million, and the adjustment of RMB72.1 million in depreciation and amortization and RMB47.4 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, a decrease in accounts and notes receivable from related parties of RMB99.9 million and an increase in accounts and notes payable of RMB67.7 million, partially offset by an increase in inventories of RMB145.1 million, a decrease in amounts due to related parties of RMB118.8 million and an increase in prepaid expenses and other current assets of RMB76.2 million.

Investing activities

We used RMB198.9 million (US\$28.0 million) in investing activities in 2023, mainly as a result of RMB190.4 million used for the placement of short-term deposits, RMB110.1 million used for the purchase of equipment, RMB110.9 million used for the purchase of short-term investments, partially offset by RMB238.3 million received from the maturity of short-term investments.

Net cash provided by investing activities was RMB314.5 million in 2022, mainly as a result of RMB983.9 million received from the maturity of short-term investments, partially offset by RMB348.0 million used for the purchase of short-term investments, RMB195.6 million used for the purchase of equipment and RMB171.5 million used for the placement of short-term deposits.

We used RMB265.3 million in investing activities in 2021, mainly as a result of RMB1.8 billion used for the purchase of short-term investments, RMB164.8 million used for placement of short-term deposits and RMB99.4 million used for the purchase of equipment, partially offset by RMB1.7 billion from the maturity of short-term investments.

Financing activities

Net cash provided by financing activities was RMB115.7 million (US\$16.3 million) in 2023, mainly as a result of RMB122.0 million proceed from borrowing, partially offset by RMB6.4 million used in repurchase of ordinary shares.

Net cash provided by financing activities was RMB113.6 million in 2022, mainly as a result of RMB118.7 million proceed from borrowing, partially offset by RMB8.0 million used in repurchases of ordinary shares.

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

Working capital turnover

Inventories

Our inventory consists of finished products and raw materials. As of December 31, 2021, 2022 and 2023, our inventory was RMB576.4 million, RMB502.3 million and RMB442.2 million (US\$62.3 million), respectively. Our inventory turnover days was 45 days, 79 days and 90 days for the years ended December 31, 2021, 2022 and 2023, 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, 2021, 2022 and 2023, our accounts and notes receivable, net of allowance for doubtful accounts, were RMB623.3 million, RMB602.1 million and RMB551.0 million (US\$77.6 million), respectively. Our total accounts and notes receivable as of December 31, 2023 included RMB324.2 million (US\$45.7 million) from Xiaomi and RMB226.8 million (US\$31.9 million) from two e-commerce platforms. Our accounts and notes receivable turnover days were 57 days, 69 days and 84 days for the years ended December 31, 2021, 2022 and 2023, 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, 2021, 2022 and 2023, our accounts and notes payable were RMB1,069.1 million, RMB844.1 million and RMB666.3 million (US\$93.9 million), respectively. Our accounts and notes payable turnover days were 92 days, 140 days and 143 days for the years ended December 31, 2021, 2022 and 2023, 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, 2023 and any subsequent interim period primarily include our capital expenditures, contractual obligations and capital commitments.

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Cash flow in connection with capital expenditures amounted to RMB110.2 million, RMB200.0 million and RMB110.5 million (US\$15.6 million) in the years ended December 31, 2021, 2022 and 2023, 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 invest in the Viomi IoT Technology Park. We currently plan to fund these expenditures with our current cash and cash equivalents, restricted cash, 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, 2023.

	Payment Due by Period				More than 5 Years
	Total	Less than 1 Year	1-3 Years	3-5 Years	
Operating lease obligation ⁽¹⁾	6,679	3,738	2,736	205	—

Note:

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

As of December 31, 2023, we had RMB42.2 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 laws, 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 to us, and they have no present plan to pay any dividends to us in the foreseeable future, since they intend to retain all of their available funds and any future earnings to operate and expand our business.

Recent Accounting Pronouncements

See "Recently issued accounting pronouncements not yet adopted" included in note 2 to our consolidated financial statements at the end of this annual report.

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 for the period since January 1, 2024 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 Estimates

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)” 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 primarily derived from (i) IoT@Home portfolio products 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 products, such as water purifier filters, and (iv) small appliances and others refer to the value-added businesses.

Sales to Xiaomi

From 2021 to 2023, 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, or 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.

Net realizable value (“NRV”) of inventories

Inventories are stated at the lower of cost or NRV. 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. We assess the valuation of inventory and periodically writes down the value for inventories when their costs are lower than the NRV. The NRV is determined based on the estimated net selling prices less the estimated costs to completion and other costs necessary to make the sale. Determination of estimated net selling prices of finished goods, estimated costs to completion and other costs necessary to make the sale required significant management judgements, taking into consideration historical actual information and expected future market trends. Write-downs are recorded in cost of revenues in the consolidated statements of comprehensive income.

Current expected credit losses for accounts and notes receivable

Our accounts and notes receivable from related parties and third parties are within the scope of ASC Topic 326. We have identified the relevant risk characteristics of our customers and the related accounts and notes receivable based on their credit rating. Receivables with similar risk characteristics have been grouped into pools. For each pool, we consider 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 our receivables. Additionally, macroeconomic factors are also considered. This is assessed at each quarter based on our specific facts and circumstances.

Long-lived assets impairment assessment

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, we measure impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we would recognize an impairment loss, which is the excess of carrying amount over the fair value of the assets, using the expected future discounted cash flows.

Valuation allowance for deferred tax assets

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. In making such determination, we consider factors including future taxable income exclusive of reversing temporary differences and tax loss carry forwards. If events occur in the future that allow us to realize more of our deferred income tax than the presently recorded amounts, an adjustment to the valuation allowances will result in a decrease in tax expense when those events occur.

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.

Directors and Executive Officers	Age	Position/Title
Xiaoping Chen	49	Founder, Chairman of the Board of Directors and Chief Executive Officer
De Liu	50	Director
Jinling Zhang	52	Independent Director
Weijiang Wu	47	Independent Director
Jun Li	45	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 its 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. 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 Integrated 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 2023, we paid an aggregate of approximately RMB3.2 million (US\$0.5 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, or the 2015 Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. Our board of directors amended the 2015 Plan in October 2023 to extend the effective term from 10 years to 20 years, among other changes, subject to certain exceptions with respect to incentive stock options. 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, 2023, awards to purchase 2,989,964 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 plan may be administered by our board of directors or one or more committees designated by our board of directors or another committee within its delegated authority. 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 the awards shall contain the terms established by the plan administrator for that award, as well as any other terms, provisions, or restrictions that the plan administrator may impose on the award or any ordinary shares subject to the award of 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 20 years after its date of grant, subject to certain exceptions with respect to incentive stock options. Each restricted share shall vest or be repurchased by the Company not more than 20 years after the date of its grant, subject to earlier termination.

Eligibility. We may grant awards to officers, employees, members of the board of directors, consultants or advisors of us or any of our affiliates, subject to certain restrictions.

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, except as otherwise provided in the 2015 Plan, such as by will or the laws of descent and distribution.

Termination. The plan has a term of twenty years, provided that our board of directors may terminate the plan in whole or in part at any time.

2018 Share Incentive Plan

In June 2018, our shareholders and board of directors adopted the 2018 Share Incentive Plan, or the 2018 Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. Our board of directors amended the 2018 Plan in October 2023 to extend the effective term from 10 years to 20 years, among other changes, subject certain exceptions with respect to incentive stock options. 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 during the term of this Plan commencing with the first fiscal year beginning January 1, 2019, 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, 2023, the maximum of shares that may be issued under the 2018 Share Incentive Plan was 28,082,111. As of December 31, 2023, awards to purchase 11,528,462 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 2018 Plan permits the awards of options, restricted shares and restricted share units.

Plan Administration. The 2018 Plan may be administered by our board of directors or a committee designated by our board of directors or another committee, within its delegated authority. 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 under the 2018 Plan.

Award Agreement. Awards granted under the 2018 Plan are evidenced by an award agreement that sets forth the terms, conditions and limitations 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 award or any ordinary shares subject to the award of option.

Exercise of Options. The exercise price per share subject to an option will be determined by the plan administrator, which will be specified in applicable award agreement. The term of any option shall not exceed twenty years, subject to certain exceptions.

Eligibility. We may grant awards to our employees, consultants, and directors of us or any of our subsidiaries as defined in the 2018 Plan, as determined by the plan administrator.

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, except as otherwise provided in the 2018 Plan, such as by will or the laws of descent and distribution.

Termination and Amendment of the 2018 Plan. The 2018 Plan has a term of twenty years, provided that our board of directors may terminate or amend the plan at any time. However, no such action may adversely affect in any material way any awards previously granted without prior written consent of the recipient, subject to certain exceptions.

The following table summarizes, as of December 31, 2023, the awards granted under the 2015 Plan or the 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

* Less than 1% of our total outstanding shares.

As of December 31, 2023, other employees as a group held outstanding options to purchase 13,518,426 ordinary shares of our company, at a weighted average exercise price of US\$0.80 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 560(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;

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- 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.

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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 29, 2024				
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, 916 employees as of December 31, 2022, and 750 employees as of December 31, 2023.

The following table sets forth the numbers of our employees categorized by function as of December 31, 2023:

Function:	As of December 31, 2023
Research and development	289
Manufacturing	170
Sales and marketing	230
General administration	61
Total	750

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 laws 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 29, 2024 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 204,697,094 ordinary shares outstanding, consisting of 101,932,544 Class A ordinary shares (excluding 12,801,249 Class A ordinary shares that were issued to our depositary bank and reserved for future grants under our share incentive plans and 11,427,510 Class A ordinary shares that were repurchased by us) and 102,764,550 Class B ordinary shares outstanding as of February 29, 2024.

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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⁾	2,590,632	68,536,366	34.7	60.9
De Liu	—	—	—	—
Jinling Zhang	—	—	—	—
Weijiang Wu	—	—	—	—
Jun Li	—	—	—	—
All Directors and Executive Officers as a Group	2,590,632	68,536,366	34.7	60.9
Principal Shareholders:				
Viomi Limited ⁽²⁾	2,200,000	67,636,364	34.1	60.1
Shunwei Talent Limited ⁽³⁾	32,111,364	—	15.7	2.8
Red Better Limited ⁽⁴⁾	330,000	33,818,182	16.7	30.0

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, 510220, People's Republic of China. Mr. De Liu's business address is Xiaomi Campus, No. 33 Xierqi Middle Road, Haidian District, Beijing, 100085, People's Republic of China. Ms. Jinling Zhang's business address is 601, North Building, Tower C, Raycom InfoTech Park, No. 2 Kexueyuan South Road, Haidian District, Beijing, 100080, People's Republic of China. Mr. Weijiang Wu's business address is No. 388 Baibu Avenue, Baibu Town, Haiyan County, Jiaying, Zhejiang, 314312, People's Republic of China. Mr. Jun Li's business address is No. 483 Wushan Road, Tianhe District, Guangzhou, Guangdong, 510642, People's Republic of 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.

- 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) 900,002 Class B ordinary shares and 190,632 Class A ordinary shares in the form of ADSs beneficially owned by certain employees, and (iii) 200,000 Class A ordinary shares in the form of ADSs issuable pursuant to options exercisable within 60 days following February 29, 2024. 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.
- 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 a trust established for the benefit of Mr. Xiaoping Chen and his family. The registered address of Viomi Limited is NovaSage Incorporation (BVI) Limited of NovaSage Chambers, P.O. Box 4389, Road Town, Tortola, British Virgin Islands.
- Represents 32,111,364 Class A ordinary shares held by Shunwei Talent Limited. Information regarding beneficial ownership is reported as of December 31, 2020, 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.
- 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 1, 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 29, 2024, we had 123,961,299 Class A ordinary shares that were held by one record holder residing in the United States, that being Deutsche Bank Trust Company Americas, the depository of our ADS program. As of February 29, 2024, 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.

F. Disclosure of a Registrant's Action to Recover Erroneously Awarded Compensation

Not applicable.

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, automatically terminated upon the completion of our initial public offering, and the registration rights terminated on September 27, 2023.

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 “Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—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 complementary 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 2023, revenues generated from sales to Xiaomi, predominantly comprising Xiaomi-branded products, was RMB1,317.3 million (US\$185.5 million), accounting for 52.8% of our net revenues.

Business cooperation agreement

The currently effective business cooperation agreement with Xiaomi that was renewed in May 2023 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 will remain in effect until March 21, 2025. This agreement can be terminated prior to the expiration date 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 delay the delivery of the products without reasonable causes and Xiaomi's prior written consent, or (v) we fail to store the data to the Xiaomi Ecosystem Cloud or other server 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. 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 2023, we recorded RMB1,317.3 million (US\$185.5 million) in revenues from Xiaomi primarily for the sales of Xiaomi-branded products. As of December 31, 2023, the amount due from Xiaomi was RMB324.2 million (US\$45.7 million).

In 2022, we recorded RMB1,403.4 million in revenues from Xiaomi primarily for the sales of Xiaomi-branded products. As of December 31, 2022, the amount due from Xiaomi was RMB360.5 million.

In 2021, we recorded RMB2,295.6 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.

We purchased RMB33.8 million, RMB30.9 million and RMB26.3 million (US\$3.7 million) of products and services from Xiaomi in 2021, 2022 and 2023, respectively. We recognized RMB106.9 million, RMB41.6 million and RMB35.1 million (US\$5.0 million) in commission fees and other expenses to Xiaomi in 2021, 2022 and 2023, respectively, which was incurred by selling our own Viomi-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—Risks 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—Regulations—Regulations 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 depository, as the registered holder of such Class A ordinary shares, and the depository 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 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 nonresidents 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 of the Cayman Islands 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 of the Cayman Islands 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;

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- 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 of the Cayman Islands, 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 of the Cayman Islands, 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;

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- 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 of the Cayman Islands. The Companies Act of the Cayman Islands 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 shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 30 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—Regulations—Regulations 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 material to the holders of our ADSs or ordinary shares levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or, 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.

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 State Administration of Taxation 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 State Administration of Taxation’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 Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or SAT Public Notice 7, and 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, 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 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 these notices, and we may be required to expend valuable resources to comply with these notices, 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” for U.S. federal income tax purposes (generally, property held for investment). This summary is based on the U.S. Internal Revenue Code of 1986, as amended, U.S. Treasury regulations promulgated thereunder, judicial decisions, administrative pronouncements, the income tax treaty between the United States and China and other relevant authorities, all as in effect as of the date hereof and all of which are subject to change and differing interpretations, 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 or 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);

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- 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:

- a citizen or individual 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 (i) 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 (ii) that has validly elected to be treated as a United States person under the applicable U.S. Treasury 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 their 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 a passive foreign investment company, or 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, or 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 that 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 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 on an analysis of our income and assets and the market value of our ADSs, we believe that we were not a PFIC for the taxable year ended December 31, 2023. There can be no assurance regarding our PFIC status for the current taxable year or 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 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 future taxable years may be affected by our market capitalization. Recent fluctuations in our market capitalization create a material risk that we may be a PFIC for the current taxable year and 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 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 a PFIC for the current or subsequent taxable years. If we are 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 “—Distributions” and “—Sale or Other Disposition of ADSs or Ordinary Shares” assumes that we are not and will not be a PFIC for U.S. federal income tax purposes.

Distributions

The gross amounts of any distributions received by a U.S. Holder on our ADSs or ordinary shares (including any amounts 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 generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder (in the case of ordinary shares) or by the depository (in the case of ADSs). 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 gains 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 income tax treaty between the United States and China, (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. 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. As described in "—People's Republic of China Taxation," if we are deemed to be a PRC resident enterprise for PRC tax purposes, a U.S. Holder may be subject to PRC withholding taxes on such dividends. Subject to certain conditions and limitations, a U.S. Holder may be eligible to claim a foreign tax credit not in excess of any applicable treaty rate in respect of any foreign withholding taxes. Alternatively, a U.S. Holder may elect to deduct such taxes in computing its taxable income for U.S. federal income tax purposes, subject to certain conditions and limitations. 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 eligible to income tax treaty between the United States and China, 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 of ADSs or Ordinary Shares

A U.S. Holder will generally recognize gain or loss on 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.

Any gain or loss recognized by a U.S. Holder on the sale or other disposition of ADSs or ordinary shares will generally be treated as U.S. source income or loss for U.S. foreign tax credit purposes. If, however, gains from the sale or other disposition of our ADSs or ordinary shares are subject to tax in the PRC as described in "—People's Republic of China Taxation," a U.S. Holder may be eligible to treat such gains as PRC-source gains for U.S. foreign tax credit purposes. A U.S. Holder may instead elect to deduct such taxes in computing its taxable income for U.S. federal income tax purposes, but only for a year in which such U.S. holder elects to do so for all foreign taxes paid or accrued during such year. 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 income tax treaty between the United States and China.

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 current taxable year and to any taxable years in the U.S. Holder's holding period prior to the first taxable year in which we are 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. Any such deductions are allowable 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 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 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 on a qualified exchange or other market, as defined in the applicable U.S. Treasury 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 traded in other than de minimis quantities on at least 15 days during each calendar quarter, 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 excess distribution regime discussed 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 for which we are a PFIC will generally be required to make an annual filing with the Internal Revenue Service 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 periodic reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers, and are required to file reports and other information with the SEC. Specifically, we are required to file annually an annual report on Form 20-F within four months after the end of each fiscal year, which is December 31. All information we file with the SEC can be obtained over the internet at the SEC's website at www.sec.gov. 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.

J. Annual Report to Security Holder

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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.

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The conversion of Renminbi into other currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against other currencies, at times significantly and unpredictably. The value of Renminbi against other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. It is difficult to predict how market forces or government policies may impact the exchange rate between Renminbi and other currencies 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

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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):

<u>Service</u>	<u>Fees</u>
• 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
• Cancellation of ADSs, including the case of termination of the deposit agreement	Up to US\$0.05 per ADS cancelled
• Distribution of cash dividends	Up to US\$0.05 per ADS held
• 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
• Distribution of ADSs pursuant to exercise of rights.	Up to US\$0.05 per ADS held
• Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US\$0.05 per ADS held
• 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 American depositary receipts that evidence ADSs.
- 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 program of American depositary receipts that evidence the ADSs or otherwise, upon such terms and conditions as we and the depositary bank agree from time to time. For the year ended December 31, 2023, we received reimbursement of approximately US\$81,300 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

See “Item 10. Additional Information—B. Memorandum and Articles of Association” for a description of the rights of securities holders, which remain unchanged.

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 (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our management, with the participation of our chief executive officer, has concluded that, as of December 31, 2023, 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 Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

Our management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2023 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 public accounting firm, identified the following material weaknesses. Our management thus concluded that our internal control over financial reporting was not effective as of December 31, 2023.

The material weaknesses were 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 our 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; and
- 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 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

This annual report on Form 20-F does not include an attestation report of our independent registered public accounting firm on internal control over financial reporting because we qualified as a “non-accelerated filer” as of December 31, 2023.

Changes in Internal Control

During the audit of our company’s consolidated financial statements as of and for the year ended December 31, 2022, our management, together with our independent registered public accounting firm, identified material weaknesses related to (i) operating deficiency in the control relating to the preparation and checking of the input VAT calculation, and (ii) lack of effective financial statements review so as to detect material misstatements in our company’s consolidated financial statements.

In 2023, we implemented a number of remedial measures to address the material weaknesses with respect to input VAT calculation and financial statements review, including (i) the hire of additional competent and qualified tax personnel with appropriate knowledge and work experience of taxation; (ii) the enhancement and improvement of the internal controls in relation to preparation and checking of calculation and supporting schedules for input VAT; and (iii) the enhancement and improvement of the internal controls in relation to financial statements review by improving the precision level of the review.

As of December 31, 2023, based on an assessment performed by our management on the effectiveness of the remediation measures mentioned above, we concluded that the aforementioned material weaknesses related to (i) operating deficiency in the controls relating to the preparation and checking of the input VAT calculation and (ii) lack of effective financial statements review so as to detect material misstatements in our company’s consolidated financial statements in our internal control over financial reporting previously identified as of December 31, 2022 were 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 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 Rule 5605(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 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.

	For the Year Ended	
	December 31,	
	2022	2023
	(in thousands of RMB)	
Audit fees ⁽¹⁾	6,150	5,200

Note:

(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 statements.

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 were 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 plan whereby we were 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 plan was publicly announced on October 14, 2021 and ended on October 13, 2022.

On October 25, 2022, our board of directors approved a share repurchase plan whereby we were 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 24, 2023. The share repurchase plan was publicly announced on October 25, 2022.

On October 18, 2023, our board of directors approved an extension of our existing share repurchase plan for another 12 months, with no increase in the authorized amount. The extension of the share repurchase plan was publicly announced on October 23, 2023 and the program will end on October 24, 2024.

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The following table sets forth a summary of our repurchase of the ADSs under the share repurchase plans described in the paragraph above between January 1, 2023 and February 29, 2024. All shares were repurchased in the open market pursuant to the share repurchase plans.

Period	Total Number of ADSs Purchased	Average Price Paid per ADS	Total Number of ADSs Purchased as Part of the Publicly Announced Plans	Approximate Dollar value of ADSs that May Yet Be Purchased Under the Plans
January 2023	30,124	1.0680	30,124	9,779,300
February 2023	775	1.1000	775	9,778,447
March 2023	146,291	1.0449	146,291	9,625,594
April 2023	70,283	0.9438	70,283	9,559,264
May 2023	118,897	0.8742	118,897	9,455,329
June 2023	71,464	0.9306	71,464	9,388,825
September 2023	100	0.9330	100	9,388,732
December 2023	530,000	0.9109	530,000	8,905,980

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 requirements of Rule 5605 that audit committees must be comprised of three or more directors and that compensation and nomination committees must be comprised only of independent directors. In addition, we opt to follow home country practice with respect to the frequency of holding annual general meeting of shareholders and amending our share incentive plans without the shareholder approval. 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.

ITEM 16J. INSIDER TRADING POLICIES

Not applicable.

ITEM 16K. CYBERSECURITY

Risk Management and Strategy

We have implemented comprehensive cybersecurity risk assessment procedures to ensure effectiveness in cybersecurity management, strategy and governance and reporting cybersecurity risks. We have also integrated cybersecurity risk management into our overall enterprise risk management system.

We have developed a comprehensive cybersecurity threat defense system to address both internal and external cyber threats. This comprehensive system spans multiple security domains, including network, host and application layers. It integrates a range of security capabilities, such as threat defense, continuous monitoring, in-depth analysis, rapid response, as well as strategic deception and countermeasures. Our approach to managing cybersecurity risks and safeguarding sensitive data is multi-faceted, involving technological safeguards, procedural protocols, a rigorous program of surveillance on our corporate network, continuous testing of aspects of our security posture internally and with third-party business partners, such as third-party network partners and third-party e-commerce platforms, a solid incident response framework and regular cybersecurity training sessions for our employees. Our IT department is actively engaged in monitoring of the performance of our infrastructure to ensure prompt identification and response to potential issues, including potential cybersecurity threats. Our internal control department also performs regular self-assessments and produces annual assessment reports.

As of the date of this annual report, we have not experienced any material cybersecurity incidents or identified any material cybersecurity threats that have affected or are reasonably likely to materially affect us, our business strategy, results of operations or financial condition.

Governance

Our corporate governance and nominating committee of our board of directors is responsible for overseeing our cybersecurity risk management and is informed on risks from cybersecurity threats. Our board of directors/The corporate governance and nominating committee shall review, approve and maintain oversight of the disclosure (i) on Form 6-K for material cybersecurity incidents (if any) and (ii) related to cybersecurity matters in the periodic reports (including annual report on Form 20-F) of our Company.

On the management level, our chief executive officer and cybersecurity officer, or the Cybersecurity Risk Management Officers, are responsible for assessing, identifying and managing material risks from cybersecurity threats to our company and monitoring the prevention, detection, mitigation and remediation of material cybersecurity incidents. Our Cybersecurity Risk Management Officers report to our corporate governance and nominating committee (i) on a quarterly basis regarding their assessment, identification and management on material risks from cybersecurity threats happened in the ordinary course of our business operations and (ii) on disclosure concerning cybersecurity matters in our Form 6-K for material cybersecurity incidents (if any) and our annual report on Form 20-F.

If a cybersecurity incident occurs, our Cybersecurity Risk Management Officers will promptly organize relevant personnel for internal assessment and, depending on the situation, seek the opinions of external experts and legal advisors. If it is determined that the incident could potentially be a material cybersecurity event, our Cybersecurity Risk Management Officers will promptly report the incident and relevant assessment results to our corporate governance and nominating committee and our corporate governance and nominating committee will decide on the relevant response measures and whether any disclosure is necessary. If such disclosure is determined to be necessary, our Cybersecurity Risk Management Officers shall promptly prepare disclosure material for review and approval by our corporate governance and nominating committee before it is disseminated to the public.

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 depository 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*	Amendment No.1 to 2015 Share Incentive Plan
4.4*	Amendment No.1 to 2018 Share Incentive Plan
4.5	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))
4.6	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))
4.7	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))
4.8	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))
4.9	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))

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4.10	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))
4.11	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))
4.12	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))
4.13	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))
4.14	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))
4.15	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))
4.16	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))
4.17	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))
4.18	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))
4.19*	English Translation of Business Cooperation Agreement between Foshan Viomi and Xiaomi dated May 6, 2023
8.1*	List of Subsidiaries and Consolidated Variable Interest Entities of the Registrant
11.1	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))
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Han Kun Law Offices
15.2*	Consent of PricewaterhouseCoopers Zhong Tian LLP
97.1*	Clawback Policy of the Registrant
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 25, 2024

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, 2023 and 2022, and the related consolidated statements of comprehensive income (loss), of changes in shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2023, 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, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 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 audits 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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of Net Realizable Value (“NRV”) of Inventories

As described in Notes 2(k) and 7 to the consolidated financial statements, the gross balances of raw materials and finished goods were RMB508,253 thousands, against which provisions for inventories write-downs of RMB66,034 thousands were recognized as of December 31, 2023. Inventories were stated at the lower of cost or NRV. The NRV was determined based on the estimated net selling prices less the estimated costs to completion and other costs necessary to make the sale. Determination of estimated net selling prices of finished goods, estimated costs to completion and other costs necessary to make the sale required significant management judgements, taking into consideration historical actual information and expected future market trends.

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The principal considerations for our determination that performing procedures relating to assessment of NRV of inventories is a critical audit matter are the significant judgments made by management in determining the estimated net selling prices of finished goods, the estimated costs to completion and other costs necessary to make the sale, which in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to the estimated net selling prices of finished goods, the estimated costs to completion and other costs necessary to make the sale.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the determination of NRV of raw materials and finished goods. These procedures also included, among others, (i) testing the appropriateness of management's estimation process of NRV of raw materials and finished goods; (ii) testing the completeness and accuracy of underlying data used in the NRV model, which was based on historical actual information and taking into consideration expected future market trends, and testing the aging of inventories as of December 31, 2023; (iii) evaluating the reasonableness of management's estimates of costs to completion and other costs necessary to make the sale by considering the relevant historical actual information; and (iv) evaluating the reasonableness of management's significant assumptions in determining the estimated net selling prices of finished goods. Evaluating management's assumptions in determining the estimated net selling prices of finished goods involved comparison of the estimated net selling prices to the prices from publicly available market data and the actual prices of any relevant sales transactions subsequent to year-end.

/s/PricewaterhouseCoopers Zhong Tian LLP
Guangzhou, the People's Republic of China
April 25, 2024

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,		
	2022	2023	2023
	RMB	RMB	US\$
			(Note2(e))
Assets			
Current assets			
Cash and cash equivalents	737,139	491,715	69,257
Restricted cash	76,070	144,640	20,372
Short-term deposits	171,541	365,838	51,527
Short-term investments	197,058	70,369	9,911
Accounts and notes receivable from third parties (net of allowance of RMB87,563 and RMB80,409 as of December 31, 2022 and December 31, 2023, respectively)	241,652	226,802	31,944
Accounts receivable from a related party (net of allowance of RMB272 and RMB325 as of December 31, 2022 and December 31, 2023, respectively)	360,497	324,223	45,667
Other receivables from related parties (net of allowance of RMB19 and nil as of December 31, 2022 and December 31, 2023, respectively)	25,021	224	32
Inventories	502,291	442,219	62,285
Prepaid expenses and other current assets	183,708	186,672	26,292
Long-term deposits-current portion	—	30,000	4,225
Total current assets	2,494,977	2,282,702	321,512
Non-current assets			
Prepaid expenses and other non-current assets	22,856	18,824	2,651
Property, plant and equipment, net	236,432	342,985	48,308
Deferred tax assets	12,660	10,990	1,548
Intangible assets, net	13,671	10,901	1,535
Right-of-use assets, net	14,649	4,971	700
Land use rights, net	60,449	59,177	8,335
Long-term deposits-non-current portion	30,000	—	—
Long-term investment	—	23,838	3,358
Total non-current assets	390,717	471,686	66,435
Total assets	2,885,694	2,754,388	387,947
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 RMB377,839 and RMB348,876 as of December 31, 2022 and 2023, respectively)	844,058	666,333	93,851
Advances from customers (including advances from customers of the consolidated VIEs without recourse to the Company of RMB81,434 and RMB101,513 as of December 31, 2022 and 2023, respectively)	118,369	131,338	18,499
Amounts due to related parties (including amounts due to related parties of the consolidated VIEs without recourse to the Company of RMB11,548 and RMB14,595 as of December 31, 2022 and 2023, respectively)	11,548	18,468	2,601
Accrued expenses and other liabilities (including accrued expenses and other liabilities of the consolidated VIEs without recourse to the Company of RMB223,080 and RMB152,613 as of December 31, 2022 and 2023, respectively)	308,845	302,214	42,565
Short-term borrowing (including short-term borrowing of the consolidated VIEs without recourse to the Company of nil and RMB100,000 as of December 31, 2022 and 2023, respectively)	—	100,000	14,085
Income tax payables (including income tax payables of the consolidated VIEs without recourse to the Company of RMB16,151 and RMB17,349 as of December 31, 2022 and 2023, respectively)	16,674	17,779	2,504
Lease liabilities due within one year (including lease liabilities due within one year of the consolidated VIEs without recourse to the Company of RMB4,138 and RMB2,019 as of December 31, 2022 and 2023, respectively)	7,233	2,410	339
Long-term borrowing-current portion	20,215	28,029	3,948
Total current liabilities	1,326,942	1,266,571	178,392
Non-current liabilities			
Accrued expenses and other liabilities (including accrued expenses and other liabilities of the consolidated VIEs without recourse to the Company of RMB8,245 and RMB12,766 as of December 31, 2022 and 2023, respectively)	8,245	12,766	1,799
Long-term borrowing	114,552	128,701	18,127
Lease liabilities (including lease liabilities of the consolidated VIEs without recourse to the Company of RMB6,040 and RMB1,503 as of December 31, 2022 and 2023, respectively)	6,792	2,713	382
Total non-current liabilities	129,589	144,180	20,308
Total liabilities	1,456,531	1,410,751	198,700
Commitments and contingencies (Note 21)			
Shareholders' equity			
Class A Ordinary Shares (US\$0.00001 par value; 4,800,000,000 shares authorized; 104,539,463 and 101,902,544 shares issued and outstanding as of December 31, 2022 and December 31, 2023, respectively)	6	6	1
Class B Ordinary Shares (US\$0.00001 par value; 150,000,000 shares authorized; 102,854,550 and 102,764,550 shares issued and outstanding as of December 31, 2022 and December 31, 2023, respectively)	6	6	1
Treasury stock	(74,703)	(81,143)	(11,429)
Additional paid-in capital	1,357,397	1,353,634	190,655
Retained earnings	174,385	89,711	12,636
Accumulated other comprehensive loss	(24,335)	(14,328)	(2,018)
Total equity attributable to shareholders of Viomi Technology Co., Ltd (the "Company")	1,432,756	1,347,886	189,846
Non-controlling interests	(3,593)	(4,249)	(599)
Total shareholders' equity	1,429,163	1,343,637	189,247
Total liabilities and shareholders' equity	2,885,694	2,754,388	387,947

The accompanying notes are an integral part of these consolidated financial statements.

VIOMI TECHNOLOGY CO., LTD
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Amounts in thousands, except shares, ADS, per share and per ADS data)

	Year ended December 31,			
	2021 RMB	2022 RMB	2023 RMB	2023 US\$ (Note2(e))
Net revenues:				
A related party	2,295,569	1,403,354	1,317,314	185,540
Third parties	3,008,266	1,829,377	1,176,072	165,646
Total net revenues	5,303,835	3,232,731	2,493,386	351,186
Cost of revenues	(4,105,767)	(2,495,638)	(1,923,866)	(270,971)
Gross profit	1,198,068	737,093	569,520	80,215
Operating expenses:				
Research and development expenses	(311,786)	(299,950)	(222,911)	(31,396)
Selling and marketing expenses	(751,011)	(614,887)	(401,766)	(56,588)
General and administrative expenses	(97,730)	(121,702)	(81,508)	(11,480)
Total operating expenses	(1,160,527)	(1,036,539)	(706,185)	(99,464)
Other income, net	27,128	22,135	17,510	2,466
Income (loss) from operations	64,669	(277,311)	(119,155)	(16,783)
Interest income and investment income, net	28,589	10,368	29,893	4,210
Other non-operating income	1,372	2,487	1,664	234
Income (loss) before income tax expenses	94,630	(264,456)	(87,598)	(12,339)
Income tax expenses	(5,739)	(18,174)	(1,735)	(244)
Net income (loss)	88,891	(282,630)	(89,333)	(12,583)
Less: Net income (loss) attributable to the non-controlling interest shareholders	286	(7,115)	(4,659)	(656)
Net income (loss) attributable to ordinary shareholders of the Company	88,605	(275,515)	(84,674)	(11,927)
Net income (loss) attributable to the Company	88,605	(275,515)	(84,674)	(11,927)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(13,736)	48,785	10,007	1,409
Total comprehensive income (loss) attributable to the Company	74,869	(226,730)	(74,667)	(10,518)
Net income (loss) per share attributable to ordinary shareholders of the Company:				
-Basic	0.42	(1.32)	(0.41)	(0.06)
-Diluted	0.40	(1.32)	(0.41)	(0.06)
Weighted average number of ordinary shares used in calculating net income per share				
-Basic	209,551,821	208,341,011	206,360,586	206,360,586
-Diluted	220,735,997	208,341,011	206,360,586	206,360,586

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		Retained Earnings	Accumulated Other Comprehensive Loss	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, 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>
Balance as of January 1, 2022	105,516,779	6	103,214,547	6	1,337,281	6,230,139	(66,668)	449,900	(73,120)	1,647,405	3,522	1,650,927
Net loss attributable to the Company and non-controlling interest shareholders	—	—	—	—	—	—	—	(275,515)	—	(275,515)	(7,115)	(282,630)
Share-based compensation related to 2015 and 2018 Share Incentive Plan	—	—	—	—	19,560	—	—	—	—	19,560	—	19,560
Class B ordinary shares converted to Class A ordinary shares	359,997	—	(359,997)	—	—	—	—	—	—	—	—	—
Issuance of ordinary shares for exercised share options	956,256	—	—	—	556	—	—	—	—	556	—	556
Repurchase of shares	(2,293,569)	—	—	—	—	2,293,569	(8,035)	—	—	(8,035)	—	(8,035)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	48,785	48,785	—	48,785
Balance as of December 31, 2022	<u>104,539,463</u>	<u>6</u>	<u>102,854,550</u>	<u>6</u>	<u>1,357,397</u>	<u>8,523,708</u>	<u>(74,703)</u>	<u>174,385</u>	<u>(24,335)</u>	<u>1,432,756</u>	<u>(3,593)</u>	<u>1,429,163</u>
Balance as of January 1, 2023	104,539,463	6	102,854,550	6	1,357,397	8,523,708	(74,703)	174,385	(24,335)	1,432,756	(3,593)	1,429,163
Net loss attributable to the Company and non-controlling interest shareholders	—	—	—	—	—	—	—	(84,674)	—	(84,674)	(4,659)	(89,333)
Share-based compensation related to 2015 and 2018 Share Incentive Plan	—	—	—	—	106	—	—	—	—	106	—	106
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	10,007	10,007	—	10,007
Post-IPO Class B Ordinary shares converted to Post-IPO Class A Ordinary shares	90,000	—	(90,000)	—	—	—	—	—	—	—	—	—
Issuance of ordinary shares for exercised share options	176,883	—	—	—	19	—	—	—	—	19	—	19
Repurchase of ordinary shares	(2,903,802)	—	—	—	—	2,903,802	(6,440)	—	—	(6,440)	—	(6,440)
Capital injection in a subsidiary from a non-controlling interest shareholder	—	—	—	—	(3,888)	—	—	—	—	(3,888)	4,003	115
Balance as of December 31, 2023	<u>101,902,544</u>	<u>6</u>	<u>102,764,550</u>	<u>6</u>	<u>1,353,634</u>	<u>11,427,510</u>	<u>(81,143)</u>	<u>89,711</u>	<u>(14,328)</u>	<u>1,347,886</u>	<u>(4,249)</u>	<u>1,343,637</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,			
	2021 RMB	2022 RMB	2023 RMB	2023 US\$ (Note2(e))
Cash flows from operating activities				
Net income (loss)	88,891	(282,630)	(89,333)	(12,583)
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	72,148	88,494	64,881	9,138
Inventory write-down	8,103	32,846	31,135	4,385
Share-based compensation	47,405	19,560	106	14
Allowance for doubtful accounts	25,541	52,997	13,894	1,957
Deferred income tax (benefits) expenses	(21,115)	22,644	1,670	235
Investment income	(1,369)	(7,350)	(1,424)	(201)
Changes in operating assets and liabilities:				
Accounts and notes receivable from third parties	99,877	7,505	1,000	141
Accounts receivable from a related party	287,690	(39,462)	36,211	5,100
Inventories	(145,079)	41,214	28,937	4,076
Prepaid expenses and other current assets	(76,193)	(25,710)	521	73
Other receivables from related parties	(266)	63,432	24,815	3,495
Amounts due to related parties	(118,777)	6,133	6,920	975
Interest received relating to the investment income recognized in previous year	2,785	3,243	712	100
Accounts and notes payable	67,737	(225,050)	(177,725)	(25,032)
Advances from customers	(12,981)	18,737	12,969	1,827
Income tax payables	(7,619)	(26,669)	1,105	156
Accrued expenses and other liabilities	3,202	(29,220)	(50,720)	(7,143)
Lease liabilities	(11,012)	(4,883)	(8,902)	(1,253)
Net cash provided by (used in) operating activities	308,968	(284,169)	(103,228)	(14,540)
Cash flows from investing activities				
Purchase of equipment	(99,448)	(195,555)	(110,127)	(15,511)
Purchase of lease hold improvement	(3,991)	—	(3,080)	(434)
Purchase of intangible assets	(6,733)	(4,405)	(398)	(56)
Placement of long-term investments	—	—	(23,838)	(3,358)
Purchase of short-term investments	(1,796,620)	(347,971)	(110,860)	(15,614)
Maturity of short-term investments	1,663,489	983,887	238,261	33,558
Disposal of property and equipment	—	132	1,543	217
Placement of short-term deposits	(164,761)	(171,541)	(190,427)	(26,821)
Maturities of short-term deposits	162,743	—	—	—
Placement of long-term deposits	(30,000)	—	—	—
Maturities of long-term deposits	10,000	50,000	—	—
Net cash (used in) provided by investing activities	(265,321)	314,547	(198,926)	(28,019)
Cash flows from financing activities				
Proceeds from exercise of vested share options	12,920	2,936	19	3
Receipt of borrowing	16,106	118,662	121,963	17,178
Capital injection in subsidiaries from an investor or a non-controlling shareholder	175	—	115	16
Repurchase of ordinary shares	(12,068)	(8,035)	(6,440)	(907)
Net cash provided by financing activities	17,133	113,563	115,657	16,290
Effect of exchange rate changes on cash and cash equivalents	(12,703)	46,482	9,643	1,360
Net increase (decrease) in cash and cash equivalents and restricted cash	48,077	190,423	(176,854)	(24,909)
Cash and cash equivalents and restricted cash at the beginning of the year	574,709	622,786	813,209	114,538
Cash and cash equivalents and restricted cash at the end of the year	622,786	813,209	636,355	89,629
Including:				
Cash and cash equivalents at the end of the year	586,955	737,139	491,715	69,257
Restricted cash at the end of the year	35,831	76,070	144,640	20,372
Supplemental disclosures of cash flow information:				
Cash paid for income tax, net	(34,446)	(22,802)	(187)	(26)
Acquisition of equipment in form of other payable	60,507	16,075	53,235	7,498

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, 2021, 2022 AND 2023
(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.

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.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

(a) History and Reorganization (Continued)

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. The conditions had not been fulfilled by December 31, 2023 and therefore the Group did not recognize Sunglow as a non-controlling interest of Guangdong Lizi as of December 31, 2023.

As of December 31, 2023, 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

(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.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

(b) Dual Classes Ordinary Shares and Initial Public Offering (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 (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.

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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.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

(c) VIE Arrangements between the VIEs and the Company's PRC subsidiary (Continued)

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.

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.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

(c) VIE Arrangements between the VIEs and the Company's PRC subsidiary (Continued)

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.

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.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

(c) VIE Arrangements between the VIEs and the Company's PRC subsidiaries (Continued)

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.

	As of December 31,	
	2022	2023
	RMB	RMB
Cash and cash equivalents	335,476	285,338
Short-term investments	189,275	51,864
Accounts receivable from third parties (net of allowance of RMB72,193 and RMB63,779 as of December 31, 2022 and 2023, respectively)	150,686	189,983
Accounts receivable from a related party (net of allowance of RMB272 and RMB320 as of December 31, 2022 and 2023, respectively)	360,497	319,842
Amounts due from Group companies	707,458	725,171
Inventories	281,649	248,614
Other assets	427,598	503,423
Total assets	2,452,639	2,324,235
Accounts and notes payable	377,839	348,876
Amounts due to Group companies	1,043,056	1,002,435
Accrued expenses and other liabilities	231,325	165,379
Other liabilities	119,311	236,979
Total liabilities	1,771,531	1,753,669

	Year ended December 31,		
	2021	2022	2023
	RMB	RMB	RMB
Revenue from Group companies ⁽¹⁾	131,379	220,607	114,889
Revenue from a related party and third parties	4,859,414	2,805,557	2,123,580
Cost from Group companies	1,291,468	49,359	144,897
Cost from a related party and third parties	2,870,809	2,355,718	1,688,405
Net loss	(60,908)	(237,517)	(81,057)
Net cash used in operating activities with Group companies	(794,936)	(958,297)	(597,354)
Net cash provided by operating activities with third parties	1,248,860	537,068	632,235
Net cash (used in) provided by investing activities with Group companies	(83,325)	7,280	16,866
Net cash (used in) provided by investing activities with third parties	(233,934)	461,320	(82,035)
Net cash used in financing activities with Group	(156,406)	(60,361)	(44,574)
Net cash provided by financing activities with third parties	—	—	100,000

(1) Inter-company revenues between VIEs and other subsidiaries

VIEs sell certain products and provide marketing services to other subsidiaries. For the years ended December 31, 2021, 2022 and 2023, the inter-company sales recognized by VIEs to Equity subsidiaries are RMB131.3 million, RMB195.8 million and RMB99.4 million, respectively. And the inter-company sales recognized by VIEs to Primary beneficiaries of VIEs and their subsidiaries for the year ended December 31, 2021, 2022 and 2023 are RMB0.1 million, RMB24.8 million and RMB15.5 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 beneficiaries. 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.

(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.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation (Continued)

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 (loss) and consolidated statements of cash flows from RMB into US\$ as of and for the year ended December 31, 2023 are solely for the convenience of the reader and were calculated at the noon buying rate of US\$1.00 = RMB7.0999 on December 29, 2023 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 31, 2023, 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.

(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.

(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.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 (“NRV”). 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 inventories when their costs are lower than the NRV. The NRV is determined based on the estimated net selling prices less the estimated costs to completion and other costs necessary to make the sale. Determination of estimated net selling prices of finished goods, estimated costs to completion and other costs necessary to make the sale required significant management judgements, taking into consideration historical actual information and expected future market trends.

(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.

(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.

	<u>Estimated useful lives</u>	<u>Residual rate</u>
Buildings	20 years	5 %
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) Impairment of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Company measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss, which is the excess of carrying amount over the recoverable amount of the assets, using the expected future discounted cash flows. No impairments of long-lived assets were recognized as of December 31, 2022 and 2023.

(o) Long-term investment

For an investee over which the Company has the ability to exercise significant influence, but does not own a majority equity interest or otherwise control, the Company accounted for those using the equity method. Significant influence is generally considered to exist when the Company has an ownership interest in the voting stock of the investee between 20% and 50%. Other factors, such as representation on the investee's board of directors, voting rights and the impact of commercial arrangements, are also considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the Company's share of the investee's results of operations is included in interest income and investment income, net in the consolidated statements of comprehensive income.

(p) 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.

(q) 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:

	<u>Estimated useful lives</u>
Software	1 - 10 years
License	3 - 10 years

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Leases

The Company categorizes 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.

(s) 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition (Continued)

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, 2021, 2022 and 2023.

- 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, 2021, 2022 and 2023:

	Year ended December 31,		
	2021	2022	2023
	RMB	RMB	RMB
Sales of products to Xiaomi	2,295,569	1,403,354	1,317,314
—Xiaomi-branded products	2,021,117	1,154,689	1,158,983
—Viomi-branded products	274,452	248,665	158,331
Sales of products and rendering of services to third-party customers	3,008,266	1,829,377	1,176,072
	<u>5,303,835</u>	<u>3,232,731</u>	<u>2,493,386</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. 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, 2021, 2022 and 2023, net revenues earned from second installment payment arrangement represented 2.0%, 2.8% and 2.8% of total revenue from Xiaomi, respectively.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition (Continued)

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.

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.

- 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 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.

- Rendering of services

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 on a semi – annually 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)

(s) 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.

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 slow-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, 2021, 2022 and 2023, the expected sales return was RMB5,593, RMB2,351 and RMB839. Accordingly the Group recognizes an expected return asset of RMB3,189, RMB1,350 and RMB508 and a refund liability of RMB6,320, RMB2,656 and RMB948 as of December 31, 2021, 2022 and 2023, 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, 2021, 2022 and 2023, 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)

(s) 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 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.

As of December 31, 2022 and 2023 accounts and notes receivable were RMB689,984 and RMB631,760, respectively. During the year ended December 31, 2022, the Group recognized impairments, net of recoveries, for accounts receivable from customers amounted to RMB53,082 and in the year ended December 31, 2023, the Group reverse RMB7,101.

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.

As of December 31, 2022 and 2023, deferred revenue were RMB2,130 and RMB3,318, respectively. During the years ended December 31, 2022 and 2023, the Group recognized revenue of installation services amounted to RMB3,154 and RMB2,130, respectively, that was included in the corresponding contract liability balance at the beginning of the years. The Group expects to recognize approximately RMB3,285 and RMB33 of the unearned amount for the Group's remaining performance obligations related to installation services and membership service in 2024, respectively. During the years ended December 31, 2022 and 2023, 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) 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.

(u) 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.

(v) 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 RMB173,642, RMB187,417 and RMB123,083 for the years ended December 31, 2021, 2022 and 2023. The shipping expenses amounted to RMB248,609, RMB200,695 and RMB109,835 for the years ended December 31, 2021, 2022 and 2023, respectively.

(w) 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.

(x) 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 RMB30,147, RMB23,192 and RMB16,335 of subsidy income for the years ended December 31, 2021, 2022 and 2023, respectively.

(y) 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 RMB34,291, RMB 21,465 and RMB26,994 for the years ended December 31, 2021, 2022 and 2023, respectively.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) *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.

(aa) *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, 2021, 2022 and 2023. As of December 31, 2022 and 2023, the Group did not have any significant unrecognized uncertain tax positions.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(bb) 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.

(cc) 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.

During the years ended December 31, 2021, appropriations to statutory reserve funds amounted to RMB1,756. There were no appropriations to statutory reserve funds during the year ended December 2022 and 2023. Statutory reserve funds amounting to RMB12,517 and RMB 12,517 were recognized in additional paid-in capital as of December 31, 2022 and 2023, respectively.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(dd) 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.

(ee) 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.

(ff) 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 majority of the revenues from external customers attributed to the PRC.

(gg) Current expected credit losses

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, 2021, 2022 and 2023, the Group recorded expected credit loss of RMB25,541, RMB52,997 and RMB13,894, respectively in general and administrative expenses. As of December 31, 2022 and 2023, the expected credit loss provision for the accounts and notes receivable and other receivables is RMB87,854 and RMB80,734 respectively. The decrease is primarily due to the fact that management has written off certain long aged balances which were deemed uncollectible.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(gg) 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, 2022 and 2023:

	Year ended December 31,	
	2022	2023
	RMB	RMB
Balance at beginning of the year	34,857	87,854
Current year provision	61,336	24,915
Reversals	(8,339)	(11,021)
Write off	—	(21,014)
Balance at end of the year	<u>87,854</u>	<u>80,734</u>

(hh) Recently issued accounting pronouncements not yet adopted

In November 2023, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2023-07, Improvements to Reportable Segment Disclosures (Topic 280). This ASU updates reportable segment disclosure requirements by requiring disclosures of significant reportable segment expenses that are regularly provided to the Chief Operating Decision Maker (“CODM”) and included within each reported measure of a segment’s profit or loss. This ASU also requires disclosure of the title and position of the individual identified as the CODM and an explanation of how the CODM uses the reported measures of a segment’s profit or loss in assessing segment’s performance and deciding how to allocate resources. The ASU is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Adoption of the ASU should be applied retrospectively to all prior periods presented in the financial statements. Early adoption is also permitted. This ASU will likely result in us including the additional required disclosures when adopted. The Group are currently evaluating the provisions of this ASU and expect to adopt them for the year ending December 31, 2024.

In December 2023, the FASB issued ASU No. 2023-09, Improvements to Income Tax Disclosures (Topic 740). The ASU requires disaggregated information about a reporting entity’s effective tax rate reconciliation as well as additional information on income taxes paid. The ASU is effective on a prospective basis for annual periods beginning after December 15, 2024. Early adoption is also permitted for annual financial statements that have not yet been issued or made available for issuance. This ASU will result in the required additional disclosures being included in the Group’s consolidated financial statements, once adopted.

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.

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3. CONCENTRATION AND RISKS (Continued)

(b) Credit risk(Continued)

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,			
	2022		2023	
	RMB	%	RMB	%
Company A	125,971	52 %	133,882	59 %

Concentration risk of accounts receivable from a related party are presented as below:

	As of December 31,			
	2022		2023	
	RMB	%	RMB	%
Xiaomi	360,497	100 %	324,223	100 %

Concentration risk of other receivables from related parties are presented as below:

	As of December 31,			
	2022		2023	
	RMB	%	RMB	%
Xiaomi	25,021	100 %	218	97 %

(c) Revenue concentration risk

	Year ended December 31,					
	2021		2022		2023	
	RMB	%	RMB	%	RMB	%
Xiaomi	2,295,569	43 %	1,403,354	43 %	1,317,314	53 %

The revenue generated from Xiaomi included sale of both Xiaomi-branded and Viomi-branded products. Revenue from sale of Viomi-branded products amounted to RMB274,452, RMB248,665 and RMB158,331 for the years ended December 31, 2021, 2022 and 2023, respectively.

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, 2022 and 2023 primarily consist of the following currencies:

	As of December 31, 2022		As of December 31, 2023	
	Amount	RMB equivalent	Amount	RMB equivalent
	RMB	440,557	440,557	345,575
US\$	42,584	296,582	20,633	146,140
Total		737,139		491,715

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5. RESTRICTED CASH

As of December 31, 2022 and 2023, the Group held restricted cash of RMB76,070 and RMB144,640 respectively in designated bank accounts, which were composed of the deposit required for issuing bank acceptance bills of RMB56,655 and RMB119,934 respectively and the judicial frozen funds. As of December 31, 2022 and 2023, the Group held the deposit for issuing bank acceptance bills of RMB56,655 and RMB119,934 respectively, and the judicial frozen funds of RMB19,415 and RMB24,706 respectively.

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, 2022 and 2023 is denominated in RMB, amounted to RMB197,058 and RMB70,369 respectively.

7. INVENTORIES

Inventories consisted of the followings:

	As of December 31,	
	2022	2023
	RMB	RMB
Finished goods	207,078	295,967
Raw materials	349,226	212,286
Gross	556,304	508,253
Less: provisions for inventories write-downs	(54,013)	(66,034)
Net	<u>502,291</u>	<u>442,219</u>

8. PREPAID EXPENSES AND OTHER ASSETS

	As of December 31,	
	2022	2023
	RMB	RMB
Advances to suppliers	139,306	113,634
Other receivables	44,697	73,110
Prepayment for equipment	15,976	15,855
Lease hold improvement	5,234	2,389
Expected return assets	1,351	508
Total	206,564	205,496
Less: non-current portion	(22,856)	(18,824)
Prepaid expenses and other assets-current portion	<u>183,708</u>	<u>186,672</u>

9. LONG-TERM DEPOSITS

Long-term deposits balance as of December 31, 2022 and 2023 is denominated in RMB, amounted to RMB30,000 and nil respectively. The long - term deposits will mature on December 16, 2024 and therefore was classified as current assets on December 31, 2023.

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10. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consisted of the following:

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2023</u>
	<u>RMB</u>	<u>RMB</u>
Computers and equipment	266,085	294,558
Buildings	—	258,910
Construction in progress	166,480	—
Vehicle	759	2,161
Total	433,324	555,629
Less: accumulated depreciation	(196,892)	(212,644)
Property, plant and equipment, net	236,432	342,985

The Group had recorded depreciation expense of RMB55,124, RMB 80,161 and RMB46,971 for the years ended December 31, 2021, 2022 and 2023, respectively. No impairment was recorded for the years ended December 31, 2021, 2022 and 2023.

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:

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2023</u>
	<u>RMB</u>	<u>RMB</u>
Land use rights	63,618	63,618
Less: Accumulated amortization	(3,169)	(4,441)
Land use right, net	60,449	59,177

The total amortization expense for the year ended December 31, 2022 and 2023 amounted to approximately RMB1,273 and RMB1,272.

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12. ACCRUED EXPENSES AND OTHER LIABILITIES

	As of December 31,	
	2022	2023
	RMB	RMB
Accrued payroll and welfare	76,468	76,521
Freight payable	29,533	18,556
Deposit from suppliers	36,909	43,872
Installation fee payables	6,609	7,243
Product warranty	28,292	35,213
Marketing and promotion expenses	47,124	23,657
Payment for purchase of property	16,075	53,235
Other tax payable	3,474	1,572
Professional fee payables	4,265	6,866
Refund liabilities	2,656	948
Other current liabilities	65,685	47,297
Total	<u>317,090</u>	<u>314,980</u>
Less: non-current portion	<u>(8,245)</u>	<u>(12,766)</u>
Accrued expenses and other liabilities-current portion	<u>308,845</u>	<u>302,214</u>

Product warranty activities were as follows:

	Product Warranty
	RMB
Balance at December 31, 2021	28,796
Provided during the year	51,161
Utilized during the year	(51,665)
Balance at December 31, 2022	<u>28,292</u>
Provided during the year	63,767
Utilized during the year	(56,846)
Balance at December 31, 2023	<u>35,213</u>

13. REVENUE

	Year ended December 31,		
	2021	2022	2023
	RMB	RMB	RMB
Sales of products			
- IoT @ Home portfolio	3,400,966	1,619,941	1,220,852
- Home water solutions	742,912	681,054	604,012
- Consumables	367,021	358,442	314,372
- Small appliances and other products	708,260	494,943	298,410
Total of sales of products	<u>5,219,159</u>	<u>3,154,380</u>	<u>2,437,646</u>
Rendering of services	84,676	78,351	55,740
Total	<u>5,303,835</u>	<u>3,232,731</u>	<u>2,493,386</u>

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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, 2022 and 2023 are approximately RMB693,623 and RMB622,290, 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, 2022 and 2023.

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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 (loss) are as follows:

	Year ended December 31,		
	2021	2022	2023
	RMB	RMB	RMB
Current tax expenses	26,854	(4,470)	65
Deferred tax (benefit) expense	(21,115)	22,644	1,670
Income tax expenses	<u>5,739</u>	<u>18,174</u>	<u>1,735</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,		
	2021	2022	2023
	RMB	RMB	RMB
Income (loss) from operations in the PRC	89,126	(272,186)	(80,815)
Income (loss) from overseas entities	5,504	7,730	(6,783)
Income (loss) before income tax	94,630	(264,456)	(87,598)
Tax expense (benefit) at PRC enterprise income tax rate of 25%	23,658	(66,114)	(21,899)
Income tax on tax holiday ⁽¹⁾	(16,872)	6,310	(6,743)
Tax effect of permanent differences ⁽²⁾	(28,303)	(30,550)	(18,621)
Change in valuation allowance ⁽³⁾	22,153	107,603	46,724
Effect of share-based compensation	7,111	2,934	16
Effect of income tax in jurisdictions other than the PRC	(2,008)	(2,009)	2,258
Income tax expenses	<u>5,739</u>	<u>18,174</u>	<u>1,735</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, 2021, 2022 and 2023. Foshan Viomi applied for HNTE qualification renewal in 2022, and obtained approval in December 2022. It is entitled to enjoy the preferential tax rate of 15% as an HNTE for three years starting from 2022 and should apply for HNTE qualification renewal in 2025. Guangdong Lizi applied for HNTE qualification renewal in 2023. It is entitled to enjoy the preferential tax rate of 15% as an HNTE for three years starting from 2023 and should apply for HNTE qualification renewal in 2026. Yunmi Hulian applied for the HNTE qualification and obtained approval in December 2021. It is 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 is provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group considered factors including future taxable income exclusive of reversing temporary differences and tax loss carry forwards. Valuation allowance for the years ended December 31, 2021, 2022 and 2023 were provided for net operating loss carry forward of certain group entities which reported loss because it was more likely than not that such deferred tax assets would not be realized based on the Group's estimate of their future taxable income. If events occur in the future that allow the Group to realize more of its deferred income tax than the presently recorded amounts, an adjustment to the valuation allowances will result in a decrease in tax expense when those events occur.

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14. INCOME TAX EXPENSES (Continued)

Composition of income tax expense (Continued)

The per share effect of the tax holidays are as follows:

	Year ended December 31,		
	2021	2022	2023
	RMB	RMB	RMB
Net income per share effect – basic	0.02	0.06	0.01
Net income per share effect – diluted	0.02	0.06	0.01

Deferred tax assets

The significant components of the Group's deferred tax assets were as follows:

	As of December 31,	
	2022	2023
	RMB	RMB
Accrued expenses and others	21,935	22,219
Net operating loss carry forwards	151,463	193,865
Inventories write downs	1,040	3,397
Deferred income	86	97
Total deferred tax assets	174,524	219,578
Less: valuation allowance	(161,864)	(208,588)
Deferred tax assets, net	12,660	10,990

Movement of valuation allowance

	Year ended December 31,		
	2021	2022	2023
	RMB	RMB	RMB
Balance at beginning of the year	32,926	54,261	161,864
Provided	21,335	107,603	46,724
Balance at end of the year	54,261	161,864	208,588

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, 2022 and 2023, 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.

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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.

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.

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15. ORDINARY SHARES (Continued)

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.

During the year ended December 31, 2022, 956,256 Class A Ordinary Shares were issued for the exercised share options. In addition, 359,997 Class B Ordinary Shares were converted into Class A Ordinary Shares. Moreover, 2,293,569 Class A Ordinary Shares were repurchased by the Group.

As of December 31, 2022, the Company had 104,539,463 Class A Ordinary Shares and 102,854,550 Class B Ordinary Shares outstanding, respectively.

During the year ended December 31, 2023, 176,883 Class A Ordinary Shares were issued for the exercised share options. In addition, 90,000 Class B Ordinary Shares were converted into Class A Ordinary Shares. Moreover, 2,903,802 Class A Ordinary Shares were repurchased by the Group.

As of December 31, 2023, the Company had 101,902,544 Class A Ordinary Shares and 102,764,550 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,		
	2021	2022	2023
	RMB	RMB	RMB
Share-based compensation expenses			
—Share options ^(a)	47,405	19,560	106

(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, 2022, the maximum of shares that may be issued under the 2018 Share Incentive Plan was 26,008,171.

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 3,840,000 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.

For the year ended December 31, 2022, the Company granted 1,010,000 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.

For the year ended December 31, 2023, the Company didn't grante share options to employees pursuant to the 2018 Share Incentive Plan.

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 2022 and 2023 are summarized in the following table:

	As of December 31,	
	2022	2023
Risk-free interest rate	3.98 %	NA
Expected volatility	43.60 %	NA
Expected life of option (years)	10	NA
Expected dividend yield	—	NA
Fair value per ordinary share	US\$0.12	NA

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16. SHARE-BASED COMPENSATION (Continued)

(a) Share options (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.

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16. SHARE-BASED COMPENSATION (Continued)**(a) Share options (Continued)**

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.

A summary of the stock option activity under the 2015 Share Incentive Plan and 2018 Share Incentive Plan for the years ended December 31, 2021, 2022 and 2023 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, 2021	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
Granted	1,010,000	1.10	—	—
Forfeited	(2,537,466)	0.98	—	—
Exercised	(956,256)	0.44	—	—
Outstanding at December 31, 2022	19,742,616	0.81	6.49	22,974
Granted	—	—	—	—
Forfeited	(5,047,307)	0.78	—	—
Exercised	(176,883)	0.03	—	—
Outstanding at December 31, 2023	14,518,426	0.83	5.58	15,552,713
Exercisable as of December 31, 2023	10,480,426	0.72	4.96	12,576,573
Expected to vest as of December 31, 2023	3,634,200	1.10	7.17	2,678,526

The weighted average grant date fair value of options granted for the years ended December 31, 2022 and 2023 was RMB7.66 (US\$1.1) and nil per option, respectively.

As of December 31, 2022 and 2023, there was RMB21,025 and RMB5,454 of unrecognized compensation expenses related to the options, respectively.

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16. SHARE-BASED COMPENSATION (Continued)**(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, 2023, 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 ASC718.

17. NET INCOME (LOSS) PER SHARE

Basic net income (loss) 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 (loss) 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,		
	2021 RMB	2022 RMB	2023 RMB
Numerator:			
Numerator for basic calculation - Net income (loss) attributable to ordinary shareholders of the Company	88,605	(275,515)	(84,674)
Denominator:			
Denominator for basic calculation - weighted average ordinary shares outstanding	209,551,821	208,341,011	206,360,586
Dilutive effect of share options	11,184,176	—	—
Denominator for diluted calculation	<u>220,735,997</u>	<u>208,341,011</u>	<u>206,360,586</u>
Basic net income (loss) per ordinary share	0.42	(1.32)	(0.41)
Diluted net income (loss) per ordinary share	0.40	(1.32)	(0.41)

18. RELATED PARTY TRANSACTIONS

<u>Name</u>	<u>Relationship with the Group</u>
Mr. Chen	Founder
Xiaomi	Shareholder of the Group

The Group's relationship with Xiaomi

Xiaomi is the Group's strategic partner and shareholder.

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18. RELATED PARTY TRANSACTIONS (Continued)

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 Xiaomiyoupin.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 2023 with Xiaomi governs all the Group's sales to Xiaomi. It will expire in March 2025.

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.

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 it has become non-fixed-term agreement since then. 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, 2021, 2022 and 2023.

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18. RELATED PARTY TRANSACTIONS (Continued)

(1) *Amount due from/to related parties*

	As of December 31,	
	2022	2023
	RMB	RMB
Accounts receivable from a related party:		
Xiaomi ^(a)	360,497	324,223
Other receivables from related parties:		
Sales receivable from Xiaomi ^(b)	24,802	—
Other receivables from Xiaomi	219	218
Others	—	6
Total	25,021	224
Amounts due to related parties:		
Purchase and other payable to Xiaomi ^(a)	7,245	8,216
Research and development expenses payable to Xiaomi	221	249
Selling and marketing expenses payable to Xiaomi ^(c)	4,082	10,003
Total	11,548	18,468

(2) *Purchase from related parties*

	Year ended December 31,		
	2021	2022	2023
	RMB	RMB	RMB
Xiaomi ^(a)	33,767	30,941	26,341

(3) *Revenue from a related party*

	Year ended December 31,		
	2021	2022	2023
	RMB	RMB	RMB
Xiaomi ^(a)	2,295,569	1,403,354	1,317,314

(4) *Research and development expenses*

	Year ended December 31,		
	2021	2022	2023
	RMB	RMB	RMB
Xiaomi ^(a)	3,484	2,791	716

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18. RELATED PARTY TRANSACTIONS (Continued)

(5) *Selling and marketing expenses*

	Year ended December 31,		
	2021	2022	2023
	RMB	RMB	RMB
Commission expenses charged by Xiaomi ^(b)	82,617	32,795	31,389
Other expenses charged by Xiaomi ^(b)	24,312	8,789	3,757
Total	106,929	41,584	35,146

- (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 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, 2022 and 2023 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, 2022 and 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of December 31, 2023				
Short-term investments (i)	—	70,369	—	70,369
As of December 31, 2022				
Short-term investments (i)	—	197,058	—	197,058

(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 and facilities. At December 31, 2023, The Group's operating leases had a weighted average discount rate of 4.75% and a weighted-average remaining term of 2.2 years.

The components of lease expense were as follows:

	<u>Year ended December 31,</u>	
	<u>2022</u>	<u>2023</u>
	<u>RMB</u>	<u>RMB</u>
Lease cost		
Operating lease expense	11,506	7,392
Short-term lease expense (i)	312	26
Total lease cost	<u>11,818</u>	<u>7,418</u>

(i) Includes leases with a term of one year or less.

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20. LEASES (Continued)

Supplemental cash flow information for leases was as follows:

	Year ended December 31,	
	2022	2023
	RMB	RMB
Operating cash flows relating to operating leases	7,818	7,376
Lease liabilities arising from obtaining right-of-use assets	6,080	1,629

As of December 31, 2023, the aggregate future minimum rental payments under non-cancelable agreement were as follows:

	Rental
	RMB
2024	3,738
2025	1,942
2026 and after	999
Total future minimum rental payment	6,679
Less amount representing imputed interest	(1,556)
Present value of future minimum rental payments	5,123
Less current portion, recorded in other current liabilities	(2,410)
Long-term lease liabilities, recorded in other long-term liabilities	2,713

21. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The operating commitments 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. As of December 31, 2023, there were no future minimum commitments under non-cancelable agreements.

(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:

	As of December 31,	
	2022	2023
	RMB	RMB
Property, plant and equipment	89,029	42,185

(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.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021, 2022 AND 2023
(Amounts in thousands, except shares, ADS, per share and per ADS data)

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 amounted to RMB115,751 and RMB110,705 as of December 31, 2022 and 2023. 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, 2023, 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, 2023 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 and their subsidiaries to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency denominated obligation.

**AMENDMENT NO. 1
TO
VIOMI TECHNOLOGY CO., LTD
SHARE INCENTIVE PLAN**

This Amendment (“**Amendment**”), dated as of October 18, 2023, is made by Viomi Technology Co., Ltd (the “**Company**”) to the Viomi Technology Co., Ltd Share Incentive Plan adopted by the Company in September 2015 (the “**Plan**”).

WHEREAS, the Company maintains the Plan to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons;

WHEREAS, pursuant to Section 7.7.1 of the Plan, the board of directors of the Company may amend any provision of the Plan at any time; and

WHEREAS, the Company desires to amend the term of the Plan and maximum term of an Award (as defined in the Plan) under the Plan.

NOW, THEREFORE, the Company hereby amends the Plan as follows:

1. Amendment to Section 2.2(f). Section 2.2(f) of the Plan shall, as of the date of this Amendment, be amended by deleting it in its entirety and replacing it with the following new Section 2.2(f):

(f) accelerate or extend the vesting or exercisability or extend the term of any or all outstanding Awards (within the maximum twenty-year term of Awards under Sections 5.4.2 and 6.5 or the maximum ten-year term with respect to any Incentive Stock Option or Nonqualified Option held by a U.S. resident) in such circumstances as the Administrator may deem appropriate (including, without limitation, in connection with a termination of employment or services or other events of a personal nature)

2. Amendment to Section 5.4.2. Section 5.4.2 of the Plan shall, as of the date of this Amendment, be amended by deleting it in its entirety and replacing it with the following new Section 5.4.2:

5.4.2 Term. Each Option shall expire not more than 20 years after its date of grant; provided that any Option that is an Incentive Stock Option shall expire not more than 10 years after its date of grant. Each Option will be subject to earlier termination as provided in or pursuant to Sections 5.6 and 7.3 or the terms of the applicable Award Agreement.

3. Amendment to Section 6.5. Section 6.5 of the Plan shall, as of the date of this Amendment, be amended by deleting it in its entirety and replacing it with the following new Section 6.5:

6.5 Term. A Share Award shall either vest or be repurchased by the Company as provided in Section 6.8 not more than 20 years after the date of grant. Each Share Award will be subject to earlier termination as provided in or pursuant to Sections 6.8 and 7.3.

Any payment of cash or delivery of shares in payment for a Share Award may be delayed until a future date if specifically authorized by the Administrator in writing and by the Participant.

4. Amendment to Section 7.11. Section 7.11 of the Plan shall, as of the date of this Amendment, be amended by deleting it in its entirety and replacing it with the following new Section 7.11:

7.11 Term of the Plan. Unless earlier terminated by the Board, this Plan will terminate at the close of business on the day before the 20th anniversary of the Effective Date. No Incentive Stock Options may be made pursuant to this Plan after the tenth anniversary of the Effective Date was ratified by the shareholders of the Company. After the termination of this Plan either upon such stated expiration date or its earlier termination by the Board, no additional Awards may be granted under this Plan, but previously granted Awards (and the authority of the Administrator with respect thereto, including the authority to amend such Awards) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of this Plan.

5. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of State of California.
6. Incorporation. This Amendment shall be and is hereby incorporated in and forms a part of the Plan.
7. Ratification. All other provisions of the Plan remain unchanged and are hereby ratified by the Company.

[Signature Page follows]

IN WITNESS WHEREOF, the Company hereto has executed this Amendment as of the day and year first set forth above.

VIOMI TECHNOLOGY CO., LTD

By: /s/ Xiaoping Chen

Name: Xiaoping Chen

Title: Chairman of the Board of Directors and Chief
Executive Officer

**AMENDMENT NO. 1
TO
VIOMI TECHNOLOGY CO., LTD
2018 SHARE INCENTIVE PLAN**

This Amendment (“**Amendment**”), dated as of October 18, 2023, is made by Viomi Technology Co., Ltd (the “**Company**”) to the Viomi Technology Co., Ltd 2018 Share Incentive Plan adopted by the Company in June 2018 (the “**Plan**”).

WHEREAS, the Company maintains the Plan to promote the success and enhance the value of the Company by providing incentives to certain directors, employees and consultants;

WHEREAS, pursuant to Section 12.1 of the Plan, the board of directors of the Company may amend any provision of the Plan at any time; and

WHEREAS, the Company desires to amend the term of the Plan and the maximum term of an Option (as defined in the Plan) under the Plan and make certain other relevant amendments to the Plan.

NOW, THEREFORE, the Company hereby amends the Plan as follows:

1. Amendment to Section 3.1(a). Section 3.1(a) of the Plan shall, as of the date of this Amendment, be amended by deleting it in its entirety and replacing it with the following new Section 3.1(a):
 - (a) Subject to the provisions of Article 9 and Section 3.1(b), 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 during the term of this Plan commencing with the first fiscal year beginning January 1, 2019, 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. The maximum number of Shares which may be issued upon the exercise of Incentive Share Options granted under the Plan is 17,672,728.
 2. Amendment to Section 5.1(b). Section 5.1(b) of the Plan shall, as of the date of this Amendment, be amended by deleting it in its entirety and replacing it with the following new Section 5.1(b):
 - (b) Time and Conditions of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part, including exercise prior to vesting; provided that the term of any Option granted under the Plan shall not exceed twenty years (or ten years with respect to an Incentive Share Option), except as provided in Section 12.1. The Committee shall also determine any conditions, if any, that must be satisfied before all or part of an Option may be exercised.
-

3. Amendment to Section 5.2(d). Section 5.2(d) of the Plan shall, as of the date of this Amendment, be amended by deleting it in its entirety and replacing it with the following new Section 5.2(d):

(d) Expiration of Incentive Share Options. No Award of an Incentive Share Option may be made pursuant to this Plan after the tenth anniversary of the Effective Date was ratified by the shareholders of the Company.

4. Amendment to Section 11.2. Section 11.2 of the Plan shall, as of the date of this Amendment, be amended by deleting it in its entirety and replacing it with the following new Section 11.2:

11.2 Expiration Date. The Plan will expire on, and no Award may be granted pursuant to the Plan after, the twentieth anniversary of the Effective Date. No Incentive Share Options may be made pursuant to this Plan after the tenth anniversary of the Effective Date was ratified by the shareholders of the Company. Any Awards that are outstanding on the twentieth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the applicable Award Agreement.

5. Amendment to Section 12.1. Section 12.1 of the Plan shall, as of the date of this Amendment, be amended by deleting it in its entirety and replacing it with the following new Section 12.1:

12.1 Amendment, Modification, and Termination. At any time and from time to time, the Board may terminate, amend or modify the Plan; provided, however, that to the extent necessary to comply with Applicable Laws or stock exchange rules, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

6. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the Cayman Islands.

7. Incorporation. This Amendment shall be and is hereby incorporated in and forms a part of the Plan.

8. Ratification. All other provisions of the Plan remain unchanged and are hereby ratified by the Company.

[Signature Page follows]

IN WITNESS WHEREOF, the Company hereto has executed this Amendment as of the day and year first set forth above.

VIOMI TECHNOLOGY CO., LTD

By: /s/ Xiaoping Chen

Name: Xiaoping Chen

Title: Chairman of the Board of Directors and Chief
Executive Officer

Business Cooperation Agreement

Party A: Xiaomi Communications Co., Ltd.
Legal representative: Chuan WANG
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: Xiaoping CHEN
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.: ***

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 both parties' 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, storage, use, process, transmit, provide, public and delete etc. 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:

$$\text{Mold amortization expense of each product} = \text{total mold expenses} / \text{amortization amount}^*$$

*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.

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 Business dividend mode

Party B's dividends= 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 Dividend amount: Party A will finish the shipment and dividend 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 dividend 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, storage, use, process, transmit, provide, public and delete user data according to the

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.

6.16 Party B undertakes that Party B may carry out marketing and publicity for Xiaomi customized products, and the publicity methods include, but are not limited to: Party B utilizes its own marketing resources and channels to carry out marketing and publicity for Xiaomi customized products; (2) Party B carries out joint product publicity with Party A, creates the products together, and utilizes Party A's marketing resources or Party A's designated marketing resources to carry out product publicity. Upon consultation between the two parties, no matter what kind of publicity, if Party A pays the publicity supplier on behalf of Party B in advance, Party A shall submit the budget of product marketing expenses according to the publicity project to Party B for confirmation before confirming the product marketing expenses with the publicity supplier. After both parties confirm the actual occurrence of the product marketing fee, the product marketing fee that Party A has paid on behalf of Party B can be deducted from the purchase money or share of money that Party A should pay to Party B as agreed in this Agreement.

6.17 Party B shall not maliciously denigrate Xiaomi's customized products, publish unreasonable and malicious comparative advertisements between its own branded products and Xiaomi's customized products, and other unfair competition behaviors, thus affecting the sales of Xiaomi's customized products and influencing Xiaomi's brand, in the marketing or sales of Party B's own branded products. If Party B violates this Agreement, Party A has the right to demand Party B to pay not less than RMB 500,000 in liquidated damages according to the specific circumstances of the violation.

6.18 If Party B is authorized by Party A to use Party A's brand for new media account registration, the ownership, use, operation and other related rights of such new media account shall belong to Party A. Party A may authorize Party B to operate and manage Party A's new media account on its behalf. For the definition of "Party A's brand", please refer to Article 1(1)(2) of the Appendix *Brand Protection Rider*. The scope of "new media account" in this article includes Party B's existing accounts registered with Party A's brand and subsequent accounts authorized by Party A to operate Party A's brand.

6.19 Party B operates and manages Party A's new media account on behalf of Party B. Party B shall comply with the following agreements:

6.19.1 The content of Party B's operation of Party A's new media account shall be reported to Party A in advance in accordance with Party A's requirements and confirmed by Party A before release.

6.19.2 Operational content published by Party B:

- (1) Do not publish content that is not related to Party A's main body, Party A's business, or Party A's branded products by rubbing hot spots, rubbing traffic, or in any other way;
- (2) Must comply with national laws, regulations, and policy requirements, and must not publish content related to the military, politics, pornography, or violence;
- (3) Do not publish content that violates public order and morals;
- (4) Do not publish content that falsely advertises Party A's products;
- (5) Shall not release new product information in advance without Party A's written confirmation;
- (6) Shall not use Party A's corporate management, Party A's celebrity spokespersons and other video clips, such as the need to use, before release must be confirmed with Party A in writing;
- (7) Shall not violate the intellectual property rights of others.

6.19.3 If Party B fails to report to Party A in accordance with Article 6.19.1 and confirmed by Party A, and if the content operated by Party B appears to be prohibited by Article 6.19.2, Party A shall have the right to demand Party

B to pay RMB 500,000 of liquidated damages for each breach by Party B according to the specific circumstances of the breach.

6.19.4 Party A may, according to the business development or based on Party B's breach of contract, notify Party B in writing to unconditionally withdraw the account authority of Party A operated by Party B on behalf of Party A without Party B's consent. Party B shall complete the handover of account operation within 5 working days from the date of receipt of Party A's written notice. Party B's refusal of handover or delayed handover is regarded as breach of contract, and from the 6th day onwards, Party A has the right to request Party B to voluntarily compensate Party A with a daily penalty of RMB 10,000 yuan in addition to the penalty agreed in 6.19.3 above, and the total amount of the accumulated penalty will not be subject to any upper limit.

6.19.5 Party B shall be responsible for the infringement liability and policy risk liability based on Party B's operation and management of the new media account on behalf of Party B. If Party B causes any loss to Party A, Party A shall have the right to recover from Party B.

6.20 If the customized products provided by Party B to Party A contain hardware and software (including but not limited to standalone APP, driver, application programs, etc.) developed by Party B to assist in the better use of the customized products, Party B shall be responsible for the development of the hardware and software, the effective maintenance of the normal operation of the software, the improvement of the software's privacy and compliance, and Party B shall retain the interface documents, requirement documents, user interface (UI) documents, user experience (UE) documents and other relevant technical documents of the hardware and software. If Party B proposes to Party A to terminate the cooperation or both parties negotiate the termination of cooperation, Party B may terminate the maintenance of the corresponding hardware or software with Party A's written consent if Party A's products do not have active or new users within 90 days before the termination of the cooperation, as confirmed by both parties. If there are still active or new users of Party A's products within 90 days before the termination of cooperation between the two parties, Party B shall formulate the maintenance and handover program for the subsequent hardware or software, and Party B shall terminate the maintenance of the software with Party A's written consent. If Party B faces bankruptcy, business adjustment or other force majeure and other factors lead to unable to continue to undertake the maintenance of hardware and software, after-sales work, Party B needs to notify Party A in writing three months in advance to do a good job of firmware and software handover. If Party B violates this treaty, Party A has the right to request Party B to bear liquidated damages of not less than RMB 1 million according to the specific circumstances of violation.

6.21 All cloud services used by Party B for Party A's customized products shall be deployed and run on Party A's servers. If Party B needs to develop or provide services for Party A's customized products through external functional interfaces and SDKs, such interfaces and SDKs shall be evaluated and agreed to by Party A in writing before they can be used. Without Party A's written permission, Party B shall not use any data and data products obtained from Party A for its own use or transmit, provide or disclose them to any other third party. If Party B's above development or service work can be entrusted to a third party with Party A's consent, Party B's supplier shall comply with the relevant security requirements for the use of Party A's cloud services and shall not take advantage of Party A's authorization and convenience and the unpredictable loopholes in Party A's system to infiltrate, obtain or transfer data or carry out any act that endangers the security of Party A and Party A's data. If Party B violates this agreement, Party A has the right to require Party B to pay liquidated damages of not less than RMB 1,000,000 according to the specific breach of contract and has the right to pursue Party B for the corresponding legal responsibility.

Article 7: Open Source Software

7.1 In principle, Party B shall not include or embed any open source software, free software, freeware, or third-party materials that are subject to the license terms of any open source software, free software, or freeware (collectively, "Open Source Software") in the Contractual Products, in particular code that uses infectious open source licenses, which include but are not limited to GPL-type licenses such as LGPL/MPL/GPL/AGPL. Licenses include, but are not limited to, GPL-type licenses such as LGPL/MPL/GPL/AGPL.

7.2 Under conditions if Party A determines that use is necessary, Party B shall, subject to the following (1)-(4): (1) Party B has provided Party A with a written bill of materials in which it clearly identifies that specific elements of the Developed Products and/or the Technical Results contain Open Source Software; and (2) Party B has clearly identified in the written bill of materials the applicable third-party licenses for the Open Source Software and any restrictions on use; and (3) Party B has taken technical measures to isolate the code delivered by Party B so that it will not infect Party A's code; and (4) Party A agrees in writing to allow you to use the Open Source Software. (2) you have clearly identified in such written list the applicable third-party license and any restrictions on use of such open source software; and (3) you have taken technical means to isolate the code delivered by you so that it does not infect our code; and (4) you are permitted to use the open source software with our written consent.

7.3 Party B may use the Open Source Software only if Party B have satisfied clause 7.2 and have undertaken and warranted to comply and will continue to comply with the terms and conditions of the licenses applicable to the Open Source Software included in or embedded in the Contract Products. If Party A do not agree to use the Open Source Software, Party B shall replace the Open Source Software and warrant that the quality and performance of the Contractual Products will not be affected in any way.

7.4 If Party B fails to perform or does not fully perform the above obligations or fails to meet any of the requirements of the Open Source Software License, Party B shall be responsible for dealing with and indemnifying Party A and Party A's Affiliates for all costs and losses incurred as a result of such failure, including, but not limited to, litigation costs, arbitration costs, attorney's fees, liquidated damages, and settlement payments.

Article 8: Intellectual Property

8.1 Authorization of Party B's trademark and copyright

8.1.1 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 Protection Rider* in this agreement.

8.1.2 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.

8.2 Unless otherwise agreed by both parties, if the customized software developed by Party B for Party A needs to be online on the platform of each partner, the signature right belongs to Party A and the software will be released in Party A's name. The software copyright is applied by Party A. If Party B is required to apply for it due to special circumstances, Party B shall apply for it only after Party A's consent.

8.3 Party B shall deliver to Party A all the source code of the service side and plug-in side of the product, and the source code of the device side shall be held by Party B itself (not delivered to Party A). However, if Party B agrees in advance, or if Party B fails to provide fault repair and upgrade services to Party A within the agreed period due to Party B's own reasons, Party B shall deliver the corresponding source code of the device side to Party A. At the same time, if Party B needs to purchase three-party services or code base from a third-party supplier in order to complete the service content of this Agreement, Party B shall authorize and agree that all the products under this Agreement can be used by Party A free of charge. Party A has the right to use the source code delivered by Party B by itself (the scope of use is limited to all products under this Agreement), but Party A shall not provide the source code delivered by Party B to unrelated third parties.

Article 9: 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 10: Default Liabilities and Contract Termination

10.1 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. If Party B or its affiliates have any amount due to Party A (including but not limited to fees, penalties, liquidated damages, etc. payable by Party B), Party A and Party A's affiliates shall have the right to freeze the corresponding amount from any of Party B's or Party B's affiliate's payable amount to the fullest extent permitted by the law or to directly and arbitrarily set off the amount thereof.

10.2 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, stored, used, proceeded, transmitted, provided, published, deleted, etc. 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).

10.3 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 without reasonable causes and 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 Xiaomi Ecosystem Cloud or other 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 11: 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 12: 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 13: Integrity Terms

Party B promises that Party B and Party B's personnel shall not engage in any commercial bribery in business activities related to Party A. Party B shall not engage in any conflict of interests behavior in business activities with Party A without Party A's permission. If Party A reasonably judges that Party B may have violated this Agreement in its business activities with Party A based on third-party reports and Party B's operation, Party A has the right to conduct audits and investigations on Party B in respect of the relevant business activities, and Party B shall cooperate with Party A's audits and investigations and request Party B to bear the responsibility for the violation of the Agreement. Other specific relevant agreements are subject to the Business Integrity Agreement attached to this Agreement.

Article 14: Force majeure

14.1 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.

14.2 In case the performance cannot be continued, Party A has the right to terminate this agreement and specific order unilaterally.

Article 15: Scope of validity

15.1 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 March 22, 2023 to March 21, 2025.

15.2 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.

15.3 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. If both parties have agreed to confirm the change of purchase plan, purchase quantity, after-sale processing and other types of specifications, rules and plans by email, Party A may request Party B to confirm the content of the email within the agreed time, if Party B has any objection to the content of the above email, it should be raised within three working days after receiving Party A's email notification (except for other agreements), and then Party A and Party B shall consult together, and if Party A and Party B cannot reach a consensus, either party shall have the right to terminate this Agreement. If the negotiation between Party A and Party B fails to reach a consensus, either party has the right to terminate this Agreement. If Party B does not raise any objection within the aforesaid period, it is deemed that Party B agrees to follow the above e-mail from Party A.

15.4 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.

15.5 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.

15.6 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 16: Dispute resolution

16.1 Any dispute, controversy, claim arising out of this Agreement or matters related to this Agreement shall be settled by amicable negotiation between the parties, and if it cannot be settled by negotiation, it shall be submitted to the China International Economic and Trade Arbitration Commission (CIETAC) for arbitration in Beijing in accordance with its rules currently in force. The award of such arbitration commission shall be final and binding on both parties.

Unless otherwise agreed by the parties, the language of arbitration shall be Chinese.”

16.2 The losing party will bear the costs of the arbitration unless otherwise decided by such arbitration committee.

16.3 In the event of arbitration, neither party shall suspend, refuse, or delay performance of other portions of this contract not affected by the arbitration.

Article 17: Supplementary provisions of the contract

17.1 Contract change: All contract changes (including supplementation and revision) may be valid after being

effectively signed by both parties.

17.2 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 Protection Rider, Framework Agreement of International After-sales Service for Customized Products of Xiaomi Ecological Chain, Product Change (PCN) Agreement and Business Integrity 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.

17.3 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.

17.4 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.

17.5 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.

17.6 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: ***

17.7 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.

17.8 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.

(There is no text below and it is the signature page)

Xiaomi Communications Co., Ltd. (Seal)
(Seal of Xiaomi Communications Co., Ltd. affixed)

Foshan Yunmi Electric Appliances Technology Co., Ltd. (Seal)
(Seal of Foshan Yunmi Electric Appliances Technology Co., Ltd. affixed)

Signature of authorized representative: /s/ Xiaomi Communications Co., Ltd.

May 6, 2023

Signature of authorized representative: /s/ Yuexian SHEN

May 6, 2023

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 Protection Riders*

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: *Framework Agreement of International After-sales Service for Customized Products of Xiaomi Ecological Chain*

Appendix 10: *Product Change (PCN) Agreement*

Appendix 11: *Business Integrity 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 25, 2024

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 25, 2024

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, 2023 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 25, 2024

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, 2023 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 25, 2024

By: /s/ Xiaoping Chen

Name: Xiaoping Chen

Title: Chief Executive Officer (Principal Financial Officer)

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www.hankunlaw.com

HANKUN
汉坤律师事务所
Han Kun Law Offices

April 25, 2024

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, 2023 (the “**Annual Report**”), which will be filed with the Securities and Exchange Commission (the “**SEC**”) in the month of April 2024. 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

CONFIDENTIALITY. This document contains confidential information which may be protected by privilege from disclosure. Unless you are the intended or authorised recipient, you shall not copy, print, use or distribute it or any part thereof or carry out any act pursuant thereto and shall advise Han Kun Law Offices immediately by telephone, e-mail or facsimile and return it promptly by mail. Thank you.

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 25, 2024 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 25, 2024

VIOMI TECHNOLOGY CO., LTD

CLAWBACK POLICY

The Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of Viomi Technology Co., Ltd (the “Company”) believes that it is appropriate for the Company to adopt this Clawback Policy (the “Policy”) to be applied to the Executive Officers of the Company and adopts this Policy to be effective as of the Effective Date.

1. Definitions

For purposes of this Policy, the following definitions shall apply:

- a) “Group” means the Company and each of its subsidiaries and consolidated affiliated entities, as applicable.
 - b) “Covered Compensation” means any Incentive-Based Compensation granted, vested or paid to a person who served as an Executive Officer at any time during the performance period for the Incentive-Based Compensation and that was Received (i) on or after October 2, 2023 (the effective date of the Nasdaq listing standards) , (ii) after the person became an Executive Officer, and (iii) at a time that the Company had a class of securities listed on a national securities exchange or a national securities association such as Nasdaq.
 - c) “Effective Date” means October 18, 2023.
 - d) “Erroneously Awarded Compensation” means the amount of Covered Compensation granted, vested or paid to a person during the fiscal period when the applicable Financial Reporting Measure relating to such Covered Compensation was attained that exceeds the amount of Covered Compensation that otherwise would have been granted, vested or paid to the person had such amount been determined based on the applicable Restatement, computed without regard to any taxes paid (i.e., on a pre-tax basis). For Covered Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in a Restatement, the Committee will determine the amount of such Covered Compensation that constitutes Erroneously Awarded Compensation, if any, based on a reasonable estimate of the effect of the Restatement on the stock price or total shareholder return upon which the Covered Compensation was granted, vested or paid and the Committee shall maintain documentation of such determination and provide such documentation to Nasdaq.
 - e) “Exchange Act” means the U.S. Securities Exchange Act of 1934.
 - f) “Executive Officer” means the Company’s president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person (whether or not an officer or employee of the Company) who performs similar policy-making functions for the Company. “Policy-making function” does not
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include policy-making functions that are not significant. Both current and former Executive Officers are subject to the Policy in accordance with its terms.

- g) “Financial Reporting Measure” means (i) any measure that is determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures derived wholly or in part from such measures and may consist of IFRS/U.S. GAAP or non-IFRS/non-U.S. GAAP financial measures (as defined under Regulation G of the Exchange Act and Item 10 of Regulation S-K under the Exchange Act), (ii) stock price or (iii) total shareholder return. Financial Reporting Measures need not be presented within the Company’s financial statements or included in a filing with the SEC.
 - h) “Home Country” means the Company’s jurisdiction of incorporation, i.e., the Cayman Islands.
 - i) “Incentive-Based Compensation” means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.
 - j) “Lookback Period” means the three completed fiscal years (plus any transition period of less than nine months that is within or immediately following the three completed fiscal years and that results from a change in the Company’s fiscal year) immediately preceding the date on which the Company is required to prepare a Restatement for a given reporting period, with such date being the earlier of: (i) the date the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare a Restatement, or (ii) the date a court, regulator or other legally authorized body directs the Company to prepare a Restatement. Recovery of any Erroneously Awarded Compensation under the Policy is not dependent on whether or when the Restatement is actually filed.
 - k) “Nasdaq” means the Nasdaq Stock Market.
 - l) “Received”: Incentive-Based Compensation is deemed “Received” in the Company’s fiscal period during which the Financial Reporting Measure specified in or otherwise relating to the Incentive-Based Compensation award is attained, even if the grant, vesting or payment of the Incentive-Based Compensation occurs after the end of that period.
 - m) “Restatement” means a required accounting restatement of any Company financial statement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including (i) to correct an error in previously issued financial statements that is material to the previously issued financial statements (commonly referred to as a “Big R” restatement) or (ii) to correct an error in previously issued financial statements that is not material to the previously issued financial statements but that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (commonly referred to as a “little r” restatement). Changes to the Company’s financial statements that do not represent error corrections under the then-current relevant accounting standards will not constitute Restatements. Recovery of any Erroneously Awarded Compensation under the Policy is not dependent on fraud or misconduct by any person in connection with the Restatement.
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n) "SEC" means the U.S. Securities and Exchange Commission.

2. Recovery of Erroneously Awarded Compensation

In the event of a Restatement, any Erroneously Awarded Compensation Received during the Lookback Period prior to the Restatement (a) that is then-outstanding but has not yet been paid shall be automatically and immediately forfeited and (b) that has been paid to any person shall be subject to reasonably prompt repayment to the Group in accordance with Section 3 of this Policy. The Committee must pursue (and shall not have the discretion to waive) the forfeiture and/or repayment of such Erroneously Awarded Compensation in accordance with Section 3 of this Policy, except as provided below.

Notwithstanding the foregoing, the Committee (or, if the Committee is not a committee of the Board responsible for the Company's executive compensation decisions and composed entirely of independent directors, a majority of the independent directors serving on the Board) may determine not to pursue the forfeiture and/or recovery of Erroneously Awarded Compensation from any person if the Committee determines that such forfeiture and/or recovery would be impracticable due to any of the following circumstances: (i) the direct expense paid to a third party (for example, reasonable legal expenses and consulting fees) to assist in enforcing the Policy would exceed the amount to be recovered, including the costs that could be incurred if pursuing such recovery would violate local laws other than the Company's Home Country laws (following reasonable attempts by the Group to recover such Erroneously Awarded Compensation, the documentation of such attempts, and the provision of such documentation to Nasdaq), (ii) pursuing such recovery would violate the Company's Home Country laws adopted prior to November 28, 2022 (provided that the Company obtains an opinion of Home Country counsel acceptable to Nasdaq that recovery would result in such a violation and provides such opinion to Nasdaq), or (iii) recovery would likely cause any otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Group, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

3. Means of Repayment

In the event that the Committee determines that any person shall repay any Erroneously Awarded Compensation, the Committee shall provide written notice to such person by email or certified mail to the physical address on file with the Group for such person, and the person shall satisfy such repayment in a manner and on such terms as required by the Committee, and the Group shall be entitled to set off the repayment amount against any amount owed to the person by the Group, to require the forfeiture of any award granted by the Group to the person, or to take any and all necessary actions to reasonably promptly recover the repayment amount from the person, in each case, to the fullest extent permitted under applicable law, including without limitation, Section 409A of the U.S. Internal Revenue Code and the regulations and guidance thereunder. If the Committee does not specify a repayment timing in the written notice described above, the applicable person shall be required to repay the Erroneously Awarded Compensation to the Group by wire, cash, cashier's check or other means as agreed by the Committee no later than thirty (30) days after receipt of such notice.

4. No Indemnification

No person shall be indemnified, insured or reimbursed by the Group in respect of any loss of compensation by such person in accordance with this Policy, nor shall any person receive any advancement of expenses for disputes related to any loss of compensation by such person in accordance with this Policy, and no person shall be paid or reimbursed by the Group for any premiums paid by such person for any third-party insurance policy covering potential recovery obligations under this Policy. For this purpose, “indemnification” includes any modification to current compensation arrangements or other means that would amount to *de facto* indemnification (for example, providing the person a new cash award which would be cancelled to effect the recovery of any Erroneously Awarded Compensation). In no event shall the Group be required to award any person an additional payment if any Restatement would result in a higher incentive compensation payment.

5. Miscellaneous

This Policy generally will be administered and interpreted by the Committee, provided that the Board may, from time to time, exercise discretion to administer and interpret this Policy, in which case, all references herein to “Committee” shall be deemed to refer to the Board. Any determination by the Committee with respect to this Policy shall be final, conclusive and binding on all interested parties. Any discretionary determinations of the Committee under this Policy, if any, need not be uniform with respect to all persons, and may be made selectively amongst persons, whether or not such persons are similarly situated.

This Policy is intended to satisfy the requirements of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, as it may be amended from time to time, and any related rules or regulations promulgated by the SEC or the Nasdaq, including any additional or new requirements that become effective after the Effective Date which upon effectiveness shall be deemed to automatically amend this Policy to the extent necessary to comply with such additional or new requirements.

The provisions in this Policy are intended to be applied to the fullest extent of the law. To the extent that any provision of this Policy is found to be unenforceable or invalid under any applicable law, such provision will be applied to the maximum extent permitted and shall automatically be deemed amended in a manner consistent with its objectives to the extent necessary to conform to applicable law. The invalidity or unenforceability of any provision of this Policy shall not affect the validity or enforceability of any other provision of this Policy. Recovery of Erroneously Awarded Compensation under this Policy is not dependent upon the Group satisfying any conditions in this Policy, including any requirements to provide applicable documentation to the Nasdaq.

The rights of the Group under this Policy to seek forfeiture or reimbursement are in addition to, and not in lieu of, any rights of recovery, or remedies or rights other than recovery, that may be available to the Group pursuant to the terms of any law, government regulation or stock exchange listing requirement or any other policy, code of conduct, employee handbook, employment agreement, equity award agreement, or other plan or agreement of the Group.

6. Amendment and Termination

To the extent permitted by, and in a manner consistent with applicable law, including SEC and Nasdaq rules, the Committee may terminate, suspend or amend this Policy at any time in its discretion.

7. Successors

This Policy shall be binding and enforceable against all persons and their respective beneficiaries, heirs, executors, administrators or other legal representatives with respect to any Covered Compensation granted, vested or paid to or administered by such persons or entities.
