

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, 2020.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 001-38649

Viomi Technology Co., Ltd

(Exact Name of Registrant as Specified in Its Charter)

N/A

(Translation of Registrant's Name Into English)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

Wansheng Square, Rm 1302 Tower C, Xingang East Road, Haizhu District
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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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

Title of Each Class	Trading Symbol	Name of Each Exchange On Which Registered
American depository shares, each representing three Class A ordinary shares		The Nasdaq Stock Market LLC (The Nasdaq Global Select Market)
Class A ordinary shares, par value US\$0.00001 per share*	VIOT	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 depository 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, 2020, there were 207,718,232 ordinary shares issued and outstanding, being the sum of (i) 104,163,686 Class A ordinary shares, par value US\$0.00001 per share (excluding 11,503,698 Class A ordinary shares that were issued to our depository bank and reserved for future grants under our share incentive plans), and (ii) 103,554,546 Class B ordinary shares, par value US\$0.00001 per share.

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

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

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

TABLE OF CONTENTS

INTRODUCTION	1
FORWARD-LOOKING STATEMENTS	2
PART I	3
ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	3
ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE	3
ITEM 3. KEY INFORMATION	3
ITEM 4. INFORMATION ON THE COMPANY	35
ITEM 4A. UNRESOLVED STAFF COMMENTS	55
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	56
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	74
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	81
ITEM 8. FINANCIAL INFORMATION	83
ITEM 9. THE OFFER AND LISTING	84
ITEM 10. ADDITIONAL INFORMATION	84
ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	93
ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	93
PART II.	96
ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	96
ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	96
ITEM 15. CONTROLS AND PROCEDURES	96
ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT	97
ITEM 16B. CODE OF ETHICS	97
ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES	97
ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	98
ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	98
ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT	98
ITEM 16G. CORPORATE GOVERNANCE	98
ITEM 16H. MINE SAFETY DISCLOSURE	98
PART III.	99
ITEM 17. FINANCIAL STATEMENTS	99
ITEM 18. FINANCIAL STATEMENTS	99
ITEM 19. EXHIBITS	99

INTRODUCTION

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

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

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that relate to our current expectations and views of future events. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigations Reform Act of 1995.

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

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

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

A. Selected Financial Data

Our Selected Consolidated Financial Data

The following selected consolidated statements of operations and selected consolidated statements of cash flows data for the years ended December 31, 2018, 2019 and 2020 and selected consolidated balance sheets data as of December 31, 2019 and 2020 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. Our selected consolidated balance sheets data as of December 31, 2016, 2017 and 2018 and the selected consolidated statements of operations and selected consolidated statements of cash flows data for 2016 and 2017 have been derived from our audited consolidated financial statements not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate results expected for any future periods. You should read this Selected Consolidated Financial Data and Selected Operating Data section together with our consolidated financial statements and the related notes in conjunction with “Item 5. Operating and Financial Review and Prospects” below.

The following table presents our selected consolidated statements of comprehensive (loss) income data for the years ended December 31, 2016, 2017, 2018, 2019 and 2020.

	For the Year Ended December 31,					
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands, except for share and per share data)						
Selected Consolidated Statements of Comprehensive (Loss) Income Data:						
Net revenues⁽¹⁾	312,574	873,219	2,561,229	4,647,513	5,825,624	892,816
Cost of revenues	(232,544)	(598,036)	(1,843,432)	(3,565,109)	(4,742,668)	(726,846)
Gross profit	80,030	275,183	717,797	1,082,404	1,082,956	165,970
Operating expenses⁽²⁾:						
Research and development expenses ⁽²⁾	(29,926)	(60,749)	(124,230)	(204,942)	(265,680)	(40,717)
Selling and marketing expenses ⁽²⁾	(20,929)	(95,296)	(379,554)	(529,212)	(597,176)	(91,521)
General and administrative expenses ⁽²⁾	(14,386)	(15,818)	(135,532)	(73,061)	(68,914)	(10,562)
Total operating expenses	(65,241)	(171,863)	(639,316)	(807,215)	(931,770)	(142,800)
Other (expenses) income	(481)	2,236	1,829	35,880	32,795	5,026
Income from operations	14,308	105,556	80,310	311,069	183,981	28,196
Interest (expenses) income and short-term investment income	(296)	2,402	8,846	26,109	31,968	4,899
Income before income tax expenses	14,012	107,958	89,411	339,020	217,767	33,374
Income tax benefits (expenses)	2,247	(14,718)	(24,061)	(45,190)	(43,321)	(6,639)
Net income	16,259	93,240	65,350	293,830	174,446	26,735
Net income attributable to the Company	16,259	93,240	65,358	292,170	173,324	26,563
Net (loss) income attributable to ordinary shareholders of the Company	(3,453)	8,033	50,544	292,170	173,324	26,563
Net (loss) income per share attributable to ordinary shareholders of the Company:						
Net (loss) income per ordinary share—basic	(0.28)	0.39	0.70	1.40	0.83	0.13
Net (loss) income per ordinary share—diluted	(0.28)	0.31	0.64	1.35	0.80	0.12
Weighted average number of ordinary shares used in computing net (loss) income per share:						
Ordinary shares—basic	12,230,136	20,684,681	71,771,033	208,156,507	208,812,049	208,812,049
Ordinary shares—diluted	12,230,136	25,579,806	79,590,780	215,855,577	215,623,773	215,623,773

Notes:

- (1) Included RMB299.8 million, RMB739.5 million, RMB1,311.9 million, RMB2,112.2 million and RMB2,889.4 million (US\$442.8 million) from sales to Xiaomi for the year ended December 31, 2016, 2017, 2018, 2019 and 2020, respectively.
- (2) Share-based compensation expenses were allocated as follows:

	For the Year ended December 31,					US\$
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	
	(in thousands)					
General and administrative expenses	6,863	3,303	93,718	7,282	11,303	1,732
Research and development expenses	3,464	1,903	14,476	23,564	49,996	7,662
Selling and marketing expenses	251	615	8,417	12,322	10,904	1,671
Total	10,578	5,821	116,611	43,168	72,203	11,065

The following table presents our selected consolidated balance sheet data as of December 31, 2016, 2017, 2018, 2019 and 2020.

	As of December 31,					US\$
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	
	(in thousands)					
Selected Consolidated Balance Sheet Data:						
Current assets:						
Cash and cash equivalents	156,930	279,952	940,298	972,438	504,108	77,258
Amounts receivable from a related party, net	45,021	249,548	260,984	707,947	609,094	93,348
Short-term investments	—	—	168,993	316,201	696,051	106,674
Total current assets	276,166	665,431	1,902,728	2,907,615	2,931,899	449,334
Total assets	281,945	671,565	1,923,068	3,022,473	3,179,519	487,283
Total current liabilities	136,886	432,385	851,685	1,632,840	1,634,107	250,438
Total liabilities	136,886	432,845	852,203	1,648,026	1,649,200	252,751
Total mezzanine equity	423,999	407,928	—	—	—	—
Pre-IPO Class A ordinary shares	1	2	—	—	—	—
Class A ordinary shares	—	—	5	6	6	1
Class B ordinary shares	—	—	7	6	6	1
Total shareholders' (deficit) equity	(278,940)	(169,208)	1,070,865	1,374,447	1,530,319	234,532

The following table presents our selected consolidated cash flow data for the years ended December 31, 2016, 2017, 2018, 2019 and 2020.

	For the Year Ended December 31,					US\$
	2016	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	
	(in thousands)					
Selected Consolidated Cash Flow Data:						
Net cash provided by operating activities	15,499	123,906	222,269	245,484	185,196	28,383
Net cash used in investing activities	(1,609)	(1,234)	(151,821)	(268,956)	(433,083)	(66,372)
Net cash provided by/(used in) financing activities	12,999	2,671	604,975	48,542	(146,375)	(22,432)
Effect of exchange rate changes on cash and cash equivalents	2,913	(2,321)	14,473	8,087	(34,034)	(5,216)
Net increase in cash and cash equivalents and restricted cash	29,802	123,022	689,896	33,157	(428,296)	(65,639)
Cash and cash equivalents and restricted cash at the beginning of the year	127,128	156,930	279,952	969,848	1,003,005	153,717
Cash and cash equivalents and restricted cash at the end of the year	156,930	279,952	969,848	1,003,005	574,709	88,078

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 RMB 6.5250 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 31, 2020.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

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

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

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

Since our founding in May 2014, we have experienced rapid growth. Continued growth of our business and household user base requires us to expand our product portfolio, strengthen our brand recognition, expand our sales channels, enhance our aftersales services capabilities, better manage our supply chain, upgrade our information systems and technologies, secure more space for our expanding workforce, and devote other resources to our business expansions, among others. As we continue to grow, managing our business will become more complicated as we develop a wider product, and service, sales channel and customer mix, among others, some of which we may have less experience in. In addition, as we increase our product and service offerings and further diversify our sales channels, we will need to work with a larger number of partners and maintain and expand mutually beneficial relationships with our existing and new partners.

We cannot assure you that we will be able to effectively manage our growth, that our current personnel, infrastructure, systems, procedures and controls or any measures to enhance them will be adequate and successful to support our expanding operations or that our strategies and new business initiatives will be executed successfully. If we are not able to manage our growth or execute our strategies effectively, our expansion may not be successful and our business and prospects may be materially and adversely affected.

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

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

Xiaomi is our strategic partner and our most important customer. Historically, we recorded RMB1,311.9 million, RMB2,112.2 million and RMB2,889.4 million (US\$442.8 million) in net revenues from sales to Xiaomi in the year ended December 31, 2018, 2019 and 2020, respectively, which represented 51.2%, 45.4% and 49.6% of our total net revenues during such periods, respectively. In addition, many of our products are also sold through Xiaomi's e-commerce platform, www.xiaomiyoupin.com, or Youpin, one of our most important online sales channels.

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

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

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

Furthermore, Xiaomi sells a broad spectrum of products, including our Xiaomi-branded and our self-branded products, as well as products unrelated to us through its various sales channels. We cannot assure you that our products can always receive the same level of attention and promotion efforts from Xiaomi thus far. If Xiaomi dedicates less resources to promoting and selling our products or introduces products that compete with ours, our net revenues may decrease as well. Negative publicity related to Xiaomi, including products offered by Xiaomi unrelated to us, the celebrities Xiaomi are associated with, or even the labor policies or environmental issues of any of Xiaomi's suppliers or manufacturers, may also have a material adverse effect on the sales of our products and public recognition of our brand.

Xiaomi is also a shareholder of our Company. Xiaomi is a public company listed on the Stock Exchange of Hong Kong. When exercising its rights as our shareholder, Xiaomi may take into account not only the interests of our Company and our other shareholders but also its own interests, the interests of its public shareholders and the interests of its other affiliates. Our interests and those of our other shareholders may at times conflict with the interests of Xiaomi and its public shareholders and other affiliates. Such conflicts may result in losing business opportunities for us, including opportunities to enter into lines of business that may overlap with those pursued by Xiaomi or companies within its ecosystem. Currently, we do not have any formal processes to address such conflicts.

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

We utilize a number of marketing initiatives to promote our brand. We also actively participate in a variety of online and offline marketing events, such as the "618", "Double Eleven" and "Double Twelve" shopping festivals. 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 RMB597.2 million (US\$91.5 million) for the year ended December 31, 2020, representing 10.3% 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. As such, we could experience delays in completing the development and introduction of new products, services and technologies in the future. We may need to devote an even greater portion of our resources to the research and development of new or enhanced products, services and technologies, which may adversely affect our profitability. In addition, our research and development efforts may not yield the benefits we expect to achieve in a timely manner, or at all. To the extent we are unable to execute our strategy of continuously introducing new and

innovative products, diversifying our product portfolio and satisfying consumers' changing preferences, we may not be able to grow our household user base and our competitive position and results of operations may be adversely affected.

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

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

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

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

The IoT-enabled smart home products market in China has experienced rapid growth in recent years. However, the growth rate may decrease due to uncertainties with respect to China's macro-economy, disposable income growth, the acceptance of IoT technology and products, and pace of development of technologies and other factors, including the growth of the broader home appliances market. Furthermore, the IoT-enabled smart home products market is constantly evolving, and it is uncertain whether our products and services will achieve and sustain high levels of demand and market acceptance. Our ability to expand the sales of our IoT products to a broader consumer base depends on several factors, including Chinese consumers' receptiveness towards and adoption of smart home AI and IoT technology, the market awareness of our brand, the timely introduction and market acceptance of our products and services, the network effects of our products and services, our ability to attract, retain and effectively train sales and marketing personnel, the effectiveness of our marketing programs, our ability to develop effective relationships with distribution partners and expand our network of offline experience stores, the cost and functionality of our products and services and the success of our competitors. If we are unsuccessful in developing and marketing our IoT products to consumers, or if these consumers do not perceive or value the benefits of our holistic IoT @ Home approach, the market for our products and services may not continue to develop or may develop more slowly than we expect, either of which would adversely affect our profitability and growth prospects.

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

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

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

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

- we may be compelled to modify our products and services to address requirements imposed by legislation, regulations, government policies or requests from government authorities in manners that may compromise user experience or make our products less affordable.

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

The IoT-enabled smart home products market, together with the broader consumer products and home appliances market, is characterized by rapid technological changes, frequent introductions of new products and evolving industry standards, such as the rollout of 5G technology and related ecosystems. We have implemented our AI + IoT + 5G strategy to continue preparing for the upcoming 5G era and to establish a leading position in this area. In 2020, we launched a number of innovative and exciting products to strengthen our extensive product portfolio in furtherance of our AI + IoT + 5G strategy, including 21Face Interactive Smart Screen (TV), new lines of water purification systems with revolutionary purification technologies, sweeper robots with differentiated functionalities, new SKUs of our large-screen refrigerators and washing machines, among others. Though we are acting proactively to keep pace with the AI and 5G trend as well as other technological developments in the industry, product development often requires significant lead-time and upfront investment. Our ability to attract new consumers and increase revenues from existing consumers will depend significantly on our ability to accurately anticipate changes in industry standards and to continue to appropriately fund development efforts to enhance our existing products and services or introduce new products and services in a timely manner to keep pace with technological developments. For example, voice- and gesture-control and facial- and image-recognition are important features of our IoT @ Home platform, and the technologies supporting them have been rapidly developing. If any of our competitors implement new technologies before us, those competitors may be able to provide products that are more effective or with more user-friendly features than ours, possibly at lower prices, which could adversely impact our sales and impact our market share. In addition, any delay or failure in our introduction of new or enhanced products and services could harm our business, results of operations and financial condition.

We 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 have experienced significant increases in the market prices for certain important raw materials used in manufacturing refrigerators and may experience the same in the future, and we may not be able to recover these costs through selling price increases to our customers, which would have a negative effect on our financial results.

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

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

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

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

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

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

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

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

We may from time to time enter into contracts with some customers that provide certain favorable terms to such customers to expand our sales channels and increase our market penetration, which may, in certain situations, adversely affect our results of operations or profitability. For example, our contract with a leading e-commerce platform provides, among others, return or discount clearance of certain slow-moving products and potential payment of various consideration to the platform including payment for gross margin guarantee on certain products, monthly compensation for promotion and marketing activities, and fees for advertising through such platform. For more details on the contract, please see "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Critical Accounting Policies, Judgments and Estimates."

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

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

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

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

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

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

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

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

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

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

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

Our key sales channels consist of a network of online e-commerce platforms, Viomi offline experience stores, third-party offline channels, through which we predominantly sell Viomi-branded products, as well as Xiaomi, to which we predominantly sell Xiaomi-branded products. Historically, Xiaomi has been our largest and most important customer. Sales to Xiaomi accounted for 51.2%, 45.4% and 49.6% of our net revenues in 2018, 2019 and 2020, 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 adding offline experience stores and cooperating with more 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 a limited number of third-party e-commerce platforms to sell our products online. If our cooperation with such platforms terminates, deteriorates or becomes more costly, our business and results of operations may be materially and adversely affected.

Currently, we rely on third-party e-commerce platforms such as Youpin, JD.com, Tmall and Suning, among others, for online sales and order fulfillment of our products and derive a material portion of our online sales revenue therefrom. If our cooperation with such third-party e-commerce platforms terminates, deteriorates or becomes more costly, or we fail to incentivize such platforms to drive traffic to our online stores or promote the sale of our products, our business and results of operations may be materially and adversely affected. We cannot guarantee that we will be able to find alternative channels on terms and conditions commercially acceptable to us in a timely manner, or at all, especially given their leading position and significant influence in China's e-commerce industry. In addition, any negative publicities 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 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 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.

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

It is an important growth strategy for us to continue to grow our user base and enrich our value-added businesses ecosystem, key components of our IoT @ Home platform, which enable us to differentiate our offerings and create additional monetization opportunities for us, including the sale of complementary products and provision of value-added services. While we have successfully grown our household user base from approximately 113 thousand as of December 31, 2016 to approximately 5.1 million as of December 31, 2020, there is no assurance that we will be successful in monetizing this user base through such offerings, for example, if:

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

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

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

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

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

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

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

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

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

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

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

Third parties, including distribution network partners, ecosystem partners and our other business partners, could also be a source of security risk to us in the event of a failure of their own products, components, networks, security systems, and infrastructure. In addition, we cannot be certain that advances in criminal capabilities, new discoveries in the field of cryptography, or other developments will not compromise or breach the technology protecting the networks that access our products and services. A significant actual or perceived (whether or not valid) theft, loss, fraudulent use or misuse of customer, employee, or other data, whether by us, our business partners, or other third parties, or as a result of employee error or negligence or otherwise, non-compliance with applicable industry standards or our contractual or other legal obligations regarding such data, or a violation of our privacy and information security policies with respect to such data, could result in costs, fines, litigation, or regulatory actions against us. Such an event could additionally result in unfavorable publicity and therefore materially and adversely affect the market's perception of the security and reliability of our services and our credibility and reputation with our customers, which may lead to customer dissatisfaction and could result in lost sales and increased customer revenues attrition.

We collect, store, process and use a variety of user data and information, which subjects us to governmental regulations and other legal obligations related to privacy, information security, and data protection, and any security breaches, and our actual or perceived failure to comply with our legal obligations could harm our brand and business.

Exploring growth opportunities by expanding our user base is one of our key strategies. Due to the volume and sensitivity of the information and data of our users we collect and manage and the nature of our products, the security features of our website, Viomi Store mobile app, e-commerce platform, IoT @ Home platform, and information systems are critical to our success. We have adopted security policies and measures, including encryption technology, to protect our proprietary data and user information. However, our website, Viomi Store mobile app, e-commerce platform, IoT @ Home platform and information systems may be targets of attacks, such as viruses, malware or phishing attempts by cyber criminals or other wrongdoers seeking to steal our user data for financial gain or to harm our business operations or reputation. The loss, misuse or compromise of such information may result in costly investigations, remediation efforts and notification to affected users. If such content is accessed by unauthorized third parties or deleted inadvertently by us or third parties, our brand and reputation and our sales could be adversely affected. Cyber-attacks could also adversely affect our operating results, consume internal resources, and result in litigation or potential liability for us and otherwise harm our business.

In addition, according to our business cooperation agreement with Xiaomi, we shall share with Xiaomi all the user data collected in relation to the respective Xiaomi-branded products. Consequently, any leak or abuse of user data by Xiaomi may be perceived by consumers as a result of the compromise of our information security system. Any failure or perceived failure by us to prevent information security breaches or to comply with privacy policies or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of sensitive information or other customer data, could cause our users to lose trust in us and could expose us to legal claims.

A growing number of legislative and regulatory bodies have adopted consumer notification requirements in the event of unauthorized access to or acquisition of certain types of data. Those breach notification laws continue to evolve and may be inconsistent from one jurisdiction to another, which might become a particular concern as we accelerate our international expansion. Complying with these obligations could cause us to incur substantial costs and could increase negative publicity surrounding any incident that compromises user data. Any failure to comply with applicable regulations, whether by us, our business partners, or other third parties, or as a result of employee error or negligence or otherwise, could result in regulatory enforcement actions against us, harm to our reputation and even our business partners to cease cooperation with us.

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

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

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

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

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

We may encounter claims from time to time relating to our use of intellectual properties of third parties, and we may not prevail in those disputes. We have adopted policies and procedures to prohibit our contract manufacturers from infringing third-party copyright or other intellectual property rights. However, we cannot ensure that they will strictly comply with our policy. In addition, any misconduct of our employees could also result in us infringing third-party intellectual property rights. Therefore, liabilities and expenses may be incurred in respect of the unauthorized use of third parties' intellectual properties or defending against relevant claims. We were involved in claims against us alleging our infringement of third-party intellectual property rights in the past and we may be subject to further claims in the future. Any such intellectual property infringement claim could result in costly litigation and divert our management attention and resources. If we are found to have infringed intellectual property rights of third parties, we may be subject to monetary damages and may be required to cease production and sales of the relevant products.

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

We rely on technology that we license from third parties. For example, for our voice recognition technologies, we have incorporated speech synthesis engine and Q&A components provided by AISpeech and iFLYTEK. We cannot be certain that our licensors are not infringing the intellectual property rights of third parties or that our licensors have sufficient rights to the licensed intellectual property in all jurisdictions in which we may sell our products. 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.

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

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

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

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

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

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

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

Our results of operations may be subject to seasonality.

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

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

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

Certain of our directors may have conflicts of interest.

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

In connection with the audit of our consolidated financial statements included in this annual report, we and our independent registered public accounting firm identified three 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 three 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, (ii) lack of comprehensive U.S. GAAP accounting policies and financial reporting procedures and (iii) lack of an effective control procedure to track and estimate warranty provision relating to our products sold to ensure accuracy.

Following the identification of the material weaknesses, we have taken measures and plan to continue to take measures to remedy 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 remedied. 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 now subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act, or Section 404, requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F beginning with our annual report for the fiscal year ended December 31, 2019. In addition, once we cease to be an “emerging growth company” as such term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Based on its evaluation, our management concludes that our internal control over financial reporting as of December 31, 2020 was not effective. For future fiscal years, our management may conclude that our internal control over financial reporting was not effective either. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, as a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404, we may identify other weaknesses and deficiencies in our internal control over financial reporting. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements for prior periods.

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

Our shareholders and board of directors have adopted two share incentive plans. Pursuant to these two plans, a total of 36,648,130 ordinary shares underlying all awards may be issued. As of December 31, 2020, there are 26,106,599 ordinary shares issuable upon exercise of outstanding share options under these two plans at a weighted average price of \$0.74 per share. Competition for highly skilled personnel is often intense, and we may incur significant costs or be not successful in attracting, integrating, or retaining qualified personnel to fulfil our current or future needs. We believe the granting of share-based awards is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations. In addition, the granting, vesting and exercise of the awards under these share incentive plans will have dilutive effect on your shareholding in our Company.

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

We have, from time to time, experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. The loss of any key personnel, especially our founder, chairman, and chief executive officer Mr. Xiaoping Chen, could be disruptive to our operations and research and development activities, reduce our employee retention and revenues, and impair our ability to compete. In addition, if any of our senior management or key personnel joins a competitor or forms a competing company, we may lose know-how, trade secrets, business partners and key personnel. Furthermore, perspective candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. Thus, our ability to attract or retain highly skilled employees may be adversely affected by declines in the perceived value of our equity or equity awards. Furthermore, there is no assurance that the number of shares reserved for issuance under our share incentive plans will be sufficient to grant equity awards adequate to recruit new employees and to compensate existing employees.

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

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

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

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

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

The COVID-19 outbreak has created unique global and industry-wide challenges, including challenges to our business, impacting supply chains, logistics, sales channels, as well as overall consumer sentiment and purchasing behavior. In early-2020, the COVID-19 outbreak resulted in the temporary closure of many corporate offices, retail stores, and manufacturing facilities across China. Given the strict quarantine measures put in place during this period, normal economic activity throughout China was sharply curtailed and opportunities for discretionary consumption, especially in offline sales channels, were extremely limited during the period. Many of the quarantine measures within China were gradually relaxed, and we, together with our suppliers and customers, gradually resumed normal operations as of mid-February 2020. We have since seen noticeable improvements both from a supply and demand perspective, yet our financial results, including on revenue growth and profit margins, were negatively impacted by COVID-19 in 2020, as a result of the ongoing challenging industry conditions, supply chain bottlenecks and operational disruptions. Although a year has elapsed since COVID-19 first hit China and the globe, the disease has not been effectively contained. Regional cases of COVID-19 infections surfaced from time to time, both in China and other parts of the world. The long-term trajectory of COVID-19, both in terms of scope and intensity of the outbreak, in China as well as globally, together with its impact on the industry and the broader economy are still difficult to assess or predict at this time and face uncertainties that will be difficult to quantify. If there is not a material recovery in the COVID-19 situation, or it further deteriorates in China or globally, our business, results of operations and financial condition could be materially and adversely affected.

Risks Related to Our Corporate Structure

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

Due to PRC restrictions or prohibitions on foreign ownership of internet and other related business in China, we operate our business in China through our consolidated affiliated entities, in which we have no ownership interest. Although our provision of e-commerce services falls within the permitted category according to the Negative List, as defined in “Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on catalogue relating to foreign investment” that took effect on July 23, 2020, foreign investments in this business are still restricted by other qualifications and requirements under related regulations in China. Our WFOEs have each entered into a series of contractual arrangements with one of our VIEs, and their respective shareholders, which enable us to (i) exercise effective control over our VIEs, (ii) receive substantially all of the economic benefits of our VIEs, and (iii) have an exclusive option to purchase all or part of the equity interests and assets in our VIEs when and to the extent permitted by PRC law. As a result of these contractual arrangements, we have control over and are the primary beneficiary of our VIEs and hence consolidate their financial results into our consolidated financial statements under U.S. GAAP. See “Item 4. Information on the Company—C. Organizational Structure” for further details.

In the opinion of our PRC legal counsel, Han Kun Law Offices, (i) the ownership structure of our VIEs in China and our WFOEs, are not in violation of applicable PRC laws and regulations currently in effect; and (ii) the contractual arrangements between our WFOE, our VIEs and their shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of applicable PRC laws. However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or our VIEs are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

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

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

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

We have relied and expect to continue to rely on contractual arrangements with our VIEs and their shareholders to conduct our business. These contractual arrangements may not be as effective as direct ownership in providing us with control over our VIEs. For example, our VIEs and their shareholders could breach their contractual arrangements with us by, among other things, failing to conduct their operations in an acceptable manner or taking other actions that are detrimental to our interests.

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

We refer to the shareholders of our VIEs as their nominee shareholders because although they remain the holders of equity interests on record in our VIEs, pursuant to the terms of the relevant shareholder voting proxy agreements, each such shareholder has irrevocably authorized any person designated by our WFOE to exercise the rights as a shareholder of the VIEs. However, if our VIEs or their shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure will be effective under PRC law. For example, if the shareholders of our VIEs 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 otherwise act in bad faith toward us, then we may have to take legal actions to compel them to perform their contractual obligations.

All of the agreements under our contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China (the arbitration provisions relate to the claims arising out of the contractual relationship created by the VIE agreements, rather than claims under the United States federal securities laws and do not prevent shareholders of our Company from pursuing claims under the United States federal securities laws). Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes arising from these contracts would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. See “—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system and changes in laws and regulations in China could adversely affect us.” Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a VIE should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC law, rulings by arbitrators are final, which means parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event we are unable to enforce these contractual arrangements, or if we suffer significant delays or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our VIEs, and our ability to conduct our business may be negatively affected.

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

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

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

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

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

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

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

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

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

Under PRC laws and regulations, wholly foreign-owned enterprises in the PRC, such as our WFOEs, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. In addition, it may allocate a portion of its after-tax profits based on PRC accounting standards to discretionary reserve funds at its discretion. These reserve funds are not distributable as cash dividends. Any limitation on the ability of our wholly-owned PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

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

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

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

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

Risks Related to Doing Business in China

Uncertainties with respect to the PRC legal system and changes in laws and regulations in China could adversely affect us.

We conduct our business primarily through our PRC subsidiaries and consolidated VIEs in China. Our operations in China are governed by PRC laws and regulations. Our PRC subsidiaries are subject to laws and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value. In addition, any new or changes in PRC laws and regulations related to foreign investment in China could affect the business environment and our ability to operate our business in China. For example, the PRC Foreign Investment Law, which took effect on January 1, 2020, replaces the trio of existing laws regulating foreign investment in China, together with their implementation rules and ancillary regulations. This PRC Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, substantial uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law, its implementation rules and ancillary regulations, which may materially impact the viability of our current corporate structure, corporate governance and business operations.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory provisions and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business and results of operations.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all and may have retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. Such unpredictability towards our contractual, property and procedural rights could adversely affect our business and impede our ability to continue our operations.

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. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally. The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial

portion of productive assets in China is still owned by the government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. In addition, the rate of growth has been slowing since 2012, and the impact of COVID-19 on the Chinese and global economies in 2020 is likely to be severe. If economic conditions, particularly in China, as well as globally do not improve, our business and operating results may be adversely affected. Separately, any other or further adverse changes in economic conditions in China, in government policies or in the laws and regulations in China could have a material adverse effect on the overall economic growth. Such developments could adversely affect our business and operating results, lead to reduction in demand for our products and services and adversely affect our competitive position. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government policies that encourage increased competition in our industry, or additional control over capital investments or changes in tax regulations. In addition, in the past the PRC government has implemented certain measures, including interest rate adjustment, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and operating results.

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

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

The evolving PRC regulatory system for the internet industry may lead to the establishment of new regulatory agencies. For example, in May 2011, the State Council announced the establishment of a new department, Cyberspace Administration of China (with the involvement of the State Council Information Office, the Ministry of Industry and Information Technology, or the MIIT, and the Ministry of Public Security). The primary role of this agency is to facilitate the policy-making and legislative development in this field, to direct and coordinate with the relevant departments in connection with online content administration and to deal with cross-ministry regulatory matters in relation to the internet industry.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business. We cannot assure you that we have obtained all the permits or licenses required for conducting our business in China or will be able to maintain our existing licenses or obtain new ones. If the PRC government considers that we were operating without the proper approvals, licenses or permits or promulgates new laws and regulations that require additional approvals or licenses or imposes additional restrictions on the operation of any part of our business, it has the power, among other things, to levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material adverse effect on our business and results of operations.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management based on foreign laws.

We are an exempted company incorporated under the laws of the Cayman Islands, we conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, most of our senior executive officers reside within China for a significant portion of the time and are PRC nationals. As a result, it may be difficult for you to effect service of process upon us or those persons inside mainland China. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, none of whom currently reside in the United States and whose assets are located outside the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state.

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

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

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

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

There have been changes in international trade policies and rising political tensions, particularly between the U.S. and China. 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. While the “Phase One” agreement was signed between the United States and China on trade matters, 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. The situation is further complicated by the political tensions between the United States and China that escalated during the COVID-19 pandemic and in the wake of the PRC National People’s Congress’ decision on Hong Kong national security legislation and sanctions and restrictions imposed by the U.S. government on Chinese companies and citizens. Against this backdrop, China has implemented, and may further implement, measures in response to the changing trade policies, treaties, tariffs and sanctions and restrictions against Chinese companies initiated by the U.S. government. For example, the Ministry of Commerce of China published new rules in January 2021 to counter restrictions imposed by foreign countries on Chinese citizens and companies. Rising trade and political tensions could reduce levels of trades, investments, technological exchanges and other economic activities between China and other countries, which would have an adverse effect on global economic conditions, the stability of global financial markets, and international trade policies. It could also adversely affect the financial and economic conditions in the jurisdictions in which we operate, as well as our overseas expansion, our financial condition, and results of operations.

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

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

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

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

We believe that we are not a PRC resident enterprise for PRC tax purposes. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on Tax—PRC Enterprise Income Tax.” However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” If the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax, unless a reduced rate is available under an applicable tax treaty, from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to our non-PRC individual shareholders (including our ADS holders) and any gain realized on the transfer of ADSs or ordinary shares by such shareholders may be subject to PRC tax at a rate of 20% unless a reduced rate is available under an applicable tax treaty. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in the ADSs or ordinary shares.

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

On February 3, 2015, the SAT issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or SAT Public Notice 7. SAT Public Notice 7 has introduced a new tax regime that is significantly different from the previous one under former SAT Circular 698 (which was repealed by the Announcement of the State Administration of Taxation on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source by the SAT). SAT Public Notice 7 extends its tax jurisdiction to not only Indirect Transfers set forth under former SAT Circular 698 but also transactions involving transfer of other taxable assets through offshore transfer of a foreign intermediate holding company. In addition, SAT Public Notice 7 provides clearer criteria than former SAT Circular 698 for assessment of reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity of a same listed foreign enterprise by a non-resident enterprise through a public securities market. SAT Public Notice 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. Where a non-resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise, being the transferor, or the transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes. However, according to the aforesaid safe harbor rule, the PRC tax would not be applicable to the transfer by any non-resident enterprise of ADSs of the Company acquired and sold on public securities markets.

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

We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries and investments. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions, under SAT Public Notice 7 and SAT Public Notice 37. For transfer of shares in our company by investors who are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in

the filing under SAT Public Notice 7 and SAT Public Notice 37. As a result, we may be required to expend valuable resources to comply with SAT Public Notice 7 and SAT Public Notice 37 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

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

The PRC government has provided various tax incentives to our VIE entity—Foshan Viomi—and its certain subsidiary 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, and its subsidiary Guangdong Lizi has obtained High and New Technology Enterprise status since December 1, 2020. Each of these two entities is thus eligible to enjoy a preferential tax rate of 15% for the periods presented and the following three years, to the extent it has taxable income under the PRC Enterprise Income Tax Law. Any increase in the enterprise income tax rate applicable to our PRC subsidiaries or VIEs in China, or any discontinuation or retroactive or future reduction of any of the preferential tax treatments currently enjoyed by our PRC subsidiaries or VIEs in China, could adversely affect our business, financial condition and results of operations. In addition, in the ordinary course of our business, we are subject to complex income tax and other tax regulations and significant judgment is required in the determination of a provision for income taxes. Although we believe our tax provisions are reasonable, if the PRC tax authorities successfully challenge our position and we are required to pay tax, interest and penalties in excess of our tax provisions, our financial condition and results of operations would be materially and adversely affected.

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

Among other things, the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended by Ministry of Commerce in 2009, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Such regulation requires, among other things, that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, issued by the State Council in 2008, were triggered. Moreover, the PRC Anti-Monopoly Law promulgated by the Standing Committee of the NPC which became effective in 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by the Ministry of Commerce before they can be completed. In addition, PRC national security review rules which became effective in September 2011 and the Measures for the Security Review of Foreign Investment became effective in January 2021 require acquisitions by foreign investors of PRC companies engaged in military related or certain other industries that are crucial to national security be subject to security review before consummation of any such acquisition. We may pursue potential strategic acquisitions that are complementary to our business and operations. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval or clearance from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

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

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

Under SAFE Circular 37, PRC residents who make, or have prior to the implementation of SAFE Circular 37 made, direct or indirect investments in offshore special purpose vehicles, or SPVs, are required to register such investments with the SAFE or its local branches. In addition, any PRC resident who is a direct or indirect shareholder of an SPV, is required to update its filed registration with the local branch of the SAFE with respect to that SPV, to reflect any material change. Moreover, any subsidiary of such SPV in China is required to urge the PRC resident shareholders to update their registration with the local branch of the

SAFE. If any PRC shareholder of such SPV fails to make the required registration or to update the previously filed registration, the subsidiary of such SPV in China may be prohibited from distributing its profits or the proceeds from any capital reduction, share transfer or liquidation to the SPV, and the SPV may also be prohibited from making additional capital contributions into its subsidiary in China. On February 13, 2015, the SAFE promulgated a Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or SAFE Notice 13, which became effective on June 1, 2015. Under SAFE Notice 13, applications for foreign exchange registration of inbound foreign direct investments and outbound overseas direct investments, including those required under SAFE Circular 37, are required to be filed with qualified banks instead of the SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of the SAFE.

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

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

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

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, replacing earlier rules promulgated in 2007. Pursuant to these rules, PRC citizens and non-PRC citizens who have resided in China for a continuous period of not less than one year are required to register with the SAFE through a domestic qualified agent, which could be the PRC subsidiary of such overseas-listed company, and complete certain other procedures if they participate in any stock incentive plan of an overseas publicly listed company, unless certain exceptions are available. In addition, an overseas-entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our executive officers and other employees who are PRC citizens or non-PRC citizens living in the PRC for a continuous period of not less than one year and have been granted options are subject to these regulations. Failure to complete the SAFE registrations may result in fines of up to RMB300,000 for entities, or up to RMB50,000 for individuals, and legal sanctions, and may also limit our ability to contribute additional capital into our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on Employee Share Incentive Plan of Overseas Publicly Listed Company."

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

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

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

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

The ownership certificate or other similar proof of one of our leased properties has not been provided to us by the lessor. Therefore, we cannot assure you that such lessor is entitled to lease the relevant real properties to us. If the lessor is not entitled to lease the real properties to us and the owner of such real properties decline to ratify the lease agreements between us and the respective lessor, we may not be able to enforce our rights to lease such properties under the lease agreement against the owner. As of December 31, 2020, 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 initial public offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

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

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or VIEs or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds from our initial public 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 initial public 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.

Proceedings instituted by the SEC against PRC-based “big four” accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.

Starting in 2011 the PRC-based “big four” accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and Chinese law. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the PCAOB, sought to obtain from the Chinese firms access to their audit work papers and related documents. The firms were, however, advised and directed that under Chinese law, they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the China Securities Regulatory Commission, or the CSRC.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese accounting firms, including our independent registered public accounting firm. A first instance trial of the proceedings in July 2013 in the SEC’s internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm’s performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the current proceeding against all four firms. If additional remedial measures are imposed on the PRC-based “big four” accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms’ failure to meet specific criteria set by the SEC with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act. Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. However, we cannot predict if the SEC will further challenge the four PRC-based accounting firms’ compliance with U.S. law in connection with U.S. regulatory requests for audit work papers or if the results of such challenge would result in the SEC imposing penalties such as suspensions.

In the event that the PRC-based Big Four accounting firms become subject to additional legal challenges by the SEC or the PCAOB, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, U.S.-listed companies and the market price of our common stock may be adversely affected.

If our independent registered public accounting firm was denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our ADSs from Nasdaq or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Our ADSs may be delisted under the Holding Foreign Companies Accountable Act if the PCAOB is unable to inspect auditors who are located in China. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections deprives our investors with the benefits of such inspections.

The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. The HFCA Act states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange or in the over the counter trading market in the U.S.

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

On March 24, 2021, the SEC adopted interim final rules relating to the implementation of the HFCA Act. We will be required to comply with these rules if the SEC identifies us as having a “non-inspection” year under a process to be subsequently established by the SEC. The SEC is assessing how to implement other requirements of the HFCA Act, including the listing and trading prohibition requirements described above.

The SEC may propose additional rules or guidance that could impact us if our auditor is not subject to PCAOB inspection. For example, on August 6, 2020, the President’s Working Group on Financial Markets, or the PWG, issued the *Report on Protecting United States Investors from Significant Risks from Chinese Companies* to the then President of the United States. This report recommended the SEC implement five recommendations to address companies from jurisdictions that do not provide the PCAOB with sufficient access to fulfil its statutory mandate. Some of the concepts of these recommendations were implemented with the enactment of the HFCA Act. However, some of the recommendations were more stringent than the HFCA Act. For example, if a company was not subject to PCAOB inspection, the report recommended that the transition period before a company would be delisted would end on January 1, 2022.

The SEC has announced that the SEC staff is preparing a consolidated proposal for the rules regarding the implementation of the HFCA Act and to address the recommendations in the PWG report. It is unclear when the SEC will complete its rulemaking and when such rules will become effective and what, if any, of the PWG recommendations will be adopted. The implications of this possible regulation in addition the requirements of the HFCA Act are uncertain. Such uncertainty could cause the market price of our ADSs to be materially and adversely affected, and our securities could be delisted or prohibited from being traded “over-the-counter” earlier than would be required by the HFCA Act. If our securities are unable to be listed on another securities exchange by then, such a delisting would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with a potential delisting would have a negative impact on the price of our ADSs.

The PCAOB’s inability to conduct inspections in China prevents it from fully evaluating the audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in our ordinary shares are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause investors and potential investors in our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB in the PRC or by the CSRC or the PRC Ministry of Finance in the United States. The PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. exchanges.

Risks Related to the ADSs

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

The trading price of our ADSs is likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, including overall market volatility and the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for factors specific to our own operations, including the following:

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

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

In the past, shareholders of public companies have often brought securities class action suits against those companies following periods of instability in the market price of their securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our results of operations. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

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

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

As a result of the dual-class share structure and the concentration of ownership, Mr. Xiaoping Chen, certain of our employees and Xiaomi beneficially own all of our issued Class B ordinary shares, and they have considerable influence (and in certain situations, complete control) over matters such as decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Such holders may take actions that are not in the best interest of us or our other shareholders. Due to the disproportionate voting powers associated with our two classes of ordinary shares, the holders of our Class B ordinary shares and our founder, Mr. Xiaoping Chen, beneficially own 90.2% and 60.8%, respectively, of the aggregate voting power of our Company as of February 28, 2021. Assuming that the Class B shareholders hold Class B ordinary shares only, the Class B shareholders only need to keep 9.1% of the outstanding shares to continue to control the outcome of matters submitted to shareholders for approval through ordinary resolutions. The concentration of ownership may discourage, delay or prevent a change in control of our Company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our ADSs. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

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

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

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

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

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

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

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

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

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

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

Our memorandum and articles of association contain provisions to limit the ability of others to acquire control of our Company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. Our proposed dual-class voting structure gives disproportionate voting power to the holders of our Class A and Class B ordinary shares. Our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected.

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

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of our ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which are carried by the underlying Class A ordinary shares represented by your ADSs indirectly by giving voting instructions to the depository in accordance with the provisions of the deposit agreement. Upon receipt of your voting instructions, the depository will try, as far as is practicable, to vote the underlying Class A ordinary shares represented by your ADSs in accordance with your instructions. If we ask for your instructions, then upon receipt of your voting instructions, the depository will try to vote the underlying Class A ordinary shares in accordance with these instructions. If we do not instruct the depository to ask for your instructions, the depository may still vote in accordance with instructions you give, but it is not required to do so. You will not be able to directly exercise your right to vote with respect to the underlying Class A ordinary shares represented by your ADSs unless you withdraw such shares, and become the registered holder of such shares prior to the record date for the general meeting. When a general meeting is convened, you may not receive sufficient advance notice of the meeting to withdraw the underlying Class A ordinary shares represented by your ADSs and become the registered holder of such shares to allow you to attend the general meeting and to vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our memorandum and articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the underlying Class A ordinary shares represented by your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. If we ask for your instructions, the depository will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We have agreed to give the depository at least 30 days' prior notice of shareholder meetings. Nevertheless, we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote the underlying Class A ordinary shares represented by your ADSs. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct how the underlying Class A ordinary shares represented by your ADSs are voted and you may have no legal remedy if the underlying Class A ordinary shares represented by your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

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

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

Pursuant to our memorandum and articles of association, our board of directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend either out of profits or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as it falls due in the ordinary course of business. In addition, our shareholders may declare dividends by ordinary resolution, but no dividend declared shall exceed the amount recommended by our directors. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial

condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

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

The 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 depository. However, the depository 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 depository 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 depository needs to maintain an exact number of ADS holders on its books for a specified period. The depository may also close its books in emergencies, and on weekends and public holidays. The depository may refuse to deliver, transfer or register transfers of our ADSs generally when our share register or the books of the depository are closed, or at any time if we or the depository thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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

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

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company's securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

The deposit agreement governing the ADSs representing our ordinary shares provides that, subject to the depositary's right to require a claim to be submitted to arbitration, the federal or state courts in the City of New York have exclusive jurisdiction to hear and determine claims arising under the deposit agreement and in that regard, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depositary arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

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

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

Nevertheless, if this jury trial waiver provision is not enforced, to the extent a court action proceeds, it would proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depositary of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

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

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

We are a Cayman Islands exempted company and substantially all of our assets are located outside of the United States. Substantially all of our current operations are conducted in China. In addition, all of our current directors and officers are nationals and residents of countries other than the United States. Substantially all of the assets of these persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

As an exempted company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq corporate governance listing standards.

As a Cayman Islands company listed on the Nasdaq Stock Market, we are subject to the Nasdaq corporate governance listing standards. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards. Currently, we rely on home country practice with respect to certain aspects of our corporate governance. See “Item 16G. Corporate Governance.” As a result, our shareholders may be afforded less protection than they would otherwise enjoy under the Nasdaq governance listing standards applicable to U.S. domestic issuers.

There can be no assurance that we will not be a passive foreign investment company for U.S. federal income tax purposes for any taxable year, which could result in adverse U.S. federal income tax consequences to U.S. holders of our ADSs or ordinary shares.

A non-U.S. corporation will be treated as a passive foreign investment company, or 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 (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income (the “asset test”). Based on our current and expected income and assets, and the market value of our ADSs, we do not believe we were a PFIC for the taxable year ended December 31, 2020, nor do we presently expect to be a PFIC for the current taxable year or the foreseeable future. However, no assurance can be given in this regard because the determination of whether we are or will become a PFIC is a fact-intensive inquiry made on an annual basis that depends, in part, upon the composition of our income and assets. Fluctuations in the market price of our ADSs may cause us to become a PFIC for the current or subsequent taxable years because the value of our assets for the purpose of the asset test may be determined by reference to the market price of our ADSs. The composition of our income and assets may also be affected by how, and how quickly, we use our liquid assets and the cash raised in our initial public offering.

If we were to be or become a PFIC for any taxable year during which a U.S. Holder (as defined in “Taxation—U.S. Federal Income Tax Considerations”) holds our ADSs or ordinary shares, certain adverse U.S. federal income tax consequences could apply to such U.S. Holder. See “Item 10. Additional Information—E. Taxation—U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Considerations.”

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We commenced our operation in May 2014 through Foshan Yunmi Electric Appliances Technology Co., Ltd, or Foshan Viomi, a PRC domestic company, to develop, manufacture and sell IoT products, including smart water purification systems. Foshan Viomi was established by Mr. Xiaoping Chen and Tianjin Jinxing Investment Co., Ltd., or Tianjin Jinxing, a subsidiary of Xiaomi. Certain equity interests in Foshan Viomi under Mr. Chen’s name were held by Mr. Chen on behalf of our management.

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

In January 2015, we formed a PRC domestic company, Beijing Yunmi Technology Co., Ltd, or Beijing Viomi, to develop and manage our big data, software and product design. In July 2015, we issued class A ordinary shares of Viomi Technology Co., Ltd. in exchange for the equity interests in Foshan Viomi held by Mr. Chen on behalf of the management, class B ordinary shares in exchange for the equity interests in Foshan Viomi owned by Mr. Chen, and class B ordinary shares to Red Better Limited and Shunwei Talent Limited in exchange for the equity interests in Foshan Viomi held by Tianjin Jinxing. Concurrently, we obtained control over Foshan Viomi and Beijing Viomi by entering into a series of contractual arrangements with them and their respective shareholders. In September 2018, Foshan Viomi reduced its registered capital and changed its shareholders from Mr. Xiaoping

Chen and Tianjin Jinxing, an affiliate of our principal shareholder, Red Better Limited, to Mr. Xiaoping Chen alone. Concurrently, we entered into a series of contractual arrangements in substantially the same forms with Foshan Viomi and Mr. Xiaoping Chen. We collectively refer to Foshan Viomi and Beijing Viomi as our VIEs in this annual report. We use contractual arrangements with VIEs due to PRC restrictions or prohibitions on foreign ownership of internet and other related businesses in China.

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

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

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

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

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

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.

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

B. Business Overview

We have developed a unique IoT @ Home platform, consisting of an ecosystem of innovative IoT @ Home portfolio, home water solutions, together with a suite of complementary consumable products and small appliances and others. This platform provides an attractive entry point into the consumer home, enabling consumers to intelligently interact with a broad portfolio of IoT products in an intuitive and human-like manner to make daily life more convenient, efficient and enjoyable, while allowing us to grow our household user base and capture various additional scenario-driven consumption events in the home environment. As of December 31, 2020, our IoT @ Home platform had approximately 5.1 million household users.

Our IoT @ Home platform comprises of two key pillars, our Viomi business, predominantly comprising our Viomi-branded products, and our Xiaomi business, comprising our strategic partnership with Xiaomi. Sales through our own and third-party channels, which constitute the vast majority of our Viomi-branded products business, accounted for 48.8%, 54.6% and 50.4% of our net revenues in 2018, 2019 and 2020, 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 51.2%, 45.4% and 49.6% of our net revenues in 2018, 2019 and 2020, 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.

In accordance with our “AI+IoT+5G” strategy to prepare for the upcoming 5G era, we launched a number of innovative products to strengthen our extensive IoT product portfolio in May 2020, including 21Face Interactive Smart Screen (TV) and new lines of water purification systems with revolutionary purification technologies. Following our May introduction of a new series of large-flux water purifiers, in September 2020, we launched our high-end water purifier sub-brand, Quaxian, and its series of premium water purifier products. We have ramped up efforts to capture opportunities in the sweeper robot industry with new launch of our Viomi-branded sweeper robots in late 2020. We also made innovative technology breakthroughs across our core product categories, such as new lines of washing machines equipped with advanced AI functionalities and sensors. In late 2020, we launched our new IoT chip modules, customer-premise equipment products, or CPE products, router products, together with our HomePad screen-based control interface and smart switch products, further strengthening 5G IoT smart connection capabilities and user experience for the home environment. In 2020, we also expanded our value-added businesses and content applications with additional enhancements to our line of 21Face large-screen refrigerators, and further expanded related content partnerships.

Our IoT @ Home platform

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

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

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

	For the Year Ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Net revenues:						
IoT @ Home portfolio	1,151,095	45.0	2,522,189	54.3	3,671,717	562,715
Home water solutions	930,178	36.3	1,065,166	22.9	883,325	135,375
Consumables	141,940	5.5	265,844	5.7	382,896	58,681
Small appliances and others ⁽¹⁾	338,016	13.2	794,314	17.1	887,686	136,044
Total	2,561,229	100.0	4,647,513	100.0	5,825,624	892,816

Note:

(1) Including sales of small appliances and rendering of services. See footnote 14 to the Consolidated Financial Statements for more details.

Our IoT @ Home portfolio

We generate a significant portion of our revenues through sales of products under our IoT @ Home portfolio. Aimed at China’s young, modern, “new middle-class” consumers, our innovative IoT products form the core of our IoT @ Home portfolio. We have successfully brought to market an extensive range of IoT @ Home products, which engage users across a wide spectrum of essential daily activities and create new consumption scenarios for the home environment. We think of customers’ initial purchases of our products as the start of our relationship with them rather than the end, as that first purchase drives broad home-wide adoption of our products and long-term customer loyalty. The inherent connected nature, synergies, and network effects within our IoT @ Home portfolio are demonstrated by the fact that the percentage of our household users possessing at least two of our IoT products increased from 3.5% as of March 31, 2016 to 20.0% as of December 31, 2020.

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

Smart kitchen products

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

Other smart products

In addition to our smart kitchen products lineup, we also offer a diverse array of IoT products that complements our IoT @ Home portfolio and addresses users’ needs across different home scenarios, such as air conditioning systems, washing machines, water heaters, smart water kettles, sweeper robots, smart locks and other smart devices, among others. Furthermore, we launched our new 21Face Interactive Smart Screen (TV) in May 2020 to further enrich our IoT @ Home product portfolio as well as to accelerate the completion of our vision for the fully-integrated and screen-filled IoT @ Home lifestyle experience. In addition, we expedited the development of our own Viomi-branded sweeper robot business by launching our own-branded sweeper robot products in late 2020.

Home water solutions

The core of our home water solutions is our self-branded and Xiaomi-branded smart water purifiers, which are complemented by our easy-to-install replaceable water filter consumable products. Our smart water purifiers generally features precision sensors that enable them to monitor in real time the water purification process and analyze the data collected using AI technology and automatically adjusts various aspects of its operation, innovative water purification technologies such as high-flow reverse osmosis membrane, and mobile application connectivity that enables users to monitor the status of the water purifier and reminds the users to replace the filters. We also introduced a series of large-flux water purifier products in the middle of 2020 and launched our high-end water purifier sub-brand Quaxian in September 2020 and its series of premium water purifier products.

Consumables

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

Small appliances and others

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

Small appliances

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

Others

Together with our vibrant partner ecosystem, we offer other services that can capture various scenario-driven consumption events in the home environment, such as enabling users to easily and directly access media and entertainment content, as well as purchase various household fast-moving consumer goods as and when the need arises within the comfort of their home. We achieve this through e-commerce platforms and interfaces embedded within and integrated with various of our IoT products and close collaboration with ecosystem partners. We work closely with our ecosystem partners to deliver these services to our users.

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

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

We also offer certain installation services for our products.

Sales Channels

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

Online

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

Offline

Our offline sales channels comprise of our Viomi offline experience stores and we have been expanding our relationship with leading third-party offline sales channels such as Gome and Suning, online-to-offline or O2O outlets of major e-commerce retailers, as well as establishing strategic partnership with retail leaders such as Hunan Friendship & Apollo Commercial Co. Ltd., which supplement our online channels and further broaden our market access and increase brand awareness.

Viomi offline experience stores

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

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

Together with our network partners, we had established a network of over 1,000 Viomi offline experience stores, the majority of which were stand-alone stores, as of December 31, 2020.

Third-party offline channels

To further diversify and strengthen our overall channel penetration and presence, we have been expanding our relationship with and sales to well-established specialty offline home appliance malls such as Gome and Suning. In addition, we have initiated plans to increase our overall points of sales, particularly through cooperation with various O2O outlets of major e-commerce retailers such as JD, as well as established strategic partnership with retail leaders such as Hunan Friendship & Apollo Commercial Co. Ltd., all of which are expected to increase our end-points of sales and overall consumer awareness of our brand, products and concept.

Xiaomi

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

Research and Development

We are committed to developing new and innovative products and services through research and development. As of December 31, 2020, our total research and development staff consisted of approximately 398 employees across multiple R&D centers and product groups teams, representing 33.7% of our total number of employees. Many of our team members are global and cross-industry experts in technical product hardware development, software and AI, including experts with previous experience working at Dyson, Siemens, and Bosch. We incurred RMB124.2 million, RMB204.9 million and RMB265.7 million (US\$40.7 million) in research and development expenses in 2018, 2019 and 2020, respectively.

Software, Artificial Intelligence and Data Analytics Systems

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

Advanced software

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

Some of our IoT products that are equipped with interactive screens that run the Android operating system, which can operate software applications with advanced and diverse functions and serve as the platform on which our IoT products connect. The rest of our products have embedded systems that operate both locally and on the cloud. Our Viomi Store mobile app allows

customers to quickly and efficiently discover, review, select and purchase our products. In addition, the Viomi Store serves as the control app for our IoT products, and enables our users to manage, monitor and interact with our IoT products. Using our cloud-based software system, our products receive automatic updates, often on an overnight basis, to incorporate new functionalities and grow smarter over time based on our data analysis.

Artificial Intelligence

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

Data analytics

Through users' interaction with many of our products, advanced sensors embedded in our products can capture, accumulate and upload large quantities of user and household usage data. Our users' behavior and sequential data is stored strictly in compliance with stringent data privacy standards and data security requirements.

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

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

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, 2020, we had 2,385 patents registered with the State Intellectual Property Office of China, or the SIPO.

Globally, as of December 31, 2020, we had 54 patents registered and 31 pending patent applications in various overseas countries and jurisdictions, including the United States, Europe, India, Korea and certain Southeast Asia countries.

As of December 31, 2020, we had registered 504 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 currently include Xiaomi-branded water purification systems, water purifier filters, range-hoods and gas stoves, dishwashers, sweeper robots, blenders as well as other complimentary products such as kettles and water quality meters.

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.

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.

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

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

Events marketing

We organize and participate in various official offline events to promote our brand and the idea of a connected smart home. Our "Viomi 9-25 Appliance Refresh Day" campaign includes online promotions, as well as offline marketing efforts such as product launch events. We participated in exhibitions and forums such as the Appliance & Electronics World Expo in 2018 and 2019 and the 2018 "Belt and Road" Finance and Investment Forum. We also actively participate in shopping festivals across e-commerce platforms such as "618", "Double Eleven" and "Double Twelve," which are highly popular among Chinese consumers. In 2020, we mainly conducted our major marketing and branding activities through online events due to the COVID-19 situation. We hosted two virtual 5G IoT Strategy and New Product Launch events in May and October 2020, respectively.

Customer service

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

After-sales service

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

Manufacturing and Fulfillment

Procurement and manufacturing

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

Our two in-house facilities, Guangdong Lizi and Guangdong AI Touch have commenced commercial operations in the first half of 2019 and were integrated into our Viomi platform. Guangdong Lizi was established as a smart water purification system facility focusing on the research, design, production and supply of smart water purifiers and water purifier filters. Going forward, we expect a material proportion of our smart water purifier and water purifier filter demands can be supplied directly through this facility. Guangdong AI Touch was built for the development, production and supply of touch screen components for our smart products, and we expect a material proportion of the touch screens required for our smart products can be supplied directly through this facility.

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

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

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

Inventory management

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

Product quality assurance

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

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

IT Infrastructure

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

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

Competition

We compete with other companies in all aspects of our business, particularly companies that are in the home appliances and smart home markets. The home appliances and smart home markets have a large number of participants, including traditional appliances and consumer electronics companies as well as AI and consumer internet companies that are moving into the hardware space.

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

Insurance

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

In line with general market practice, 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 damages to our IT infrastructure or information technology systems. We also do not maintain insurance policies against risks relating to the Contractual Arrangements.

Regulation

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

Regulation on value-added telecommunication services

The Telecommunications Regulations of the PRC, promulgated by the State Council in 2000 and last amended in February 2016, provide a regulatory framework for telecommunications services providers in PRC. These regulations require telecommunications services providers to obtain operating licenses prior to the commencement of their operations. The telecommunications services are categorized into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Business, attached to the Telecommunications Regulations and last

amended by the MIIT in June 2019, transaction processing services provided via fixed network, mobile network and Internet fall within value-added telecommunications services.

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

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

To comply with these regulations, we have adopted the VIE structure and obtained an EDI license through Foshan Viomi, one of our VIEs, which allows us to provide value-added telecommunications services through our value-added e-commerce platform.

Regulation on catalogue relating to foreign investment

Investment activities in the PRC by foreign investors are subject to the Catalogue for the Guidance of Foreign Investment Industry, or the Catalogue, which was promulgated and is amended from time to time by the Ministry of Commerce and the National Development and Reform Commission, or the NDRC. Pursuant to the latest Catalogue, amended and issued on June 23, 2020, and effective on July 23, 2020, or the 2020 Catalogue, industries listed therein are divided into two categories: encouraged industries and the industries within the Catalogue of special management measures, or the Negative List. The Negative List is further divided into two sub-categories: restricted industries and prohibited industries. Any industry not falling into any of the encouraged, restricted or prohibited categories is classified as a permitted industry for foreign investment. Establishment of wholly foreign-owned enterprises is generally allowed in industries outside of the Negative List. For the restricted industries within the Negative List, some are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, restricted category projects are subject to government approvals and certain special requirements. Foreign investors are not allowed to invest in industries in the prohibited category. Industries not listed in the Negative List are generally open to foreign investment unless specifically restricted by other PRC regulations.

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

On December 30, 2019, the MOFCOM and the State Administration for Market Regulation jointly issued the Measures for Foreign Investment Information Reporting which came into effect on January 1, 2020 and replaced the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-invested Enterprises. Since January 1, 2020, for foreign investors carrying out investment activities directly or indirectly in the PRC, such foreign investors or foreign-invested enterprises shall submit investment information through the Enterprise Registration System and the National Enterprise Credit Information Publicity System operated by the State Administration for Market Regulation. Foreign investors or foreign-invested enterprises shall disclose their investment information by submitting reports for their establishments, modifications and cancellations and their annual reports in accordance with the Measures for Foreign Investment Information Reporting. If a

foreign-invested enterprise investing in the PRC has finished submitting its reports for its establishment, modifications and cancellation and its annual reports, the relevant information will be shared by the competent market regulation department to the competent commercial department, and does not require such foreign-invested enterprise to submit the reports separately.

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

Regulation on product quality and consumer protection

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

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

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

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

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

Regulation on intellectual property rights

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

Patents

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

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

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

Patent enforcement

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

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

As of December 31, 2020, we had 2385 patents granted and 985 patents applications pending in China, 54 patents granted and over 31 patents pending outside China.

Trademark law

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

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

As of December 31, 2020, we had registered 504 trademarks in China.

Software copyright law

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

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

As of December 31, 2020, we had registered 34 pieces of software copyright in China.

Regulation on domain name

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

As of December 31, 2020, we had registered 15 domain names.

Regulation on manufacture and sale of home appliances

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

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

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

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

Energy Label Management Rules, jointly promulgated by the NDRC, and the General Administration of Qualification Supervision, Inspection and Quarantine, or the AQSIQ, in 2004 and most recently amended in February 2016, provide that the products listed in the Catalogue of the People's Republic of China on the Products Affixed with Energy Efficiency Labels shall be marked with the energy-efficient labels. Manufacturers and importers of energy-using products included in such catalogue shall file a record of energy efficient labels and the relevant information with the AQSIQ and the China National Institute of Standardization authorized by the NDRC.

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

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

Regulation on mobile internet

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

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

Regulation on information security

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

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

Regulation on internet privacy

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

To comply with these laws and regulations, we have required our users to consent to our collecting and using their personal information, and established information security systems to protect users' privacy.

Regulation on employment

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

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

Regulation on tax

PRC enterprise income tax

Pursuant to the PRC Enterprise Income Tax Law, which was promulgated in 2007 and took effect on January 1, 2008, and most recently amended on December 29, 2018, and the Implementing Regulations of the Law of the People's Republic of China on Enterprise Income Tax, effective on January 1, 2008, and partly amended on April 23, 2019, enterprises and other organizations receiving income are the taxpayers of enterprise income tax and shall pay enterprise income tax in accordance with

the provisions of such laws and regulations. The PRC Enterprise Income Tax Law imposes a uniform enterprise income tax rate of 25% on all PRC resident enterprises, including FIEs, unless they qualify for certain exceptions. The enterprise income tax is calculated based on the PRC resident enterprise's global income as determined under PRC tax laws and accounting standards. If a non-resident enterprise sets up an organization or establishment in the PRC, it will be subject to enterprise income tax for the income derived from such organization or establishment in the PRC and for the income derived from outside the PRC but with an actual connection with such organization or establishment in the PRC.

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

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

PRC value added tax

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

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

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

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

PRC dividend withholding tax

Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties issued in 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-

driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Announcement on Certain Issues with Respect to the “Beneficial Owner” in Tax Treaties, issued on February 3, 2018, and effective on April 1, 2018, the business activities conducted by the applicant do not constitute substantive business activities is one of the factors which are not conducive to the determination of an applicant’s status as a “beneficial owner”, and thus are not entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

Regulation on foreign exchange

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

On August 29, 2008, the SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, regulating the conversion by an FIE of foreign currency-registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular 142 provides that the RMB capital converted from foreign currency registered capital of an FIE may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within China. The SAFE also strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of FIEs. The use of such RMB capital may not be changed without the SAFE’s approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. On March 30, 2015, the SAFE issued SAFE Circular 19, which took effective and replaced SAFE Circular 142 on June 1, 2015, and was amended on December 30, 2019. Although SAFE Circular 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in China, the restrictions continue to apply as to FIEs’ use of the converted RMB for purposes beyond the business scope, for entrusted loans (unless permitted by the business scope) or for inter-company RMB loans. The SAFE promulgated the Circular of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-affiliated enterprises. Violations of SAFE Circular 19 or Circular 16 could result in administrative penalties.

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

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

Regulation on foreign exchange registration of offshore investment by PRC residents

On July 4, 2014, the SAFE issued the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, and its implementation guidelines, which abolished and superseded the Circular on Several Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investments via Overseas Special Purpose Companies, SAFE Circular 75. Pursuant to SAFE Circular 37 and its implementation guidelines, PRC residents (including PRC institutions and individuals) must register with local branches of the SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle, or SPV, directly established or indirectly controlled by PRC residents for the purposes of offshore investment and financing with their legally owned assets or interests in domestic enterprises, or their legally owned offshore assets or interests. Such PRC residents are also required to amend their registrations with the SAFE when there is

a change to the basic information of the SPV, such as changes of a PRC resident individual shareholder, the name or operating period of the SPV, or when there is a significant change to the SPV, such as changes of the PRC individual resident's increase or decrease of its capital contribution in the SPV, or any share transfer or exchange, merger or division of the SPV. Failure to comply with the registration procedures set forth in the Circular 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, the capital inflow from the offshore entities and settlement of foreign exchange capital, and may also subject relevant onshore company or PRC residents to penalties under PRC foreign exchange administration regulations.

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

Regulation on employee share incentive plan of overseas publicly listed company

On December 25, 2006, the People's Bank of China promulgated the Administrative Measures for Individual Foreign Exchange. On February 15, 2012, the SAFE issued the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Companies, or the Stock Option Rules, which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly Listed Companies issued by the SAFE on March 28, 2007. Pursuant to the Stock Option Rules, PRC residents who are granted shares or stock options by companies listed on overseas stock exchanges according to the stock incentive plans are required to register with the SAFE or its local branches, and PRC residents participating in the stock incentive plans of overseas listed companies shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plans on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. In addition, the PRC agents are required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agents or the overseas entrusted institution, or other material changes. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share options, apply to the SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, the PRC agents shall file each quarter the form for record-filing of information of the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies with the SAFE or its local branches.

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

Regulation on dividend distributions

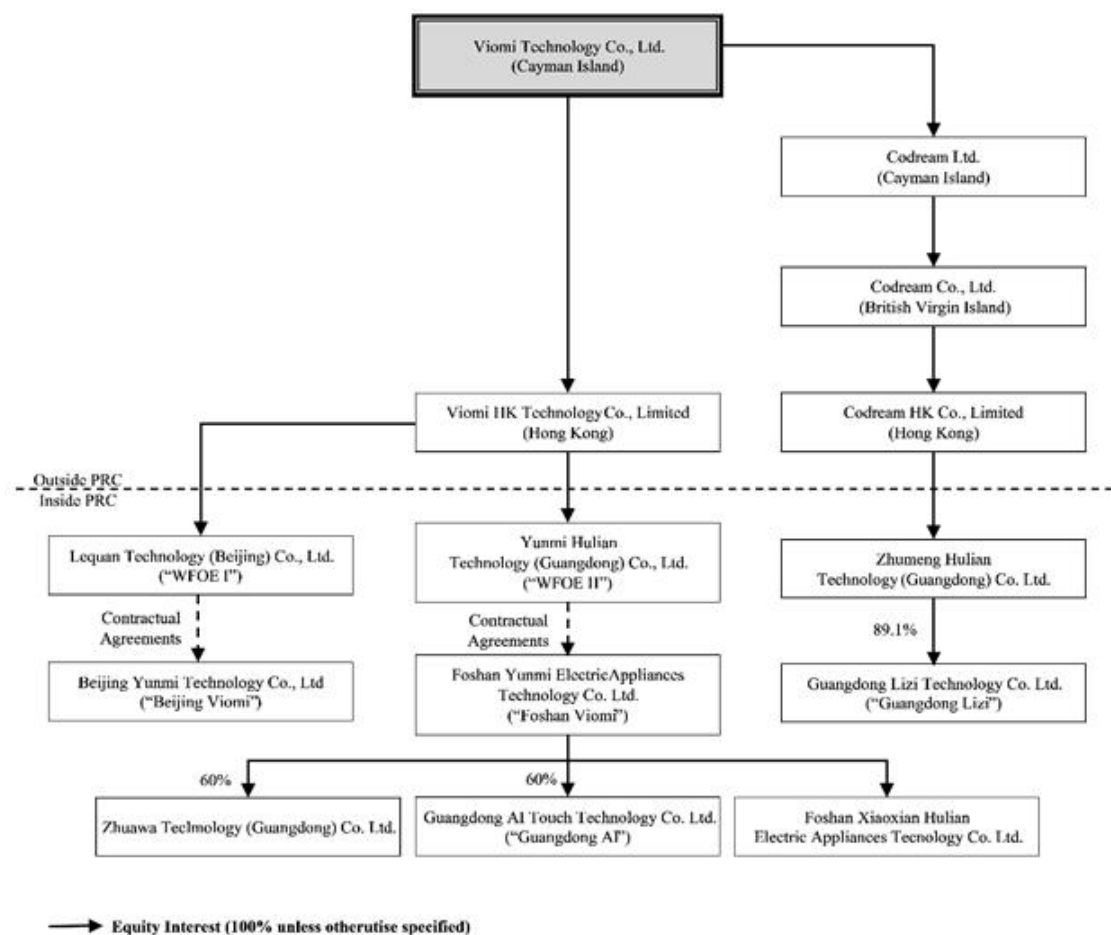
The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include:

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

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

C. Organizational Structure

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



Notes:

- 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.
- Mr. Chen holds 60% equity interests in Beijing Viomi. Two employees of our shareholders, Red Better Limited and Shunwei Talent Limited, equally hold the remaining 40% of the equity interests in Beijing Viomi.

Contractual Arrangements with Our VIEs and Their Shareholders

Agreements that provide us with effective control over our VIEs

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

transfer of all or part of the equity interests owned by such shareholder. Such shareholder voting proxy agreements will remain effective, unless otherwise terminated in advance pursuant to agreement in writing from all parties.

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

Equity Pledge Agreements. Our WFOE I, Foshan Viomi and Mr. Xiaoping Chen entered into an Equity Pledge Agreement on September 5, 2018, or the Original Equity Pledge Agreement. On April 28, 2020, WFOE I, Foshan Viomi and Mr. Xiaoping Chen entered into a Termination Agreement, which terminated the Original Equity Pledge Agreement. On the same date, WFOE II, Foshan Viomi and shareholders of Foshan Viomi entered into an Equity Pledge Agreement with provisions substantially the same as the Original Shareholder Voting Proxy Agreement. Pursuant to the Equity Pledge Agreement, the shareholders of Foshan Viomi have pledged 100% equity interests in Foshan Viomi to our WFOE II to guarantee the performance by the shareholders of their obligations under the Exclusive Option Agreement, the Shareholder Voting Proxy Agreement and the Equity Pledge Agreement, as well as the performance by Foshan Viomi of its obligations under the Exclusive Option Agreement, the Shareholder Voting Proxy Agreement, the Exclusive Consultation and Service Agreement and the Equity Pledge Agreement. In the event of a breach by Foshan Viomi or any shareholder of contractual obligations under the Equity Pledge Agreement, our WFOE II, as pledgee, will have the right to dispose of the pledged equity interests in Foshan Viomi and will have priority in receiving the proceeds from such disposal. The shareholders of Foshan Viomi also undertake that, without the prior written consent of our WFOE II, the shareholders will not dispose of, create or allow any encumbrance on the pledged equity interests. Foshan Viomi undertakes that, without the prior written consent of our WFOE II, they will not assist or allow any encumbrance to be created on the pledged equity interests.

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

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

Agreements that allow us to receive economic benefits from our VIEs

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

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

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

Exclusive Option Agreements. Our WFOE I, Foshan Viomi and Mr. Xiaoping Chen entered into an Exclusive Option Agreement on September 5, 2018, or the Original Exclusive Option Agreement. On April 28, 2020, WFOE I, Foshan Viomi and Mr. Xiaoping Chen entered into a Termination Agreement, which terminated the Original Exclusive Option Agreement. On the same day, WFOE II, Foshan Viomi and shareholders of Foshan Viomi entered into an Exclusive Option Agreement with provisions substantially the same as the Original Shareholder Voting Proxy Agreement. Pursuant to the Exclusive Option Agreement, the shareholders of Foshan Viomi have irrevocably granted our WFOE II an exclusive option to purchase all or part of such shareholders' equity interests in Foshan Viomi, and Foshan Viomi has irrevocably granted our WFOE II an exclusive option to purchase all or part of its assets. Our WFOE II or its designated person may exercise such options to purchase equity at their respective paid-in registered capital in Foshan Viomi, or the lowest price permitted under applicable PRC laws, whichever lower. Our WFOE II or its designated person may exercise such options to purchase assets at the lowest price permitted under applicable

PRC laws. The shareholders of Foshan Viomi undertake that, without our WFOE II's prior written consent, the shareholders will not, among other things, (i) transfer or otherwise dispose of their equity interests in Foshan Viomi, (ii) create any pledge or encumbrance on their equity interests in Foshan Viomi, (iii) change Foshan Viomi's registered capital, (iv) merge Foshan Viomi with any other entity, (v) dispose of Foshan Viomi's material assets (except in the ordinary course of business), or (vi) amend Foshan Viomi's articles of association. In addition, Foshan Viomi undertakes that, without our WFOE II's prior written consent, it will not, among other things, create any pledge or encumbrance on any of its assets, or transfer or otherwise dispose of its material assets (except in the ordinary course of business). The Exclusive Option Agreement will remain effective until the entire equity interests in and all the assets of Foshan Viomi have been transferred to our WFOE II or its designated person.

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

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

- the ownership structures of our VIEs in China and our WFOEs, are not in violation of applicable PRC laws and regulations currently in effect; and
- the contractual arrangements between our company, our WFOEs, our VIEs and their respective shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of applicable PRC laws.

However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or our VIE are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating some of our business operations in China do not comply with PRC regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties, or be forced to relinquish our interest in those operations" and "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system and changes in laws and regulations in China could adversely affect us."

D. Property, Plant and Equipment

Our headquarters are located in Guangzhou, China, where we rent the office building with an aggregate floor area of approximately 2,569 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 7,740 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.

As of December 31, 2020, we lease and occupy approximately 2,569 square meters of office space in Guangzhou, approximately 178 square meters of office space in Beijing and approximately 163 square meters of office space in Shanghai. These leases vary in duration from one to five years.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

A. Operating Results

Key Factors Affecting Our Results of Operations

Key factors affecting our results of operations include the following:

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

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

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

Increasing brand recognition and expanding user base

The uniqueness and effectiveness of our products and related benefits, our targeted marketing and promotional campaigns, together with our strategic partnership with Xiaomi, have enabled us to enjoy strong word-of-mouth and extensive media coverage, which have provided us with strong momentum in increasing our brand recognition and the expansion of our user base, which have been key contributors to the growth of our business. Our number of cumulative household users increased significantly from approximately 113 thousand as of March 31, 2016 to approximately 5.1 million as of December 31, 2020. As we continue to gain scale and invest in our brand, we expect our brand to gain even greater recognition among consumers, which will facilitate increasing demand for our products as well as further growth in our user base, creating additional monetization opportunities and in turn, driving further growth in our results of operations.

New product launches

Our introduction and sales of new products that are well received by consumers, both Viomi-branded and Xiaomi-branded, are important contributors to our sustainable growth. We have introduced numerous new products over the past several years and will continue to launch additional new products on a regular basis, including those with next-generation capabilities and functionalities, such as 5G, which we expect to drive continued strong growth in our results of operations. We introduced our premium water purifier sub-brand “Quanxian” in September 2020, with introduction of a series of large-flux water purifiers. We intend to enrich and expand SKUs offered under Quanxian to cater to diversified consumer demands for water purification and human health. Furthermore, we started to expand Viomi-branded sweeper robot business in both of domestic and overseas markets starting with a series of auto dust-collecting sweeper robots in late 2020. We intend to introduce additional SKUs and expand sales channels and markets for this category. In addition, we optimized our product portfolio through rolling out new products with more advanced technologies across product lines, including large-screen refrigerators and washing machines, among others, in 2020. We also launched new IoT chip modules, customer-premise equipment products, or CPE products, router products, together with our HomePad screen-based control interface and smart switch products, further strengthening 5G IoT smart connection capabilities and user experience for the home environment. Heading into 2021 with a focus on AI application, we will continue to roll out additional AI-centric new products, including premium water purifiers, range hoods, gas stoves, water heaters, air conditioners, sweeper robots and smart toilets, among others.

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

Performance of our offline sales network

An important part of our sales channel strategy is a network of over 1,000 Viomi offline experience stores across China, the majority of which were stand-alone stores, as of December 31, 2020. Please see “Item 4. Information on the Company—B. Business Overview—Sales Channels—Offline” for more details. These stores have been important positive drivers on our results of operations by strengthening our brand awareness, increasing our overall market presence and supporting the attractive pricing of our products as part of our sales channel and go-to-market strategy.

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

Product and business mix

We generate a significant portion of our revenues through the sales of our IoT products and we are continuing to introduce new products to the market. For the years ended December 31, 2018, 2019 and 2020, sales of our IoT products accounted for 81.3%, 77.2% and 78.2% 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 grow our business and increase the number of our household users. As such, our combined gross margin may be affected both by any change in revenues attributable to, and any change in the gross margin of, each business line.

Investment in R&D, marketing and brand promotion

Our success is significantly dependent on our ability to continually bring to market products and services that are popular among consumers, particularly relative to those offered by our competitors. Accordingly, we dedicate significant resources towards research and development. For the year ended December 31, 2018, 2019 and 2020, research and development expenses were RMB124.2 million, RMB204.9 million and RMB265.7 million (US\$40.7 million), accounting for 4.9%, 4.4% and 4.6% of our net revenues, respectively. 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. In addition, in accordance with our “AI + IoT + 5G” strategy to prepare for the upcoming 5G era, and have been devoting R&D resources in this regard.

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, 2018, 2019 and 2020, our selling and marketing expenses were RMB379.6 million, RMB529.2 million and RMB597.2 million (US\$91.5 million), accounting for 14.8%, 11.4% and 10.3% 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 51.2%, 45.4% and 49.6% of our net revenues in 2018, 2019 and 2020, respectively. Our strong research and development capabilities, supply chain resources and innovative products and services are able to enrich Xiaomi’s suite of offerings, resulting in a mutually beneficial relationship between Xiaomi and us.

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

Seasonality

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

Key Components of Our Results of Operations

Net revenues

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

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

	For the Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	%
(in thousands, except for percentages)							
Net revenues:							
IoT @ Home portfolio	1,151,095	45.0	2,522,189	54.3	3,671,717	562,715	63.0
Home water solutions	930,178	36.3	1,065,166	22.9	883,325	135,375	15.2
Consumables	141,940	5.5	265,844	5.7	382,896	58,681	6.6
Small appliances and others ⁽¹⁾	338,016	13.2	794,314	17.1	887,686	136,044	15.2
Total	2,561,229	100.0	4,647,513	100.0	5,825,624	892,816	100.0

Note:

(1) Including sales of small appliances and rendering of services. See footnote 14 to the Consolidated Financial Statements for more details.

IoT @ Home portfolio

We generate a significant portion of our revenues through sales of products under our IoT @ Home portfolio, which comprises smart kitchen products and other smart products. We have continued to diversify and expand our smart kitchen products over recent years. Our smart kitchen products include refrigerators, oven steamers, dishwashers, range hoods and gas stoves. We also offer a diverse array of other smart products such as air conditioning systems, washing machines, water heaters, smart water kettles, sweeper robots, smart locks and other smart devices, among others. We began to introduce a portfolio of other smart appliances, including washing machines, water heaters, among others, in 2018 and have been optimizing across the product lines through applying more advanced technologies in recent years.

Home water solutions

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

As a result of more aggressive promotional campaigns to mitigate the impacts of the adverse industry conditions, together with channel destocking initiatives during the period given the lower than expected consumer demand, both at least in large part due to the COVID-19 situation, we experienced a decline in average selling price, gross profit margins and revenues from smart water purification systems in the first nine months of 2020 as compared to 2019. We have started a number of initiatives underway with regards to our smart water purification business, including various cost control measures together with the launch of new, larger capacity products as well as additional mid to high-end products with higher average selling prices and margins products to mitigate such impacts.

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

Brands

Our IoT @ Home platform comprises of two key pillars, our Viomi business, predominantly comprising our Viomi-branded products, and our Xiaomi business, comprising our strategic partnership with Xiaomi. Sales to Viomi and other third-party channels, which constitute the vast majority of our Viomi-branded products business, accounted for 48.8%, 54.6% and 50.4% of our net revenues in 2018, 2019 and 2020, respectively. We introduced our premium water purifier sub-brand “Quanxian” in September 2020, with introduction of a series of large-flux water purifiers. We intend to enrich and expand SKUs offered under Quanxian to cater to diversified consumer demands for water purification and human health. We also intend to expand our premium AI-focused “coKiing” brand, which was first launched in late 2019 starting with a series of air conditioning products, to offer a complete, advanced and AI-centric product portfolio to high-end market.

Xiaomi is our strategic partner, shareholder and customer. Our strategic partnership with Xiaomi provides us access to Xiaomi's ecosystem users, sales platforms and data resources and related support. Sales to Xiaomi, predominantly comprising Xiaomi-branded products, historically accounted for 51.2%, 45.4% and 49.6% of our net revenues in 2018, 2019 and 2020, 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 RMB1,843.4 million, RMB3,565.1 million and RMB4,742.7 million (US\$726.8 million) for the years ended December 31, 2018, 2019 and 2020, 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,							
	2018		2019		2020			
	RMB	%	RMB	%	RMB	US\$	%	
	(in thousands, except for percentages)							
Gross profit and gross profit margin	717,797	28.0	1,082,404	23.3	1,082,956	165,970	18.6	

Operating expenses

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

	For the Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	%
(in thousands, except for percentages)							
Operating expenses:							
General and administrative	135,532	5.3	73,061	1.6	68,914	10,562	1.2
Research and development	124,230	4.9	204,942	4.4	265,680	40,717	4.6
Selling and marketing	379,554	14.8	529,212	11.4	597,176	91,521	10.3
Total	639,316	25.0	807,215	17.4	931,770	142,800	16.0

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, 2018, 2019 and 2020, RMB93.7 million, RMB7.3 million and RMB11.3 million (US\$1.7 million) were share-based compensation expenses, respectively.

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

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

Other income

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

Results of Operations

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

	For the Year Ended December 31,						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Net revenues⁽¹⁾	2,561,229	100.0	4,647,513	100.0	5,825,624	892,816	100.0
Cost of revenues	(1,843,432)	(72.0)	(3,565,109)	(76.7)	(4,742,668)	(726,846)	(81.4)
Gross profit	717,797	28.0	1,082,404	23.3	1,082,956	165,970	18.6
Operating expenses⁽²⁾:							
Research and development expenses ⁽²⁾	(124,230)	(4.9)	(204,942)	(4.4)	(265,680)	(40,717)	(4.6)
Selling and marketing expenses ⁽²⁾	(379,554)	(14.8)	(529,212)	(11.4)	(597,176)	(91,521)	(10.3)
General and administrative expenses ⁽²⁾	(135,532)	(5.3)	(73,061)	(1.6)	(68,914)	(10,562)	(1.2)
Total operating expenses	(639,316)	(25.0)	(807,215)	(17.4)	(931,770)	(142,800)	(16.0)
Other income, net	1,829	0.1	35,880	0.8	32,795	5,026	0.6
Income from operations	80,310	3.1	311,069	6.7	183,981	28,196	3.2
Interest income and short-term investment income, net	8,846	0.3	26,109	0.6	31,968	4,899	0.5
Income before income tax expenses	89,411	3.5	339,020	7.3	217,767	33,374	3.7
Income tax expenses	(24,061)	(0.9)	(45,190)	(1.0)	(43,321)	(6,639)	(0.7)
Net Income	65,350	2.6	293,830	6.3	174,446	26,735	3.0

Note:

- (1) Includes RMB1,311.9 million, RMB2,112.2 million and RMB2,889.4 million (US\$442.8 million) from sales to Xiaomi for the year ended December 31, 2018, 2019 and 2020, respectively.
- (2) Share-based compensation expenses were allocated as follows:

	For the Year Ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
General and administrative expenses	93,718	7,282	11,303	1,732
Research and development expenses	14,476	23,564	49,996	7,662
Selling and marketing expenses	8,417	12,322	10,904	1,671
Total	116,611	43,168	72,203	11,065

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

Net revenues

Our net revenues increased by 25.3% from RMB4,647.5 million in 2019 to RMB5,825.6 million (US\$892.8 million) in 2020, primarily driven by the continued successful rollout and increase in sales of Xiaomi-branded and Viomi-branded products.

- *Sales to Xiaomi.* Revenues from sales to Xiaomi increased by 36.8% to RMB2,889.4 million (US\$442.8 million) from RMB2,112.2 million for 2019, primarily due to the additional volume sales of Xiaomi-branded products, including sweeper robots.
- *Sales through our own and third-party channels.* Revenues from sales through our own and third-party channels increased by 15.8% to RMB2,936.2 million (US\$450.0 million) from RMB2,535.3 million for 2019, primarily due to the successful rollout and increase in sales volume of Viomi-branded products.

IoT @ Home portfolio. Revenues from IoT @ Home portfolio increased by 45.6% to RMB3,671.7 million (US\$562.7 million) from RMB2,522.2 million for 2019, primarily due to additional volume sales of Viomi-branded sweeper robots and air conditioners, as well as the additional volume sales of Xiaomi-branded sweeper robots.

Home water solutions. Revenues from home water solutions decreased by 17.1% to RMB883.3 million (US\$135.4 million) from RMB1,065.2 million for 2019, primarily due to the decreases in average selling prices, particularly of Xiaomi branded water purifier products. These effects were partially mitigated by the successful introduction of new series of Viomi-branded water purifier products.

Consumables. Revenues from consumables increased by 44.0% to RMB382.9 million (US\$58.7 million) from RMB265.8 million for 2019, primarily due to the increased demand for our water purifier filter products.

Small appliances and others. Revenues from small appliances and others increased by 11.8% to RMB887.7 million (US\$136.0 million) from RMB794.3 million for 2019, primarily due to new product introductions, together with increased demand for our small appliances products.

Cost of revenues

Our cost of revenues increased by 33.0% from RMB3,565.1 million in 2019 to RMB4,742.7 million (US\$726.8 million) in 2020, as a result of the overall growth of our business and relatively in line with the rapid growth of net revenues.

Gross profit

Our gross profit is generally steady, increasing by 0.1% from RMB1,082.4 million in 2019 to RMB1,083.0 million (US\$166.0 million) in 2020, largely as a result of decreases in average selling prices of certain product categories, such as water purifiers, which outweigh the increase in sales volume.

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

Operating Expenses

Our operating expenses increased by 15.4% from RMB807.2 million in 2019 to RMB931.8 million (US\$142.8 million) in 2020, primarily due to the rapid growth of our business and an increase in share-based compensation, partially offset by our continued implementation of expense control initiatives.

General and administrative. General and administrative expenses decreased by 5.7% from RMB73.1 million in 2019 to RMB68.9 million (US\$10.6 million) in 2020, primarily due to implementation of expense control initiatives, which offset an increase in share-based compensation expenses of RMB4.0 million (US\$0.6 million) to attract and retain senior management personnel a significant decrease in share-based compensation expenses.

Research and development. Research and development expenses increased by 29.6% from RMB204.9 million in 2019 to RMB265.7 million (US\$40.7 million) in 2020, primarily due to an increase in share-based compensation expenses amounting to RMB26.4 million (US\$4.1 million) to attract and retain research and development personnel, and expenses associated with depreciation of molds for researching and developing amounting to RMB20.3 million (US\$3.1 million).

Selling and marketing. Selling and marketing expenses increased by 12.8% from RMB529.2 million in 2019 to RMB597.2 million (US\$91.5 million) in 2020. This increase was primarily due to an increase in commission expenses amounting to RMB62.9 million (US\$9.6 million) as a result of the growth of our business, partially offset by the expense control measures implemented by our Company.

Income tax expenses

We had an income tax expenses of RMB45.2 million in 2019, and RMB43.3 million (US\$6.6 million) in 2020.

Net income

As a result of the foregoing, we recorded a net income of RMB174.4 million (US\$26.7 million), in 2020, compared to RMB293.8 million for 2019. Excluding the impact of share-based compensation expenses, our net income was RMB246.6 million (US\$37.8 million), in 2020, compared to RMB337.0 million for 2019.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Net revenues

Our net revenues increased by 81.5% from RMB2,561.2 million in 2018 to RMB4,647.5 million in 2019, primarily due to the continued successful rollout and significant increase in sales of Viomi-branded and Xiaomi-branded products.

- *Sales to Xiaomi.* Revenues from sales to Xiaomi increased by 61.0% to RMB2,112.2 million from RMB1,311.9 million for 2018, primarily due to additional volume sales of Xiaomi-branded water purifiers and related products and additional categories of products sold to Xiaomi.
- *Sales through our own and third-party channels.* Revenues from sales through our own and third-party channels increased by 102.9% to RMB2,535.3 million from RMB1,249.4 million for 2018, primarily due to the successful rollout and significant increase in sales volume of Viomi-branded products.

IoT @ Home portfolio. Revenues from IoT @ Home Portfolio increased by 119.1% to RMB2,522.2 million from RMB1,151.1 million for 2018, primarily due to the increase in sales volumes of Viomi-branded smart kitchen products and other smart products such as Viomi-branded refrigerator, washing machine, water heater and sweeper robot products, together with the rollout of new Xiaomi-branded products such as sweeper robot, range hood and gas stove products.

Home water solutions. Revenues from home water solutions increased by 14.5% to RMB1,065.2 million from RMB930.2 million for 2018, primarily due to the introduction of new series of smart water purifier products, together with an overall increase in sales volumes of our smart water purification systems products.

Consumable products. Revenues from consumable products increased by 87.3% to RMB265.8 million from RMB141.9 million for 2018, primarily due to the increased demand for our water purifier filter products.

Small appliances and others. Revenues from small appliances and others increased by 135.0% to RMB794.3 million from RMB338.0 million for 2018, primarily due to new product introductions, together with increased demand for our small appliances products.

Cost of revenues

Our cost of revenues increased by 93.4% from RMB1,843.4 million in 2018 to RMB3,565.1 million in 2019, as a result of the overall growth of our business and relatively in line with the rapid growth of net revenues.

Gross profit

Our gross profit increased by 50.8% from RMB717.8 million in 2018 to RMB1,082.4 million in 2019, largely as a result of our sales growth.

Our gross margin decreased from 28.0% to 23.3% for the same periods. The decline in gross margin was primarily due to the shifts in our business and product mix. IoT @ Home portfolio historically has had lower gross margins as compared to home water solutions category, and there was a significant increase in net revenue contribution from IoT @ Home portfolio, and a resultant lower net revenue contribution from home water solutions category.

Operating Expenses

Our operating expenses increased by 26.3% from RMB639.3 million in 2018 to RMB807.2 million in 2019, primarily due to the rapid growth of our business.

General and administrative. General and administrative expenses decreased by 46.1% from RMB135.5 million in 2018 to RMB73.1 million in 2019, primarily due to a significant decrease in share-based compensation expenses. A one-off share-based compensation expense of RMB90.2 million incurred in the third quarter of 2018 was no longer incurred in 2019.

Research and development. Research and development expenses increased by 65.0% from RMB124.2 million in 2018 to RMB204.9 million in 2019, primarily due to an increase in employee-related expenses amounting to RMB51.6 million, including an increase in share-based compensation expenses amounting to RMB9.1 million to attract and retain research and development personnel, as well as patent-related expenses amounting to RMB4.5 million.

Selling and marketing. Selling and marketing expenses increased by 39.4% from RMB379.6 million in 2018 to RMB529.2 million in 2019. This increase was primarily due to an increase in employee-related expenses amounting to RMB13.6 million, as well as increases in logistics expenses amounting to RMB104.9 million.

Income tax expenses

We had an income tax expenses of RMB24.1 million in 2018, and RMB45.2 million in 2019. The effective tax rate in 2018 was significantly impacted by the one-off share-based compensation expense of RMB90.2 million, which was non-deductible for income tax purpose.

Net income

As a result of the foregoing, we recorded a net income of RMB293.8 million, in 2019, compared to RMB65.4 million for 2018. Excluding the impact of share-based compensation expenses, our net income was RMB337.0 million, in 2019, compared to RMB182.0 million for 2018.

Taxation

Cayman Islands

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

Hong Kong

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

China

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

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

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

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

B. Liquidity and Capital Resources

Cash flows and working capital

To date, we have financed our operations primarily through cash generated by operating activities and historical equity financing activities. As of December 31, 2018, 2019 and 2020, we had cash and cash equivalents and restricted cash of RMB969.8 million, RMB1,003.0 million and RMB574.7 million (US\$88.1 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 the SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiaries are allowed to pay dividends in foreign currencies to us without prior the SAFE approval by following certain routine procedural requirements. However, current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Each of our PRC subsidiary is required to set aside at least 10% of its after-tax profits after making up previous years’ accumulated losses each year, if any, to fund certain statutory reserve funds until the total amount set aside reaches 50% of its registered capital. In addition, it may allocate a portion of its after-tax profits based on PRC accounting standards to discretionary reserve funds at its discretion. These reserves are not distributable as cash dividends. Historically, our PRC subsidiaries have not paid dividends to us, and it will not be able to pay dividends until it generates accumulated profits. Furthermore, capital account transactions, which include foreign direct investment and loans, must be approved by and/or registered with the SAFE, its local branches and certain local banks.

The restricted net assets of our PRC subsidiaries and VIEs amounted to RMB13.8 million, RMB31.4 million and RMB61.9 million (US\$9.5 million) as of December 31, 2018, 2019 and 2020, respectively. The unrestricted portion, or amounts otherwise available for transfer in the form of dividends, loans or advances amounted to RMB538.2 million, RMB1,012.3 million and RMB871.4 million (US\$133.5 million) as of December 31, 2018, 2019 and 2020, respectively.

As a Cayman Islands exempted company and offshore holding company, we are permitted under PRC laws and regulations to provide funding to our wholly foreign-owned subsidiaries in China only through loans or capital contributions, subject to the approval of government authorities and limits on the amount of capital contributions and loans. In addition, our wholly foreign-owned subsidiaries in China may provide Renminbi funding to their respective subsidiaries through capital contributions and entrusted loans, and to our consolidated variable interest entities only through entrusted loans. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—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 initial public 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,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Selected Consolidated Cash Flow Data:				
Net cash provided by operating activities	222,269	245,484	185,196	28,383
Net cash used in investing activities	(151,821)	(268,956)	(433,083)	(66,372)
Net cash provided by/(used in) financing activities	604,975	48,542	(146,375)	(22,432)
Effect of exchange rate changes on cash and cash equivalents	14,473	8,087	(34,034)	(5,216)
Net increase in cash and cash equivalents and restricted cash	689,896	33,157	(428,296)	(65,639)
Cash and cash equivalents and restricted cash at the beginning of the year	279,952	969,848	1,003,005	153,717
Cash and cash equivalents and restricted cash at the end of the year	<u>969,848</u>	<u>1,003,005</u>	<u>574,709</u>	<u>88,078</u>

Operating activities

Net cash provided by operating activities was RMB185.2 million (US\$28.4 million) in 2020. The difference between net cash provided by operating activities and our net income of RMB174.4 million (US\$26.7 million) was primarily due to RMB130.5 million (US\$20.0 million) used for working capital, partially offset by the adjustment of RMB72.2 million (US\$11.1 million) in share-based compensation, RMB54.3 million (US\$8.3 million) in depreciation and amortization and RMB22.6 million (US\$3.5 million) in inventory write-down. The additional cash used for working capital were mainly due to a RMB118.4 million (US\$18.1 million) increase in accounts and notes receivable from third parties, a RMB64.1 million (US\$9.8 million) increase in other receivables from related parties, a RMB43.9 million (US\$6.7 million) increase in inventory, a RMB41.8 million (US\$6.4 million) decrease in accounts and notes payables, and a RMB23.5 million (US\$3.6 million) increase in prepaid expenses and other current assets, partially offset by a RMB99.1 million (US\$15.2 million) increase in amounts due to related parties, a RMB98.8 million (US\$15.1 million) increase in accounts receivable from a related party, a RMB17.4 million (US\$2.7 million) increase in income tax payables, and a RMB9.5 million (US\$1.5 million) increase in advances from customers. The increase in accounts and notes receivable and that in inventories were due to the rapid growth of our business. The accounts receivable from a related party represent sales receivable of products to Xiaomi, the decrease of which reflects our increased efforts in collecting the receivable. The amounts due to related parties represent the payable of purchasing products from Xiaomi and other related parties, the increase of which reflects the increase of product purchase from the related parties. The accounts and notes receivable from third parties represent sales receivable of products to certain leading e-commerce platforms, the increase of which reflects the growth of our sales to these e-commerce platforms as a result of the growth of our overall business. Other receivables from related parties represent the receivable from sales of Viomi-branded products on the e-platform of Xiaomi, the increase of which reflects the growth of our sales to this e-platform.

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

Net cash provided by operating activities was RMB222.3 million in 2018. The difference between net cash provided by operating activities and our net income of RMB65.4 million was primarily due to RMB116.6 million in share-based compensation expenses, including a one-off share-based compensation expenses of RMB90.2 million. The one-off share-based compensation expense was the result of certain share awards granted in August 2018 to Mr. Chen for his contribution to the Company's development.

Investing activities

We used RMB433.1 million (US\$66.4 million) in investing activities in 2020, mainly as a result of RMB3,256.2 million (US\$499.0 million) used for the purchase of short-term investments and RMB215.6 million (US\$33.0 million) used for placement of short-term deposit, partially offset by RMB2,874.2 million (US\$440.5 million) from the maturity of short-term investments and RMB215.0 million (US\$32.9 million) from maturities of short-term deposits.

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

We used RMB151.8 million in investing activities in 2018, as a result of RMB238.7 million used for the purchase of short-term investments and RMB13.5 million used for the purchase of equipment, partially offset by RMB69.4 million from the maturity of a short-term investment.

Financing activities

Net cash used in financing activities was RMB146.4 million (US\$22.4 million) in 2020, mainly as a result of RMB95.9 million (US\$14.7 million) payback of short-term borrowing, RMB54.6 million (US\$8.4 million) used in repurchases of ordinary shares, partially offset by proceeds from exercise of vested share options of RMB6.6 million (US\$1.0 million).

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

Net cash provided by financing activities was RMB605.0 million in 2018, mainly as a result of RMB636.2 million net proceeds received from issuance of ordinary shares upon IPO.

Working capital turnover

Inventory

Our inventory consists of finished products and raw materials. As of December 31, 2018, 2019 and 2020, our inventory was RMB232.0 million, RMB418.0 million and RMB439.4 million (US\$67.3 million), respectively. The increase reflected the growth in our sales. Our inventory turnover days was 28 days, 34 days and 33 days for the years ended December 31, 2018, 2019 and 2020, 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, 2018, 2019 and 2020, our accounts and notes receivable, net of allowance for doubtful accounts, were RMB372.7 million, RMB1,024.1 million and RMB1,036.4 million (US\$158.8 million), respectively. Our total accounts and notes receivable as of December 31, 2020 included RMB609.1 million (US\$93.3 million) from Xiaomi and RMB386.1 million (US\$59.2 million) from e-commerce platforms. The increase reflected a significant growth in our business and revenues. Our accounts and notes receivable turnover days were 45 days, 55 days and 65 days for the years ended December 31, 2018, 2019 and 2020, 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, 2018, 2019 and 2020, our accounts and notes payable were RMB548.5 million, RMB1,043.2 million and RMB1,001.4 million (US\$153.5 million), respectively. The increase reflected the growth of our sales. Our accounts and notes payable turnover days were 83 days, 83 days and 80 days for the years ended December 31, 2018, 2019 and 2020, 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.

Off-Balance Sheet Commitments and Arrangements

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

Holding Company Structure

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

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 judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences 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 estimates should be read in conjunction with our consolidated financial statements and accompanying notes and other disclosures included in this annual report. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Revenue recognition

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

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

Sales to Xiaomi

During 2018 to 2020, 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.

In 2019, we entered into a cooperation arrangement with Xiaomi related to a certain type of products. Under the arrangement, we act as an agent of Xiaomi to procure suppliers without obtaining the control, risks and rewards of the products during the whole process. We recognize revenue of sales on a net basis for these products.

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

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

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

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

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

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

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

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

Sales returns and sales incentives

- Sales to leading e-commerce platforms

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

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

- 7 days unconditional sales return

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

Warranty

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

Fair value per ordinary share

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

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

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

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

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

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

The following table sets forth the fair values of our ordinary shares estimated from July 1, 2016 to December 31, 2020:

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

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

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

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

Share-based compensation

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

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

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

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

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

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

Share options

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

In June 2018, our board of directors and shareholders approved the 2018 Share Incentive Plan. The maximum number of shares issuable under the 2018 Share Incentive Plan was 21,843,675 as of December 31, 2020.

We calculated the estimated fair value of the options on the respective grant dates using the binomial option pricing model. Assumptions used to determine the fair value of share options granted during 2017, 2018, 2019 and 2020 are summarized in the following table:

	2017	2018	2020
Risk-free interest rate	3.06%~3.89%	3.62%~3.92%	2.20%~3.30%
Expected volatility	47.02%~49.44%	45.51%~46.99%	41.30%~43.62%
Expected life of option (years)	10	10	10
Expected dividend yield	—	—	—
Fair value per ordinary share	US\$0.76~US\$1.59	US\$1.61~US\$3.30	US\$1.04~US\$1.47

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

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

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

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

Redeemable convertible preferred shares

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

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

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

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

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

Recent Accounting Pronouncements

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

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

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

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events since the beginning of our fiscal year 2020 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. Off-balance Sheet Arrangements

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.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2020.

	Payment Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Operating lease obligation(1)	30,487	12,017	18,226	244	—

(RMB in thousands)

Note:

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

As of December 31, 2020, we had no outstanding capital commitments.

G. Safe Harbor

See "Forward-Looking Statements" on page 2 of this annual report.

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	46	Founder, Chairman of the Board of Directors and Chief Executive Officer
De Liu	47	Director
Jinling Zhang	49	Independent Director
Weijiang Wu	44	Independent Director
Jun Li	42	Independent Director

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

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

Ms. Jinling Zhang has served as our independent director since September 2018. Ms. Zhang has served as the managing partner and chief financial officer of Baidu Venture since November 2020 and the chief financial officer of Baidu Capital since 2018. Prior to her current role at Baidu Capital, Ms. Zhang served as the chief financial officer 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 Opple 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 2020, we paid an aggregate of approximately RMB5.3 million in cash to our executive officers, and RMB1.1 million to our independent directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our directors and executive officers. Our PRC subsidiaries and VIEs are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

2015 Share Incentive Plan

In September 2015, our shareholders and board of directors adopted the 2015 Share Incentive Plan, which we refer to as the 2015 Plan in this annual report, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. The maximum aggregate number of ordinary shares that may be issued pursuant to all awards under the 2015 Plan is 12,727,272 shares. As of December 31, 2020, awards to purchase 7,401,347 ordinary shares have been granted and are outstanding under the 2015 Plan, excluding awards that were exercised, forfeited or cancelled after the relevant grant dates.

The following paragraphs summarize the terms of the 2015 Plan.

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

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

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

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

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

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

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

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

2018 Share Incentive Plan

In June 2018, our shareholders and board of directors adopted the 2018 Share Incentive Plan, which we refer to as the 2018 Plan in this annual report, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. The maximum aggregate number of shares which may be issued pursuant to all awards is 17,672,728, plus an annual increase on the first day of each of the fiscal years of the Company after the completion of our initial public offering during the term of this Plan commencing, by (i) an amount equal to 1% of the total number of the then outstanding shares or (ii) such fewer number of Shares as may be determined by the Board. As of December 31, 2020, the maximum of shares that may be issued under the 2018 Share Incentive Plan was 21,843,675, awards to purchase 18,705,252 ordinary shares have been granted and are outstanding under the 2018 Plan, excluding awards that were forfeited or cancelled after the relevant grant dates.

The following paragraphs summarize the terms of the 2018 Plan.

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

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

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

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

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

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

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

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

The following table summarizes, as of December 31, 2020, the awards granted under the 2015 Plan and 2018 Plan to our directors and executive officers, excluding awards that were forfeited or cancelled after the relevant grant dates.

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

Note:
* Less than 1% of our total outstanding shares.

As of December 31, 2020, other employees as a group held outstanding options to purchase 25,106,599 ordinary shares of our company, at a weighted average exercise price of US\$0.72 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 (US\$13.1 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 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 from time to time at their discretion exercise all the powers of the company to raise or borrow money, mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof, to issue debentures, debenture stock, bonds or other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

Committees of the Board of Directors

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

Audit Committee. Our audit committee consists of Ms. Jinling Zhang and Mr. Jun Li. Ms. Jinling Zhang is the chairman of our audit committee. We have determined that Ms. Jinling Zhang and Mr. Jun Li satisfy the "independence" requirements of Rule 5605(c)(2) of the Listing Rules of the Nasdaq and Rule 10A-3 under the Exchange Act. We have determined that Ms. Jinling Zhang qualifies as an "audit committee financial expert." The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

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

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

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and

- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person's independence from management.

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

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

Duties of Directors

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

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

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

Terms of Directors and Officers

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

D. Employees

We had 1,182 employees as of December 31, 2020. The following table sets forth the numbers of our employees categorized by function as of December 31, 2020:

	As of December 31, 2020
Function:	
Research and development	398
Manufacturing	327
Sales and marketing	392
General administration	65
Total	<u>1,182</u>

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

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

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

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

E. Share Ownership

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our shares as of February 28, 2021 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 207,718,232 ordinary shares outstanding, consisting of 104,163,686 Class A ordinary shares (excluding 11,503,698 Class A ordinary shares that were issued to our depository bank and reserved for future grants under our share incentive plans) and 103,554,546 Class B ordinary shares outstanding as of February 28, 2021.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	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⁾	2,648,995	69,036,364	34.5%	60.8%
De Liu	—	—	—	—
Jinling Zhang	—	—	—	—
Weijiang Wu	—	—	—	—
Jun Li	—	—	—	—
All Directors and Executive Officers as a Group	2,648,995	69,036,364	34.5%	60.8%
Principal Shareholders:				
Viomi Limited ⁽²⁾	2,200,000	67,636,364	33.6%	59.5%
Shunwei Talent Limited ⁽³⁾	32,111,364	—	15.5%	2.8%
Red Better Limited ⁽⁴⁾	330,000	33,818,182	16.4%	29.7%
Guolao Investments ⁽⁵⁾	10,716,303	—	5.2%	0.9%

Notes:

* Unless otherwise stated, the business address of our directors and executive officers is Wansheng Square, Rm 1302 Tower C, Xingang East Road, Haizhu District, Guangzhou, Guangdong, Guangdong, 510220, People's Republic of China. Mr. De Liu's business address is Xiaomi Mobile Internet Industrial Park, No. 114, Anningzhuang North Road, Haidian District, Beijing 100085, 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 held by such person or group with respect to all outstanding shares of our Class A and Class B ordinary shares as a single class. Each holder of Class A ordinary shares is entitled to one vote per share. Each holder of our Class B ordinary shares is entitled to ten votes per share. Our Class B ordinary shares are convertible at any time by the holder into Class A ordinary shares on a one-for-one basis.

(1) Represents (i) 2,200,000 Class A ordinary shares and 67,636,364 Class B ordinary shares beneficially owned by Viomi Limited, a British Virgin Islands company, and (ii) 1,400,000 Class B ordinary shares and 448,995 Class A ordinary shares in the form of ADS beneficially owned by certain employees.

Viomi Limited is wholly owned by a trust established for the benefit of Mr. Xiaoping Chen and his family. The abovementioned certain employees granted an irrevocable voting proxy for all their ordinary shares to Mr. Xiaoping Chen.

(2) Represents 67,636,364 Class B ordinary shares and 2,200,000 Class A ordinary shares held by Viomi Limited, a British Virgin Islands company. Viomi Limited is wholly owned by Mr. Xiaoping Chen. The registered address of Viomi Limited is NovaSage Incorporation (BVI) Limited of NovaSage Chambers, P.O. Box 4389, Road Town, Tortola, British Virgin Islands.

(3) Represents 32,111,364 Class A ordinary shares held by Shunwei Talent Limited. Information regarding beneficial ownership is reported as of December 31, 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.

(4) Represents 33,818,182 Class B ordinary shares and 333,000 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.

(5) Represents 10,716,303 Class A ordinary shares held by Guolao Investments, a Cayman Islands company. Information regarding beneficial ownership is reported as of February 18, 2021, based on the information contained in the Schedule 13G filed by Guolao Investments with SEC on February 22, 2021. The address of Guolao Investments is 4th Floor, Harbour Place, 103 South Church Street, Grand Cayman KY1-1002, Cayman Islands.

To our knowledge, as of February 28, 2021, 113,467,380 of our Class A ordinary shares were held by one record holder in the United States, which is the depository of our ADS program. As of February 28, 2021, none of our Class B ordinary shares are held by U.S. record holders. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

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

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

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

B. Related Party Transactions

Contractual Arrangements with Our VIEs and Their Respective Shareholders

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

Shareholders Agreement and Investor Rights Agreement

Shareholders agreement and registration rights

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

Registration rights granted to shareholders

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

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

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

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

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

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

Employment Agreements and Indemnification Agreements

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

Share Incentive Plans

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

Private Placements

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

Our Relationship with Xiaomi

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

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 2020, revenues generated from sales to Xiaomi, predominantly comprising Xiaomi-branded products, was RMB2,889.4 million (US\$442.8 million), accounting for 49.6% of our net revenues.

Business cooperation agreement

The current business cooperation agreement entered into in 2017 with Xiaomi governs the design, production and sales to Xiaomi in relation to certain specified product categories, including some SKUs of Xiaomi-branded water purification systems, water purifier filters, as well as other complementary products such as kettles and water quality meters. This contract contains an auto-renewal provision, and was most recently renewed in November 2019 for another year. This agreement can be terminated earlier by Xiaomi, among other reasons, if (i) we breach the material obligation underlying this agreement and purchase order, (ii) except as prohibited by applicable bankruptcy laws, we declare bankruptcy, or if we are unable to repay due loans, or perform contracts, or if our assets are transferred to or taken by other creditors, (iii) the products fail to meet Xiaomi’s requirements, and Xiaomi determines that there is no value to remedy or the products still fail the requirement after three times’ remedies, (iv) we fail to deliver the products on time without reasonable cause and Xiaomi’s prior written consent, and (v) we fail to store the data to clouds designated by Xiaomi, cause disputes of violating users’ personal information, or disclose user data to any third party without Xiaomi’s consent.

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

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

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

In addition to the business cooperation agreement, we have entered into a cooperation arrangement with Xiaomi related to a certain type of products. Under the arrangement, we act as an agent of Xiaomi to procure suppliers without obtaining the control, risks and rewards of the products during the whole process. We recognize revenue of sales on a net basis for these products.

Youpin commission sales agreement

We have entered into a commission sales agreement with Xiaomi for the sale of our own branded products on Youpin. The commission sales agreement expired on December 31, 2020 and has been renewed up to December 31, 2021. Furthermore, this agreement may be terminated by Xiaomi with 30 days' written notice.

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

Transaction with Xiaomi

In 2020, we recorded RMB2,889.4 million (US\$442.8 million) in revenues from Xiaomi primarily for the sales of Xiaomi-branded products. As of December 31, 2020, the amount due from Xiaomi was RMB697.1 million (US\$106.8 million).

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

In 2018, we recorded RMB1,311.9 million in revenues from Xiaomi primarily for the sales of Xiaomi-branded products. As of December 31, 2018, the amount due from Xiaomi was RMB373.3 million.

We purchased RMB18.2 million, RMB43.0 million and RMB50.8 million (US\$7.8 million) of products from Xiaomi in 2018, 2019 and 2020, respectively. We recognized RMB24.6 million, RMB81.9 million and RMB97.2 million (US\$14.9 million) in commission fees and advertising fees to Xiaomi in 2018, 2019 and 2020, respectively, which was incurred by selling our own self-branded products on Youpin.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

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

Legal Proceedings

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

Dividend Policy

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

On March 18, 2019, our board of directors declared a special cash dividend of US\$0.0333 per ordinary share (or US\$0.1 per ADS) on our outstanding ordinary shares. Going forward, we intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. We do not have any present plan to pay regular cash dividends on our ordinary shares in the foreseeable future.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on Dividend Distributions.”

If we pay any dividends on our Class A ordinary shares, we will pay those dividends which are payable in respect of the Class A ordinary shares underlying our ADSs to the depositary, as the registered holder of such Class A ordinary shares, and the depositary then will pay such amounts to our ADS holders in proportion to Class A ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our Class A ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

Our ADSs, each representing three Class A ordinary shares of ours, have been listed on the Nasdaq Stock Market since September 25, 2018 under the symbol “VIOT.”

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing three Class A ordinary shares of ours, have been listed on the Nasdaq Stock Market since September 25, 2018 under the symbol “VIOT.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our memorandum and articles of association and of the Companies Act of the Cayman Islands, or the Companies Act, insofar as they relate to the material terms of our ordinary shares.

Objects of Our Company. Under our memorandum and articles of association, the objects of our company are unrestricted and we have the full power and authority to carry out any object not prohibited by the Cayman Islands law.

Ordinary Shares. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares will have the same rights except for voting and conversion rights. Our ordinary shares are issued in registered form and are issued when registered in our register of shareholders. We may not issue shares to bearer. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Conversion. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of any Class B ordinary share by Mr. Xiaoping Chen or Viomi Limited to any person who is not Mr. Chen Xiaoping or his affiliate(s), or upon a change of ultimate beneficial ownership of any Class B ordinary share to any person who is not Mr. Xiaoping Chen or his affiliate(s), such Class B ordinary share shall be automatically and immediately converted into one Class A ordinary share. Upon any sale, transfer, assignment or disposition of any Class B ordinary share by a shareholder other than Mr. Xiaoping Chen or his affiliate(s) to any person, such Class B ordinary share shall be automatically and immediately converted into one Class A ordinary share.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors. In addition, our shareholders may declare dividends by ordinary resolution, but no dividend shall exceed the amount recommended by our directors. Our memorandum and articles of association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from funds legally available for distribution. Under the laws of the Cayman Islands, our company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

Voting Rights. In respect of all matters subject to a shareholders' vote, each holder of Class A ordinary shares is entitled to one vote per share and each holder of Class B ordinary shares is entitled to ten votes per share on all matters subject to vote at our general meetings. Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law. Voting at any shareholders' meeting is by show of hands unless a poll is demanded (before or on the declaration of the result on a show of hands). A poll may be demanded by the chairman of such meeting or any shareholder present in person or by proxy.

General Meetings of Shareholders. As a Cayman Islands exempted company, we are not obliged by the Companies Act to call shareholders' annual general meetings. Our memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors.

Shareholders' general meetings may be convened by the chairman of our board of directors or a majority of our board of directors (acting by a resolution of the board of directors). Advance notice of at least seven calendar days is required for the convening of our annual general shareholders' meeting (if any) and any other general meeting of our shareholders. A quorum required for any general meeting of shareholders consists of one or more shareholders present in person or by proxy, representing not less than one-third of all votes attaching to all of our shares in issue and entitled to vote.

The Companies Act provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our memorandum and articles of association provide that upon the requisition of shareholders representing in aggregate not less than one-third of the votes attaching to the outstanding shares of our company entitled to vote at general meetings, our board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. However, our memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

Transfer of Ordinary shares. Subject to the restrictions set out in our memorandum and articles of association as set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as Nasdaq may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of Nasdaq, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our board may determine.

Liquidation. On the winding up of our company, if the assets available for distribution amongst our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders in proportion to the par value of the shares held by them.

Calls on Shares and Forfeiture of Shares Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 calendar days prior to the specified time of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, Repurchase and Surrender of Shares. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by shareholders by special resolutions. Our Company may also repurchase any of our shares on such terms and in such manner as have been approved by our board of directors or by an ordinary resolution of our shareholders. Under the Companies Act, the redemption or repurchase of any share may be paid out of our Company's profits or out of the proceeds of a new issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act, no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Variation of Rights of Shares. If at any time our share capital is divided into different classes of shares, the rights attached to any such class of shares (unless otherwise provided by the terms of issue of the shares of that class), may be materially adversely varied with the consent in writing of the holders of two-thirds of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be materially adversely varied by the creation or issue of further shares ranking *pari passu* with or subsequent to such existing class of shares or the redemption or purchase of any shares of any class by our company. In addition, the rights of the holders of shares shall not be deemed to be materially adversely varied by the creation or issue of shares with preferred or other rights including, without limitation, the creation of shares with enhanced or weighted voting rights.

Issuance of Additional Shares. Our memorandum and articles of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our memorandum and articles of association also authorizes our board of directors to establish from time to time one or more series of preference shares and to determine, with respect to any series of preference shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preference shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

Inspection of Books and Records. Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (save for the memorandum and articles of association and our register of mortgages and charges). However, we will provide our shareholders with annual audited financial statements.

Anti-Takeover Provisions. Some provisions of our memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

Exempted Company. We are an exempted company with limited liability under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue negotiable or bearer shares or shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Board Practices. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested provided (a) such director, if his interest in such contract or arrangement is material, has declared the nature of his interest at the earliest meeting of the board at which it is practicable for him to do so, either specifically or by way of a general notice, (b) such director has not been disqualified by the chairman of the relevant board meeting, and (c) if such contract or arrangement is a transaction with a related party, such transaction has been approved by the audit committee in accordance with the Nasdaq rules. The directors may exercise all the powers of the company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company”, “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions,” in this “Item 10. Additional Information—C. Material Contracts” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on Foreign Exchange.”

E. Taxation

The following summary of the material Cayman Islands, PRC and U.S. federal income tax consequences 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 consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences 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 us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or, after execution, brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of our ordinary shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of our ordinary shares, nor will gains derived from the disposal of our ordinary shares or ADSs be subject to Cayman Islands income or corporation tax.

No stamp duty is payable in respect of the issue of our ordinary shares or on an instrument of transfer in respect of our ordinary shares.

People's Republic of China Taxation

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall and substantial management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China only if all of the following conditions are met: (i) the primary location where senior management personnel and departments that are responsible for the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe that Viomi Technology Co., Ltd is not a PRC resident enterprise for PRC tax purposes. Viomi Technology Co., Ltd is not controlled by a PRC enterprise or PRC enterprise group and we do not believe that Viomi Technology Co., Ltd meets all of the conditions above. Viomi Technology Co., Ltd is a company incorporated outside the PRC. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. For the same reasons, we believe our other entities outside of China are not PRC resident enterprises either. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” There can be no assurance that the PRC government will ultimately take a view that is consistent with us.

If the PRC tax authorities determine that Viomi Technology Co., Ltd is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. It is also unclear whether non-PRC shareholders of Viomi Technology Co., Ltd would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that Viomi Technology Co., Ltd is treated as a PRC resident enterprise.

Provided that our Cayman Islands holding company, Viomi Technology Co., Ltd, is not deemed to be a PRC resident enterprise, holders of our ADSs and ordinary shares who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares or ADSs. However, under SAT Public Notice 7 and SAT Public Notice 37, where a non-resident enterprise conducts an “indirect transfer” by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, or the transferee or the PRC entity which directly owned such taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may

be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under SAT Public Notice 7 and SAT Public Notice 37, and we may be required to expend valuable resources to comply with SAT Public Notice 7 and SAT Public Notice 37, or to establish that we should not be taxed under these circulars. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.”

U.S. Federal Income Tax Considerations

The following discussion is a summary of U.S. federal income tax considerations generally applicable to the ownership and disposition of our ADSs or ordinary shares by a U.S. Holder (as defined below) that holds our ADSs or ordinary shares as “capital assets” (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended, or the Code. This discussion is based on the Code, U.S. Treasury regulations promulgated thereunder, published positions of the Internal Revenue Service, or the IRS, court decisions and other applicable authorities, all as of the date hereof and all of which are subject to differing interpretations or change (possibly with retroactive effect).

This discussion, moreover, does not address the U.S. federal estate, gift, and alternative minimum tax considerations, the 3.8% Medicare tax on certain net investment income, or any state, local and non-U.S. tax considerations, relating to the ownership or disposition of our ADSs or ordinary shares (other than the discussion below relating to certain withholding rules and the U.S.-PRC income tax treaty (the “Treaty”). The following summary does not address all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual circumstances or to persons in special tax situations such as:

- banks and other financial institutions;
- insurance companies;
- pension plans;
- cooperatives;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting;
- certain former U.S. citizens or long-term residents;
- tax-exempt entities (including private foundations);
- persons liable for alternative minimum tax;
- holders who acquire their ADSs or ordinary shares pursuant to any employee share option or otherwise as compensation;
- investors 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;
- investors that have a functional currency other than the U.S. dollar;
- persons that actually or constructively own 10% or more of our stock (by vote or value); or
- partnerships or other entities taxable as partnerships for U.S. federal income tax purposes, or persons holding ADSs or ordinary shares through such entities.

all of whom may be subject to tax rules that differ significantly from those discussed below.

Each U.S. Holder is urged to consult its tax advisor regarding the application of U.S. federal taxation to its particular circumstances, and the state, local, non-U.S. and other tax considerations of the ownership and disposition of our ADSs or ordinary shares.

General

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our ADSs or ordinary shares that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;

- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created in, or organized under the law of the United States or any state thereof or the District of Columbia;
- an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust (A) the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise validly elected to be treated as a U.S. person under the Code.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of our ADSs or ordinary shares, the 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 are urged to consult their tax advisors regarding an investment in our ADSs or ordinary shares.

For U.S. federal income tax purposes, a U.S. Holder of ADSs will generally be treated as the beneficial owner of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a U.S. Holder of our ADSs will be treated in this manner. Accordingly, deposits or withdrawals of ordinary shares for ADSs will generally not be subject to U.S. federal income tax.

Passive Foreign Investment Company Considerations

A non-U.S. corporation, such as our company, will be classified as passive foreign investment company (a “PFIC”), for U.S. federal income tax purposes for any taxable year, if either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income (the “asset test”). For this purpose, cash and assets readily convertible into cash are categorized as passive assets, and the company’s goodwill and other unbooked intangibles are taken into account. Passive income generally includes, among other things, dividends, interest, rents, royalties and gains from the disposition of passive assets. 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 or indirectly, at least 25% (by value) of the 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 its management decisions and are entitled to substantially all of the economic benefits associated with it. As a result, we consolidate its results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of the consolidated VIEs for U.S. federal income tax purposes, we may be treated as a PFIC for the current taxable year and any subsequent taxable year.

Assuming that we are the owner of the VIEs for U.S. federal income tax purposes, and based upon our current and projected income and assets, and the market value of our ADSs, we do not believe we were a PFIC for the taxable year ended December 31, 2020. Moreover, based upon projections as to the value of our assets, we do not expect to be a PFIC for the current taxable year or the foreseeable future. However, no assurance can be given in this regard because the determination of whether we will be or become a PFIC is a factual determination made annually that will depend, in part, upon the composition of our income and assets. Fluctuations in the market price of our ADSs may cause us to be classified as a PFIC for the current or future taxable years because the value of our assets for purposes of the asset test, including the value of our goodwill and unbooked intangibles, may be determined by reference to the market price of our ADSs from time to time (which may be volatile). If our market capitalization subsequently declines, we may be or become classified as a PFIC for the current taxable year or future taxable years. Furthermore, the composition of our income and assets may also be affected by how, and how quickly, we use our liquid assets and the cash raised in our initial public offering. Under circumstances in which our net revenues from activities that produce passive income significantly increases relative to our net revenues from activities that produce non-passive income, or in which we determine not to deploy significant amounts of cash for active purposes, our risk of becoming classified as a PFIC may substantially increase.

If we are classified as a PFIC for any year during which a U.S. Holder holds our ADSs or ordinary shares, the PFIC rules discussed below under “—Passive Foreign Investment Company Rules” generally will apply to such U.S. Holder for such taxable year, and unless the U.S. Holder makes certain elections, will apply in future years even if we cease to be a PFIC.

The discussion below under “—Dividends” and “—Sale or Other Disposition” is written on the basis that we will not be or become classified as a PFIC for U.S. federal income tax purposes. The U.S. federal income tax rules that apply generally if we are treated as a PFIC are discussed below under “—Passive Foreign Investment Company Rules.”

Dividends

Any cash distributions paid on our ADSs or ordinary shares (including the amount of any PRC tax withheld) out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, 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. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution we pay will generally be treated as a “dividend” for U.S. federal income tax purposes. Dividends received on our ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to corporations in respect of dividends received from U.S. corporations.

Individuals and other non-corporate U.S. Holders will be subject to tax on any such dividends at the lower capital gain tax rate applicable to “qualified dividend income,” provided that certain conditions are satisfied, including that (1) our ADSs or ordinary shares on which the dividends are paid 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 benefit of the Treaty, (2) we are neither a PFIC nor treated as such with respect to a U.S. Holder (as discussed below) for the taxable year in which the dividend is paid and the preceding taxable year and (3) certain holding period requirements are met. For this purpose, ADSs listed on the Nasdaq Stock Market will generally be considered to be readily tradable on an established securities market in the United States. There can be no assurance that our ADSs will continue to be considered readily tradable on an established securities market in later years. Since we do not expect that our ordinary shares will be listed on established securities markets, we do not believe that dividends that we pay on our ordinary shares that are not backed by ADSs currently meet the conditions required for the reduced tax rate. U.S. Holders are urged to consult their tax advisors regarding the availability of the lower rate for dividends paid with respect to our ADSs or ordinary shares.

In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law (see “Taxation—People’s Republic of China Taxation”), we may be eligible for the benefits of the Treaty. If we are eligible for such benefits, dividends we pay on our ordinary shares, regardless of whether such shares are represented by the ADSs, and regardless of whether our ADSs are readily tradable on an established securities market in the United States, would be eligible for the reduced rates of taxation described in the preceding paragraph.

For U.S. foreign tax credit purposes, dividends paid on our ADSs or ordinary shares generally will be treated as income from foreign sources and generally will constitute passive category income. If PRC withholding taxes apply to dividends paid to a U.S. Holder with respect to our ADSs or ordinary shares, such U.S. Holder may be able to obtain a reduced rate of PRC withholding taxes under the Treaty if certain requirements are met. In addition, subject to certain conditions and limitations, PRC withholding taxes on dividends that are non-refundable under the Treaty may be treated as foreign taxes eligible for credit against a U.S. Holder’s U.S. federal income tax liability. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction for U.S. federal income tax purposes, in respect of such withholding, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex, and U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Sale or Other Disposition

A U.S. Holder will generally recognize gain or loss upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the holder’s adjusted tax basis in such ADSs or ordinary shares. The gain or loss will generally be capital gain or loss. Individuals and other non-corporate U.S. Holders who have held the ADSs or ordinary shares for more than one year will generally be eligible for reduced tax rates. The deductibility of a capital loss may be subject to limitations. Any such gain or loss that the U.S. Holder recognizes will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes, which will generally limit the availability of foreign tax credits. However, in the event we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, we may be eligible for the benefits of the Treaty. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, a U.S. Holder that is eligible for the benefits of the Treaty may elect to treat such gain as PRC source income. If a U.S. Holder is not eligible for the benefits of the Treaty or fails to make the election to treat any gain as foreign source, then such U.S. Holder may not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of the ADSs or ordinary shares unless such credit can be applied (subject to applicable limitations) against U.S. federal income tax due on other income derived from foreign sources in the same income category (generally, the passive category). U.S. Holders are urged to consult their tax advisors regarding the creditability of any PRC tax.

Passive Foreign Investment Company Rules

If we are classified as 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 generally be subject to special tax rules on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125% of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. Holder’s holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition including, under certain circumstances, a pledge, of ADSs or ordinary shares. 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 any taxable years in the U.S. Holder’s holding period prior to the first taxable year in which we are classified as a PFIC (each, a “pre-PFIC year”), will be taxable as ordinary income; and
- the amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect for individuals or corporations, as appropriate, for that year, increased by an additional tax equal to the interest charge 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 subsidiaries, our VIEs or any of the subsidiaries of our VIEs is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. Holders are urged to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries, our VIEs or any of the subsidiaries of our VIEs.

As an alternative to the foregoing rules, a U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election with respect to such stock. If a U.S. Holder makes this election with respect to our ADSs, the holder will generally (i) include as ordinary income for each taxable year that we are a PFIC 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 and (ii) deduct as an ordinary loss 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, but such deduction will only be allowed to the extent of the amount previously included in income as a result of the mark-to-market election. The U.S. Holder’s adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of our ADSs and we cease to be classified as a PFIC, such U.S. Holder will not be required to take into account the gain or loss described above during any period that we are not classified as a PFIC. If a U.S. Holder makes a mark-to-market election, any gain such U.S. Holder recognizes upon the sale or other disposition of our ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss to the extent of the net amount previously included in income as a result of the mark-to-market election.

The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. We believe that our ADSs qualify as being regularly traded, but no assurances may be given in this regard. Accordingly, our ADSs, but not our ordinary shares, are treated as marketable stock.

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 information necessary for U.S. Holders to make qualified electing fund elections which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

If a U.S. Holder owns our ADSs or ordinary shares during any taxable year that we are a PFIC, the holder must generally file an annual IRS Form 8621. You should consult your tax advisor regarding the U.S. federal income tax consequences of owning and disposing of our ADSs or ordinary shares if we are or become a PFIC.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish Deutsche Bank Trust Company Americas, the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Inflation

To date, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2018, 2019 and 2020 were increases of 1.9%, 4.5% and 4.7%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected by higher rates of inflation in China in the future.

Market Risks

Foreign exchange risk

Substantially all of our revenues and expenses are denominated in RMB. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

Interest rate risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure. However, our future interest income may fall short of expectations due to changes in market interest rates.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Charges Our ADS Holders May Have to Pay

Deutsche Bank Trust Company Americas, as depositary, will register and deliver the ADSs. Each ADS will represent ownership of three Class A ordinary shares, deposited with Deutsche Bank AG, Hong Kong Branch, as custodian for the depositary. Each ADS will also represent ownership of any other securities, cash or other property which may be held by the depositary. The depositary's corporate trust office at which the ADSs will be administered is located at 60 Wall Street, New York, NY 10005, USA. The principal executive office of the depositary is located at 60 Wall Street, New York, NY 10005, USA.

Our ADS holders will be required to pay the following service fees to the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of the ADSs held):

<u>Service</u>	<u>Fees</u>
<ul style="list-style-type: none">To any person to which ADSs are issued or to any person to which a distribution is made in respect of ADS distributions pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits or other distributions (except where converted to cash)	Up to US\$0.05 per ADS issued
<ul style="list-style-type: none">Cancellation of ADSs, including the case of termination of the deposit agreement	Up to US\$0.05 per ADS cancelled
<ul style="list-style-type: none">Distribution of cash dividends	Up to US\$0.05 per ADS held
<ul style="list-style-type: none">Distribution of cash entitlements (other than cash dividends) and/or cash proceeds from the sale of rights, securities and other entitlements	Up to US\$0.05 per ADS held
<ul style="list-style-type: none">Distribution of ADSs pursuant to exercise of rights.	Up to US\$0.05 per ADS held
<ul style="list-style-type: none">Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US\$0.05 per ADS held
<ul style="list-style-type: none">Depositary services	Up to US\$0.05 per ADS held on the applicable record date(s) established by the depositary bank

Our ADS holders will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of the ADSs held) such as:

- Fees for the transfer and registration of Class A ordinary shares charged by the registrar and transfer agent for the Class A ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of Class A ordinary shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when Class A ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of Class A ordinary shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to Class A ordinary shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

The depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed or by selling a portion of distributable property to pay the fees. In the case of distributions other than cash (i.e., share dividends, rights), the depositary bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary banks.

In the event of refusal to pay the depositary fees, the depositary bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

Fees and Other Payments Made by the Depositary to Us

The depositary may make payments to us or reimburse us for certain costs and expenses, by making available a portion of the ADS fees collected in respect of the ADR program or otherwise, upon such terms and conditions as we and the depositary bank agree from time to time. For the year ended December 31, 2020, we received US\$0.1 million as reimbursement from the depositary.

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Material Modifications to the Rights of Security Holders

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

Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File Number 333-227063) (the “F-1 Registration Statement”) in relation to our initial public offering of 11,400,000 ADSs representing 34,200,000 Class A ordinary shares, at an initial offering price of US\$9.00 per ADS. Our initial public offering closed in September 2018. Morgan Stanley and CICC were the representatives of the underwriters for our initial public offering.

The F-1 Registration Statement was declared effective by the SEC on September 24, 2018. The total expenses incurred for our company’s account in connection with our initial public offering was approximately US\$11.1 million, which included US\$7.6 million in underwriting discounts and commissions for the initial public offering and approximately US\$3.5 million in other costs and expenses for our initial public offering. We received net proceeds of approximately US\$91.4 million from our initial public offering. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds from the initial public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates. We have used all of the net proceeds from our initial public offering.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer, who is also our principal financial officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, which is defined in Rules 13a-15(e) of the Exchange Act, as of December 31, 2020. Based upon that evaluation, our management, with the participation of our chief executive officer, has concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were not effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

Our management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has, together with our independent registered accounting firm, identified three material weaknesses. Our management thus concluded that our internal control over financial reporting was not effective as of December 31, 2020.

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, (ii) lack of comprehensive U.S. GAAP accounting policies and financial reporting procedures and (iii) lack of an effective control procedure to track and estimate warranty provision relating to our products sold to ensure accuracy. These material weaknesses were identified during the audit of the Company’s consolidated financial statements for the years ended December 31, 2016, 2017 and 2018.

To remedy identified material weaknesses in internal control over financial reporting, we are in the process of implementing several measures, including:

- hiring additional competent and qualified accounting and reporting personnel with appropriate knowledge and experience of U.S. GAAP and SEC financial reporting requirements;
- establishing an ongoing program to provide sufficient and additional appropriate training to our accounting staff, especially trainings related to U.S. GAAP and SEC financial reporting requirements;
- establishing an internal control and compliance department and hiring additional compliance staff and perform internal audit and evaluation of internal controls from time to time;
- formulating U.S. GAAP accounting manual and financial statements disclosures checklist and internal control policies and procedures on U.S. GAAP and SEC financial reporting requirements that are applicable to our business with the assistance of an external consultant; and
- allocating additional resources including specific staff to the manual tracking process of warranty services and establishing detailed calculation model of warranty provisions as well as review procedures over estimation of warranty provision.

We are fully committed to continue 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- 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 three material weaknesses in our internal control over financial reporting. If we fail to develop and maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud.”

Attestation Report of the Registered Public Accounting Firm

As a company with less than US\$1.07 billion in revenues for fiscal year of 2020 we qualify as an “emerging growth company” pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company’s internal control over financial reporting. Therefore, no attestation report by our registered public accounting firm regarding our internal control is included in this annual report.

Changes in Internal Control

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report 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 Rule5605(c)(2) of the Listing Rules of the Nasdaq and Rule 10A-3 under the Exchange Act of 1934), is an audit committee financial expert.

ITEM 16B. CODE OF ETHICS

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees in August, 2018. We have posted a copy of our code of business conduct and ethics on our website at <http://ir.viomi.com/>.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP, our principal external auditors, for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

	<u>For the Year Ended December 31,</u>	
	<u>2019</u>	<u>2020</u>
	(in thousands of RMB)	
Audit fees(1)	8,714	5,850

Notes:

(1) “Audit fees” means the aggregate fees billed for professional services rendered by our principal auditors for the audit of our annual financial statements and the review of our comparative interim financial statement.

The policy of our audit committee is to pre-approve all audit and other service provided by PricewaterhouseCoopers Zhong Tian LLP as described above, other than those for *de minimis* services which are approved by the Audit Committee prior to the completion of the audit.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On March 26, 2020, our board of directors approved a share repurchase plan whereby we are authorized to repurchase up to US\$10 million worth of our company’s Class A ordinary shares in the form of ADS over the next twelve-month period till March 25, 2021. The share repurchase plan was publicly announced on March 26, 2020.

The following table sets forth a summary of our repurchase of our ADSs made in 2020 under the share repurchase plan described in the paragraph above. All shares were repurchased in the open market pursuant to the share repurchase plan.

Period	Total Number of ADSs Purchased	Average Price Paid per ADS	Total Number of ADSs Purchased as Part of the Publicly Announced Plan	Approximate Dollar value of ADSs that May Yet Be Purchased Under the Plan
April 2020	254,848	\$ 5.1818	254,848	\$ 8,679,416
May 2020	113,763	\$ 5.9236	113,763	\$ 8,005,534
June 2020	6,005	\$ 4.9882	6,005	\$ 7,975,579
August 2020	10,877	\$ 5.8478	10,877	\$ 7,911,973
September 2020	447,531	\$ 5.8498	447,531	\$ 5,294,023
October 2020	220,839	\$ 5.9240	220,839	\$ 3,985,773
December 2020	356,860	\$ 5.5894	356,860	\$ 1,991,130

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

As a Cayman Islands company listed on the Nasdaq Stock Market, we are subject to the Nasdaq corporate governance listing standards. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards. Currently, we have elected to rely on home country practice exemption from the “independence” requirements of Rules 5605, which provide that audit committees must be comprised only of three or more independent directors, compensation committees must be comprised only of two or more independent directors, nominations committee must be comprised solely of independent directors. In addition, we opt to follow home country practice with respect to the frequency of holding annual general meeting of shareholders. As a result, our shareholders may be afforded less protection than they would otherwise enjoy under the Nasdaq governance listing standards applicable to U.S. domestic issuers.

See “Item 3. Key Information—D. Risk Factors—Risks Related to Our 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.

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	<u>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))</u>
2.1	<u>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))</u>
2.2	<u>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))</u>
2.3	<u>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))</u>
2.4	<u>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))</u>
2.5	<u>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))</u>
4.1	<u>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))</u>
4.2	<u>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))</u>
4.3	<u>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))</u>
4.4	<u>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))</u>
4.5	<u>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))</u>
4.6	<u>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))</u>
4.7	<u>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))</u>
4.8	<u>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))</u>

- 4.9 [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 \(File No. 333-227063\)\)](#)
- 4.10 [English Translation of Business Cooperation Agreement between Foshan Viomi and Xiaomi dated November 1, 2019 \(incorporated herein by reference to Exhibit 4.10 to the Form 20-F filed on April 23, 2020 \(File No. 001-38649\)\)](#)
- 4.11* [English Translation of Termination Agreement between WFOE I, Xiaoping Chen and Foshan Viomi dated April 28, 2020](#)
- 4.12* [English translation of the Shareholder Voting Proxy Agreement among Foshan Viomi, its shareholders and WFOE II on April 28, 2020](#)
- 4.13* [English translation of the Equity Pledge Agreement among Foshan Viomi, its shareholders, and WFOE II on April 28, 2020](#)
- 4.14* [English translation of the Exclusive Consultation and Service Agreement between Foshan Viomi and WFOE II on April 28, 2020](#)
- 4.15* [English translation of the Exclusive Option Agreement among Foshan Viomi, its shareholders and WFOE II on April 28, 2020](#)
- 4.16* [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](#)
- 4.17* [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](#)
- 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](#)
- 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 26, 2021

VIOMI TECHNOLOGY CO., LTD

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contents	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
Consolidated Financial Statements:	
<u>Consolidated Balance Sheets as of December 31, 2019 and 2020</u>	F-3
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2018, 2019 and 2020</u>	F-4
<u>Consolidated Statements of Changes in Shareholders' (Deficit) Equity for the Years Ended December 31, 2018, 2019 and 2020</u>	F-6
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2019 and 2020</u>	F-7
<u>Notes to the Consolidated Financial Statements</u>	F-8

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, 2020 and 2019, and the related consolidated statements of comprehensive income, of changes in shareholders’ (deficit) equity and of cash flows for each of the three years in the period ended December 31, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers Zhong Tian LLP
Guangzhou, the People’s Republic of China
April 26, 2021

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,		
	2019 RMB	2020 RMB	2020 US\$ (Note2(e))
Assets			
Current assets			
Cash and cash equivalents	972,438	504,108	77,258
Restricted cash	30,567	70,601	10,820
Short-term deposits	60,000	—	—
Short-term investments	316,201	696,051	106,674
Accounts and notes receivable from third parties (net of allowance of RMB2,006 and RMB9,246 as of December 31, 2019 and 2020, respectively)	316,189	427,352	65,495
Accounts receivable from a related party (net of allowance of nil and RMB61 as of December 31, 2019 and 2020, respectively)	707,947	609,094	93,348
Other receivables from related parties (net of allowance of nil and RMB9 as of December 31, 2019 and 2020, respectively)	23,944	88,038	13,492
Inventories	418,015	439,375	67,337
Prepaid expenses and other current assets	62,314	87,280	13,377
Long-term deposits due within one year	—	10,000	1,533
Total current assets	2,907,615	2,931,899	449,334
Non-current assets			
Property, plant and equipment, net	67,293	72,436	11,101
Deferred tax assets	12,276	14,189	2,175
Prepaid expenses and other non-current assets	11,170	19,803	3,035
Intangible assets, net	4,357	7,681	1,177
Right-of-use assets, net	19,762	20,529	3,146
Land use rights, net	—	62,982	9,652
Long-term deposits	—	50,000	7,663
Total non-current assets	114,858	247,620	37,949
Total assets	3,022,473	3,179,519	487,283
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 RMB1,043,159 and RMB860,454 as of December 31, 2019 and 2020, respectively)	1,043,159	1,001,371	153,467
Advances from customers (including advances from customers of the consolidated VIEs without recourse to the Company of RMB103,150 and RMB109,162 as of December 31, 2019 and 2020, respectively)	103,150	112,613	17,259
Amounts due to related parties (including amounts due to related parties of the consolidated VIEs without recourse to the Company of RMB25,106 and RMB124,192 as of December 31, 2019 and 2020, respectively)	25,106	124,192	19,033
Accrued expenses and other liabilities (including accrued expenses and other liabilities of the consolidated VIEs without recourse to the Company of RMB308,228 and RMB331,312 as of December 31, 2019 and 2020, respectively)	325,042	335,488	51,416
Short-term borrowing (including short-term borrowing of the consolidated VIEs without recourse to the Company of RMB95,868 and nil as of December 31, 2019 and 2020, respectively)	95,868	—	—
Income tax payables (including income tax payables of the consolidated VIEs without recourse to the Company of RMB33,522 and RMB47,242 as of December 31, 2019 and 2020, respectively)	33,522	50,962	7,810
Lease liabilities due within one year (including lease liabilities due within one year of the consolidated VIEs without recourse to the Company of RMB6,802 and RMB6,333 as of December 31, 2019 and 2020, respectively)	6,993	9,481	1,453
Total current liabilities	1,632,840	1,634,107	250,438
Non-current liabilities			
Accrued expenses and other liabilities (including accrued expenses and other liabilities of the consolidated VIEs without recourse to the Company of RMB1,795 and RMB3,400 as of December 31, 2019 and 2020, respectively)	1,795	3,400	521
Lease liabilities (including lease liabilities of the consolidated VIEs without recourse to the Company of RMB13,391 and RMB6,484 as of December 31, 2019 and 2020, respectively)	13,391	11,693	1,792
Total non-current liabilities	15,186	15,093	2,313
Total liabilities	1,648,026	1,649,200	252,751
Commitments and contingencies (Note 23)			
Shareholders' equity			
Class A ordinary shares (US\$0.00001 par value; 4,800,000,000 shares authorized; 98,444,732 and 104,163,686 shares issued and outstanding as of December 31, 2019 and 2020, respectively)	6	6	1
Class B ordinary shares (US\$0.00001 par value; 150,000,000 shares authorized; 110,850,000 and 103,554,546 shares issued and outstanding as of December 31, 2019 and 2020, respectively)	6	6	1
Treasury stock	—	(54,600)	(8,368)
Additional paid-in capital	1,192,332	1,278,004	195,863
Retained earnings	195,596	363,051	55,640
Accumulated other comprehensive loss	(19,145)	(59,384)	(9,101)
Total equity attributable to shareholders of Viomi Technology Co., Ltd (the "Company")	1,368,795	1,527,083	234,036
Non-controlling interests	5,652	3,236	496
Total shareholders' equity	1,374,447	1,530,319	234,532
Total liabilities and shareholders' equity	3,022,473	3,179,519	487,283

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

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

	Year ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$ (Note2(e))
Net revenues:				
A related party	1,311,852	2,112,170	2,889,441	442,826
Third parties	1,249,377	2,535,343	2,936,183	449,990
Total net revenues	2,561,229	4,647,513	5,825,624	892,816
Cost of revenues (including RMB14,733, RMB48,424 and RMB454,432 with related parties for the years ended December 31, 2018, 2019 and 2020, respectively)	(1,843,432)	(3,565,109)	(4,742,668)	(726,846)
Gross profit	717,797	1,082,404	1,082,956	165,970
Operating expenses (1):				
Research and development expenses (including nil, RMB657 and RMB1,915 with a related party for the years ended December 31, 2018, 2019 and 2020, respectively)	(124,230)	(204,942)	(265,680)	(40,717)
Selling and marketing expenses (including RMB24,598, RMB81,851 and RMB97,223 with related parties for the years ended December 31, 2018, 2019 and 2020, respectively)	(379,554)	(529,212)	(597,176)	(91,521)
General and administrative expenses	(135,532)	(73,061)	(68,914)	(10,562)
Total operating expenses	(639,316)	(807,215)	(931,770)	(142,800)
Other income, net	1,829	35,880	32,795	5,026
Income from operations	80,310	311,069	183,981	28,196
Interest income and short-term investment income, net (including net interest expense of RMB333, nil and nil with related parties for the years ended December 31, 2018, 2019 and 2020, respectively)	8,846	26,109	31,968	4,899
Other non-operating income	255	1,842	1,818	279
Income before income tax expenses	89,411	339,020	217,767	33,374
Income tax expenses	(24,061)	(45,190)	(43,321)	(6,639)
Net income	65,350	293,830	174,446	26,735
Less: Net (loss) income attributable to the non-controlling interest shareholders	(8)	1,660	1,122	172
Net income attributable to the Company	65,358	292,170	173,324	26,563
Accretion of Series A redeemable convertible preferred shares ("Series A Preferred Shares")	(6,563)	—	—	-
Cumulative dividend on Series A Preferred Shares	(7,631)	—	—	-
Cumulative dividend on Pre-IPO Class B Ordinary Shares	(620)	—	—	—
Net income attributable to ordinary shareholders of the Company	50,544	292,170	173,324	26,563
Net income attributable to the Company	65,358	292,170	173,324	26,563
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustment	(11,782)	10,641	(40,239)	(6,167)
Total comprehensive income attributable to the Company	53,576	302,811	133,085	20,396
Net income per share attributable to ordinary shareholders of the Company:				
-Basic	0.70	1.40	0.83	0.13
-Diluted	0.64	1.35	0.80	0.12
Weighted average number of ordinary shares used in calculating net income per share				
-Basic	71,771,033	208,156,507	208,812,049	208,812,049
-Diluted	79,590,780	215,855,577	215,623,773	215,623,773

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

(1) Share-based compensation was allocated in operating expenses as follows:

	Year ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$
				(Note2(e))
General and administrative expenses	93,718	7,282	11,303	1,732
Research and development expenses	14,476	23,564	49,996	7,662
Selling and marketing expenses	8,417	12,322	10,904	1,671

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

VIOMI TECHNOLOGY CO., LTD
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT) 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 RMB	Treasury stock		(Accumulated Deficit) Retained Earnings RMB	Accumulated Other Comprehensive Loss RMB	Total (Deficit) Equity Attributable to Shareholders of the Company RMB	Non-Controlling Interest RMB	Total Shareholders' (Deficit) Equity RMB
	Shares	Amount RMB	Shares	Amount RMB		Shares	Amount RMB					
Balance as of January 1, 2018	25,363,636	2	—	—	9,679	—	—	(160,885)	(18,004)	(169,208)	—	(169,208)
Net income (loss) attributable to the Company and a non-controlling interest shareholder	—	—	—	—	—	—	—	65,358	—	65,358	(8)	65,350
Surrender and cancellation of Class A ordinary shares	(11,754,546)	(1)	—	—	458	—	—	—	—	457	—	457
Vesting of restricted Class A ordinary shares	2,536,364	—	—	—	188	—	—	—	—	188	—	188
Share-based compensation related to Restricted Shares	—	—	—	—	840	—	—	—	—	840	—	840
Share-based compensation related to 2015 and 2018 Share Incentive Plan	—	—	—	—	25,391	—	—	—	—	25,391	—	25,391
Share-based compensation related to the share awards to the founder	4,000,000	—	—	—	90,168	—	—	—	—	90,168	—	90,168
Accretion of Series A Preferred Shares	—	—	—	—	(6,563)	—	—	—	—	(6,563)	—	(6,563)
Issuance of ordinary shares upon the completion of the Initial Public Offering (the "IPO")	34,200,000	2	—	—	633,506	—	—	—	—	633,508	—	633,508
Class A ordinary shares converted into Class B ordinary share upon the completion of the IPO	(16,145,454)	(1)	16,145,454	1	—	—	—	—	—	—	—	—
Series A redeemable convertible preferred shares converted into Class A ordinary shares upon the completion of the IPO	18,181,818	1	—	—	165,094	—	—	—	—	165,095	—	165,095
Pre-IPO Class B redeemable convertible ordinary shares converted into Class A ordinary shares and Class B ordinary share upon the completion of the IPO	33,818,182	2	101,454,546	6	274,413	—	—	—	—	274,421	—	274,421
Capital injection in a subsidiary from non-controlling interest shareholder	—	—	—	—	—	—	—	—	—	—	3,000	3,000
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(11,782)	(11,782)	—	(11,782)
Balance as of December 31, 2018	<u>90,200,000</u>	<u>5</u>	<u>117,600,000</u>	<u>7</u>	<u>1,193,174</u>	<u>—</u>	<u>—</u>	<u>(95,527)</u>	<u>(29,786)</u>	<u>1,067,873</u>	<u>2,992</u>	<u>1,070,865</u>
Balance as of January 1, 2019	90,200,000	5	117,600,000	7	1,193,174	—	—	(95,527)	(29,786)	1,067,873	2,992	1,070,865
Net income attributable to the Company and non-controlling interest shareholders	—	—	—	—	—	—	—	292,170	—	292,170	1,660	293,830
Share-based compensation related to 2015 and 2018 Share Incentive Plan	—	—	—	—	43,168	—	—	—	—	43,168	—	43,168
Class B ordinary shares converted to Class A ordinary shares	6,750,000	1	(6,750,000)	(1)	—	—	—	—	—	—	—	—
Issuance of ordinary shares for exercised share options	1,494,732	—	—	—	1,741	—	—	—	—	1,741	—	1,741
Capital injection in a subsidiary from a non-controlling interest shareholder	—	—	—	—	—	—	—	—	—	—	3,000	3,000
Purchase of non-controlling interests	—	—	—	—	(196)	—	—	—	—	(196)	(2,000)	(2,196)
Special dividends declared to ordinary shareholders	—	—	—	—	(46,602)	—	—	—	—	(46,602)	—	(46,602)
Appropriation to statutory reserves	—	—	—	—	1,047	—	—	(1,047)	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	10,641	10,641	—	10,641
Balance as of December 31, 2019	<u>98,444,732</u>	<u>6</u>	<u>110,850,000</u>	<u>6</u>	<u>1,192,332</u>	<u>—</u>	<u>—</u>	<u>195,596</u>	<u>(19,145)</u>	<u>1,368,795</u>	<u>5,652</u>	<u>1,374,447</u>
Balance as of January 1, 2020	98,444,732	6	110,850,000	6	1,192,332	—	—	195,596	(19,145)	1,368,795	5,652	1,374,447
Adoption of ASC 326	—	—	—	—	—	—	—	(2,405)	—	(2,405)	—	(2,405)
Net income attributable to the Company and non-controlling interest shareholders	—	—	—	—	—	—	—	173,324	—	173,324	1,122	174,446
Share-based compensation related to 2015 and 2018 Share Incentive Plan	—	—	—	—	72,203	—	—	—	—	72,203	—	72,203
Class B ordinary shares converted to Class A ordinary shares	7,295,454	—	(7,295,454)	—	—	—	—	—	—	—	—	—
Issuance of ordinary shares for exercised share options	2,655,669	—	—	—	8,989	—	—	—	—	8,989	—	8,989
Repurchase of shares	(4,232,169)	—	—	—	—	4,232,169	(54,600)	—	—	(54,600)	—	(54,600)
Purchase of non-controlling interests	—	—	—	—	1,016	—	—	—	—	1,016	(2,302)	(1,286)
Dividend to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(1,236)	(1,236)
Appropriation to statutory reserves	—	—	—	—	3,464	—	—	(3,464)	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(40,239)	(40,239)	—	(40,239)
Balance as of December 31, 2020	<u>104,163,686</u>	<u>6</u>	<u>103,554,546</u>	<u>6</u>	<u>1,278,004</u>	<u>4,232,169</u>	<u>(54,600)</u>	<u>363,051</u>	<u>(59,384)</u>	<u>1,527,083</u>	<u>3,236</u>	<u>1,530,319</u>

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,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US\$ (Note2(e))
Cash flows from operating activities				
Net income	65,350	293,830	174,446	26,735
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	2,270	23,577	54,271	8,317
Inventory write-down	1,059	15,661	22,577	3,460
Share-based compensation	116,611	43,168	72,203	11,066
Allowance for doubtful accounts	—	2,006	4,484	687
Loss from disposal of property and equipment	—	29	—	—
Deferred income tax benefits	(2,186)	(7,042)	(1,492)	(230)
Investment loss (income)	364	(4,654)	(10,800)	(1,655)
Changes in operating assets and liabilities:				
Accounts and notes receivable from third parties	(107,370)	(206,477)	(118,403)	(18,148)
Accounts receivable from a related party	(11,436)	(446,963)	98,792	15,141
Inventories	(182,342)	(201,701)	(43,937)	(6,734)
Prepaid expenses and other current assets	(23,607)	(25,659)	(23,543)	(3,608)
Other receivables from related parties	(87,384)	88,376	(64,103)	(9,824)
Amounts due to related parties	4,005	19,343	99,086	15,186
Interest received relating to the investment income recognized in previous year	—	361	8,089	1,240
Accounts and notes payable	256,838	494,678	(41,788)	(6,404)
Advances from customers	59,297	16,838	9,463	1,450
Income tax payables	(1,413)	23,323	17,440	2,673
Accrued expenses and other liabilities	132,213	122,550	421	65
Lease liabilities	—	(5,760)	(8,392)	(1,286)
Purchase of a land use right	—	—	(63,618)	(9,750)
Net cash provided by operating activities	222,269	245,484	185,196	28,381
Cash flows from investing activities				
Cash received from loan repayment from a related party	31,441	—	—	—
Purchase of equipment	(13,505)	(56,131)	(47,509)	(7,281)
Purchase of lease hold improvement	(216)	(7,874)	(569)	(87)
Purchase of intangible assets	(184)	(4,595)	(2,365)	(362)
Purchase of short-term investments	(238,714)	(812,086)	(3,256,151)	(499,027)
Maturity of short-term investments	69,357	670,190	2,874,162	440,485
Placement of short-term deposits	—	(270,457)	(215,630)	(33,047)
Maturities of short-term deposits	—	211,967	214,979	32,947
Proceeds from disposal of property and equipment	—	30	—	—
Net cash used in investing activities	(151,821)	(268,956)	(433,083)	(66,372)
Cash flows from financing activities				
Dividend Paid	—	(46,602)	—	—
Proceeds from exercise of vested share options	—	1,109	6,615	1,014
Receipt (repayment) of borrowing	—	95,868	(95,868)	(14,692)
Repayment of debt to a related party	(31,900)	—	—	—
Cash received from shareholders	2,705	—	—	—
Net proceeds from issuance of ordinary shares upon IPO	636,170	—	—	—
Cash paid in relation to issuance of ordinary shares upon IPO	—	(2,637)	—	—
Capital injection in subsidiaries from non-controlling shareholders	3,000	3,000	—	—
Purchase of non-controlling interests	—	(2,196)	(1,286)	(197)
Repurchase of ordinary shares	—	—	(54,600)	(8,368)
Dividends paid by non-wholly owned subsidiaries to noncontrolling interests	—	—	(1,236)	(189)
Cash paid to a related party	(5,000)	—	—	—
Net cash provided by (used in) financing activities	604,975	48,542	(146,375)	(22,432)
Effect of exchange rate changes on cash and cash equivalents	14,473	8,087	(34,034)	(5,216)
Net increase (decrease) in cash and cash equivalents and restricted cash	689,896	33,157	(428,296)	(65,639)
Cash and cash equivalents and restricted cash at the beginning of the year	279,952	969,848	1,003,005	153,717
Cash and cash equivalents and restricted cash at the end of the year	969,848	1,003,005	574,709	88,078
Including:				
Cash and cash equivalents at the end of the year	940,298	972,438	504,108	77,258
Restricted cash at the end of the year	29,550	30,567	70,601	10,820
Supplemental disclosures of cash flow information:				
Cash paid for income tax	(27,660)	(28,909)	(27,373)	(4,195)
Cash paid for interest expense	(768)	(995)	(76)	(12)
Acquisition of equipment in form of other payable	430	5,997	15,624	2,394

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, 2018, 2019 AND 2020
(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.

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.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

(a) History and Reorganization (Continued)

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. As of December 31, 2020, Sunglow has not yet paid the consideration and as a result, did not have any shareholder’s rights of Guangdong Lizi. The Group therefore did not recognize Sunglow as a non-controlling interest of Guangdong Lizi as of December 31, 2020.

As of December 31, 2020, 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
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
Subsidiaries of Zhumeng Hulian:				
Guangdong Lizi	PRC	July 26, 2018	100%	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.

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 (“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.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

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

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 subsidiary

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.

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.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

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

Exclusive purchase option agreement. Lequan, Foshan Viomi, Beijing Viomi and their shareholders entered into exclusive option agreements in July 2015. In April 2020, Lequan assigned and transferred its rights and obligations under the original agreements to Yunmi Hulian, which succeeded Lequan as a party to such agreement and assumed its rights and obligations thereunder. Pursuant to the exclusive option agreements, the shareholders of Foshan Viomi and Beijing Viomi are obligated to sell their equity interest to Lequan or Yunmi Hulian. Lequan or Yunmi Hulian has the exclusive and irrevocable right to purchase, or cause the shareholders of Foshan Viomi and Beijing Viomi to sell to the party designated by them, in Lequan or Yunmi Hulian's sole discretion, all of the shareholders' equity interests or any assets in Foshan Viomi and Beijing Viomi when and to the extent that applicable PRC law permits Lequan or Yunmi Hulian to own such equity interests and assets in Foshan Viomi and Beijing Viomi. The price to be paid will be the minimum amount of consideration permitted by applicable PRC law at the time when such transaction occurs. All of the shareholders promised and agreed that they will refund the consideration once received to Lequan or Yunmi Hulian or any party designated by them within 10 working days. Also, the shareholders of Foshan Viomi and Beijing Viomi should try their best to help Foshan Viomi and Beijing Viomi develop well and are prohibited from transferring, pledging, intentionally terminating significant contracts or otherwise disposing of any significant assets in Foshan Viomi and Beijing Viomi without Lequan or Yunmi Hulian's prior written consent. The exclusive option agreement will remain effective until all equity interests and assets in Foshan Viomi and Beijing Viomi are sold to Lequan or Yunmi Hulian or the party designated by them.

Shareholder voting proxy agreement. In July 2015, all of the shareholders of Foshan Viomi and Beijing Viomi have executed a shareholder voting proxy agreement with Lequan, Foshan Viomi and Beijing Viomi, whereby all of the shareholders irrevocably appoint and constitute the person designated by Lequan as their attorney-in-fact to exercise on their behalf any and all rights that the shareholders have in respect of their equity interests in Foshan Viomi and Beijing Viomi. In April 2020, Lequan assigned and transferred its rights and obligations under the original agreement to Yunmi Hulian, which succeeded Lequan as a party to such agreement and assumed its rights and obligations thereunder. The shareholder voting proxy agreement will be indefinitely effective unless all parties decide to terminate it by written agreement.

In September 2018, Foshan Viomi reduced its registered capital and changed its shareholders from Mr. Chen and Tianjin Jinxing to Mr. Chen alone. Concurrently, the Group entered into a series of contractual arrangements in substantially the same forms with Foshan Viomi and Mr. Chen.

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 between Lequan and its 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'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.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

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

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 only 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.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (Continued)

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

The following table sets forth the assets, liabilities, results of operations and cash flows of the VIEs and its subsidiaries taken as a whole, which were included in the Group's consolidated financial statements. All transactions and balances between the VIEs and the Group's subsidiaries are eliminated in the financial information presented below:

	As of December 31,		
	2019	2020	
	RMB	RMB	
Cash and cash equivalents	802,580	338,748	
Restricted cash	30,567	70,551	
Short-term deposits	60,000	—	
Short-term investments	141,189	579,457	
Accounts receivable from third parties (net of allowance of RMB2,006 and RMB9,246 as of December 31, 2019 and 2020, respectively)	316,189	412,118	
Accounts receivable from a related party (net of allowance of nil and RMB61 as of December 31, 2019 and 2020, respectively)	707,947	609,094	
Other receivable from related parties (net of allowance of nil and RMB9 as of December 31, 2019 and 2020, respectively)	23,944	88,038	
Inventories	418,015	392,574	
Prepaid expenses and other current assets	61,031	69,583	
Long-term deposits due within one year	—	10,000	
Total current assets	2,561,462	2,570,163	
Property, plant and equipment, net	67,293	61,895	
Deferred tax assets	12,276	14,189	
Intangible assets, net	4,357	5,781	
Prepaid expenses and other non-current assets	11,170	13,507	
Right-of-use assets, net	19,593	12,397	
Long-term deposits	—	50,000	
Total non-current assets	114,689	157,769	
Total assets	2,676,151	2,727,932	
Accounts and notes payable	1,043,159	860,454	
Advances from customers	103,150	109,162	
Amounts due to related parties	25,106	124,192	
Accrued expenses and other liabilities	308,228	331,312	
Short-term borrowing	95,868	—	
Income tax payables	33,522	47,242	
Lease liabilities due within one year	6,802	6,333	
Total current liabilities	1,615,835	1,478,695	
Accrued expenses and other liabilities	1,795	3,400	
Lease liabilities	13,391	6,484	
Total non-current liabilities	15,186	9,884	
Total liabilities	1,631,021	1,488,579	

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Revenue	2,561,229	4,647,513	5,790,475
Net income	70,232	285,221	162,456
Net cash provided by operating activities	209,690	240,823	218,030
Net cash used in investing activities	(183,262)	(97,702)	(490,270)
Net cash (used in) provided by financing activities	(37,731)	95,933	(98,389)

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) to reflect the financial position, results of operations and cash flows of the Group. Significant accounting policies followed by the Group in the preparation of the consolidated financial statements are summarized below.

(b) Consolidation

The Group’s consolidated financial statements include the financial statements of the Company, its subsidiaries and VIEs for which the Company or its subsidiary is the primary beneficiary. All transactions and balances among the Company, its subsidiaries and VIEs have been eliminated upon consolidation.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting powers; or has the power to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meeting of directors; or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A VIE is an entity in which the Company, or its subsidiary, through contractual agreements, bears the risks of, and enjoys the rewards normally associated with ownership of the entity, and therefore the Company or its subsidiary is the primary beneficiary of the entity. In determining whether the Company or its subsidiaries are the primary beneficiary, the Company considered whether it has the power to direct activities that are significant to the VIE’s economic performance, and also the Company’s obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Lequan and ultimately the Company hold all the variable interests of the VIE and has been determined to be the primary beneficiary of the VIE.

(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 and the valuation allowance for deferred tax assets and income tax. Actual results could differ from those estimates, and such differences may be material to the consolidated financial statements.

(d) Foreign currency translation

The Group uses Renminbi (“RMB”) as its reporting currency. The functional currency of the Company and its subsidiaries incorporated in Hong Kong and British Virgin Islands are United States dollar (“US\$”), while the functional currency of the Group’s entities in the PRC is RMB, which is their respective local currency. In the consolidated financial statements, the financial information of the Company and its subsidiary in Hong Kong and British Virgin Islands, which use US\$ as their functional currency, have been translated into RMB. Assets and liabilities are translated at the exchange rates on the balance sheet date, equity amounts are translated at historical exchange rates, and revenues, expenses, and incomes are translated using the average exchange rate for the period. Translation adjustments arising from these are reported as foreign currency translation adjustments and are shown as a component of other comprehensive income in the statement of comprehensive income.

Foreign currency transactions denominated in currencies other than functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are remeasured at the applicable rates of exchange in effect at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from remeasurement at year-end are recognized in foreign currency exchange (losses) gains, net in the consolidated statement of comprehensive income.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Convenience Translation

Translations of balances in the consolidated balance sheets, consolidated statements of comprehensive income and consolidated statements of cash flows from RMB into US\$ as of and for the year ended December 31, 2020 are solely for the convenience of the reader and were calculated at the noon buying rate of US\$1.00 = RMB6.5250 on December 31, 2020 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, 2020, 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 during the years presented.

(i) Short-term investments

In accordance with ASC 825, for investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, the Company elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair values are reflected in the consolidated statements of comprehensive income.

(j) Accounts receivable

Accounts receivable are stated at the historical carrying amount net of allowance for doubtful accounts. On January 1, 2020, the Company adopted ASC326, "Financial Instruments—Credit Losses" using modified retrospective transition approach. The Group provides an allowance against accounts receivable to the amount management reasonably believe will be collected. The Group writes off trade receivable when they are deemed uncollectible.

The Company maintains an allowance for doubtful accounts which reflects its best estimate of amounts that potentially will not be collected. Accounts receivable have been grouped based on shared credit risk characteristics and days past due to estimate, taking into consideration various factors including but not limited to historical collection experience and credit-worthiness of the debtors.

(k) Inventories

Inventories are stated at the lower of cost or net realizable value. Inventory costs are calculated on the actual cost basis including expenses that are directly or indirectly incurred in the purchase, and production of manufactured product. Expenses include the cost of materials, consignment manufacturing cost and other direct costs. Cost is determined using the weighted average method. The Group assesses the valuation of inventory and periodically writes down the value for estimated excess and obsolete inventory based upon the turnover and age of the products. Write downs are recorded in cost of revenues in the consolidated statements of comprehensive income.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Long-term deposits

Long-term deposits represent time deposits placed with banks with original maturities of more than one year. Interest earned is recorded as interest income in the consolidated statement of comprehensive income during the years presented.

(m) Property, plant and equipment, net

Property, plant and equipment are carried at cost less accumulated depreciation and impairment, if any. Depreciation is calculated on a straight-line basis over the following estimated useful lives and residual value. Residual rate is determined based on the economic value of the property and equipment at the end of the estimated useful lives as a percentage of the original cost.

	Estimated useful lives	Residual rate
Computers and equipment	2-10 years	0%-5%
Vehicle	4 years	5%

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.

(n) Land use rights

Land use rights are recorded at cost less accumulated amortization and impairment, if any. Amortization is calculated on a straight-line basis over the estimated useful lives which are 50 years that represent the terms of land use rights certificate.

(o) Intangible assets

Intangible assets mainly consist of software and license. Identifiable intangible assets are carried at acquisition cost less accumulated amortization and impairment loss, if any. Finite-lived intangible assets are tested for impairment if impairment indicators arise. Amortization of finite-lived intangible assets is computed using the straight-line method over their estimated useful lives, which are as follows:

	Estimated useful lives
Software	1 - 10 years
License	3 - 10 years

(p) Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (Topic 842) "Leases". Topic 842 supersedes the lease requirements in Accounting Standards Codification (ASC) Topic 840, "Leases". Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating. The Company adopted the new standard using the optional transition method beginning January 1, 2019. As permitted under the transition guidance, the Company carried forward the assessment of whether the existing contracts contain or are leases, classification of the leases and remaining lease terms. RMB9,274 of lease assets and RMB9,168 of liabilities were recognized on the balance sheet upon adoption as of January 1, 2019.

The Company categorize leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that allow lessees to substantially utilize or pay for the entire asset over its estimated life. Assets acquired under finance leases are recorded in property and equipment, net. All other leases are categorized as operating leases. All the leases recognized by the Company were classified as operating leases for the years presented.

Lease liabilities are recognized at the present value of the fixed lease payments using a discount rate based on similarly secured borrowings available to us. Lease assets are recognized based on the initial present value of the fixed lease payments plus any direct costs from executing the leases or lease prepayments reclassified from "Prepayments and other current assets" upon lease commencement. Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue recognition

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

The Group’s revenue is primary derived from (i) IoT @ Home portfolio including sweeper robots, air conditioning systems and other smart devices, (ii) Home water solutions, which are composed of smart water purification systems, (iii) consumable products complementary to 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 14 to the consolidated financial statements for disaggregation of the Group’s revenue by type of product and service for the years ended December 31, 2018, 2019 and 2020.

- 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, 2018, 2019 and 2020:

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Sales to Xiaomi	1,311,852	2,112,170	2,889,441
—Xiaomi-branded products	1,175,332	1,859,499	2,560,787
—Viomi-branded products	136,520	250,593	326,114
—Rendering services	—	2,078	2,540
Sales to third-party customers	1,249,377	2,535,343	2,936,183
	<u>2,561,229</u>	<u>4,647,513</u>	<u>5,825,624</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.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue recognition (Continued)

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, 2018, 2019 and 2020, net revenues earned from second installment payment arrangement represented 9.0%, 5.9% and 3.8% of total revenue from Xiaomi, respectively.

In 2019, the Group entered into a cooperation arrangement with Xiaomi related to a certain type of products. Under the arrangement, the Group acts as an agent of Xiaomi to procure suppliers without obtaining the control, risks and rewards of the products during the whole process. The Group recognizes revenue of sales on a net basis for these products.

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

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

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

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

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

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

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.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue recognition (Continued)

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

2) Sales returns and sales incentives

- Sales to leading e-commerce platforms

The Group's sales to leading e-commerce platforms started in 2018. As stipulated in the contracts, slow-moving goods are those unsold products after they are controlled by the e-commerce platforms for more than 30 days or 45 days or 60 days, depending on the different categories of products. The Group shall coordinate with the e-commerce platforms to sell the 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, 2018, 2019 and 2020, the expected sales return was RMB846, RMB12,037 and RMB6,820. Accordingly the Group recognizes an expected return asset of RMB8,572 and RMB4,106, and a refund liability of RMB13,602 and RMB7,707 as of December 31, 2019 and 2020, 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, 2018, 2019 and 2020, 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.

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.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue recognition (Continued)

4) Value added taxes

Value added taxes (“VAT”) on sales is calculated at 17% on revenue from products before April 30, 2018, 16% between May 1, 2018 and March 31, 2019, and 13% after April 1, 2019. The Group reports revenue net of VAT. Subsidiaries and VIEs that are VAT general tax payers are allowed to offset qualified VAT paid against their output VAT liabilities.

5) Contract balances

Key customers, including Xiaomi and third-party customers, are entitled to a credit term. The expected length of time between the products being transferred to customers and when they pay for those products is short. There is no difference between the amount of promised consideration and the cash selling price of the promised products. Therefore, the Group concludes that the contracts with these key customers generally do not include a significant financing component. The allowance for doubtful accounts reflects the Group’s best estimate of probable losses inherent in the accounts receivable balance. The Group determines the allowance based on known troubled accounts, historical experience, and other currently available evidence. The amount of the allowance for doubtful accounts is recognized as expenses.

The opening balance of accounts receivable from these key customers as of January 1, 2019 was RMB372,702. As of December 31, 2019 and 2020, accounts and notes receivable were RMB1,026,142 and RMB1,045,753, respectively. During the years ended December 31, 2018, 2019 and 2020, the Group recognized impairments, net of recoveries, for accounts and notes receivable from customers amounted to nil, RMB2,006 and RMB4,475, respectively.

Contract liabilities consist of deferred revenue related to the Group’s provision of installation services, where there is still an obligation to be fulfilled by the Group. The contract liabilities will be recognized as revenue when all of the revenue recognition criteria are met.

The opening balance of deferred revenue as of January 1, 2019 was RMB1,276. As of December 31, 2019 and 2020, deferred revenue were RMB7,790 and RMB5,719, respectively. During the years ended December 31, 2018, 2019 and 2020, the Group recognized revenue of installation services amounted to RMB146, RMB1,276 and RMB7,790, respectively, that was included in the corresponding contract liability balance at the beginning of the years. The Group expects to recognize approximately RMB5,719 of the unearned amount for the Group’s remaining performance obligations related to installation services in 2021.

During the years ended December 31, 2018, 2019 and 2020, the Group does not have any arrangement where the performance obligations have already been satisfied in the past period, but the corresponding revenue is only recognized in a later period.

(r) Cost of revenues

Cost of revenues consists primarily of material costs, warranty, consignment manufacturing cost, salaries and benefits for staff engaged in production activities and related expenses that are directly attributable to the production of products.

(s) Research and development expenses

Research and development expenses primarily consist of salaries and benefits as well as share-based compensation for research and development personnel, materials, general expenses and depreciation expenses associated with research and development activities.

(t) Selling and marketing expenses

Selling and marketing expenses consist primarily of (i) advertising and market promotion expenses, (ii) shipping expenses and (iii) salaries and welfare for sales and marketing personnel. The advertising and market promotion expenses amounted to RMB130,796, RMB106,540 and RMB102,719 for the years ended December 31, 2018, 2019 and 2020. The shipping expenses amounted to RMB140,456, RMB245,329 and RMB247,417 for the years ended December 31, 2018, 2019 and 2020.

(u) General and administrative expenses

General and administrative expenses consist primarily of (i) share-based compensation for management and administrative personnel, and (ii) salaries and welfare for general and administrative personnel.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Government subsidies

Government subsidies represent tax refund and government grants received from local government authorities to encourage the Group's technology and innovation. The Group records such government subsidies as other income in the consolidated statements of comprehensive income when it has fulfilled all of its obligation related to the subsidy. The Group recorded RMB1,440, RMB35,988 and RMB33,674 of subsidy income for the years ended December 31, 2018, 2019 and 2020, respectively.

(w) Employee benefits

PRC Contribution Plan

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to the employees. Chinese labor regulations require that the PRC subsidiary and VIEs of the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions made. The total amounts of such employee benefit expenses, which were expensed as incurred, were approximately RMB18,889, RMB23,465 and RMB10,571 for the years ended December 31, 2018, 2019 and 2020.

(x) Share-based compensation

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

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

After the Reorganization completed in July 2015, the repurchase feature remains, however, it became the Company's right, and not the obligation to repurchase. With respect to the remaining unvested interest granted to the Founder on behalf of certain key management founders, the underlying shares changed from ordinary shares of Foshan Viomi to Class A ordinary shares of the Company. These shares remain to be equity classified awards as they do not contain any characteristics of a liability award and were continually accounted for as share-based compensation based on the grant date fair value over the remaining vesting period. With respect to the remaining unvested interest granted to the Founder, the underlying shares changed from ordinary shares of Foshan Viomi to redeemable Pre-IPO Class B Ordinary Shares of the Company, which are redeemable convertible shares. These awards have been reclassified as liability classified awards as the underlying Pre-IPO Class B Ordinary Shares are redeemable at a fixed price plus 6% interest per year at the option of the holder if there is no qualified IPO after a certain period of time. According to ASC718, such awards effectively consist of: (1) a liability component representing the Company's obligation to pay the redemption price if the holder chooses to redeem, and (2) an equity component representing the fair value of the upside potential of the Pre-IPO Class B Ordinary Shares, measured using an option pricing model. At the time of the modification, the Company compared the fair value of the original award immediately before the modification, and the total fair value of the liability component and the equity component immediately after the modification. The incremental compensation amount is recognized over the remaining vesting period. The amount related to the liability component is recorded as a liability measured at the redemption price, subsequently accreted at 6% per year to reflect the increase in redemption price over time according to the terms of the Pre-IPO Class B Ordinary Shares, until the award is settled. The liability award is considered settled only upon redemption or IPO, when the Pre-IPO Class B Ordinary Shares are converted to Class A ordinary shares at which time, the redemption feature would expire.

Upon the completion of the IPO on September 25, 2018, all the Pre-IPO Class B Ordinary Shares were converted into Class B Ordinary Shares, the liability award had been settled.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Share-based compensation (Continued)

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.

(y) Income taxes

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are accounted for using an asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purpose. The effect on deferred taxes of a change in tax rates is recognized in statement of comprehensive income in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

Uncertain tax positions

The guidance on accounting for uncertainties in income taxes prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance was also provided on the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. Significant judgment is required in evaluating the Group's uncertain tax positions and determining its provision for income taxes. The Group recognizes interests and penalties, if any, under accrued expenses and other current liabilities on its balance sheet and under other expenses in its statement of comprehensive income. The Group did not recognize any interest and penalties associated with uncertain tax positions for the years ended December 31, 2018, 2019 and 2020. As of December 31, 2019 and 2020, the Group did not have any significant unrecognized uncertain tax positions.

(z) Comprehensive income

Comprehensive income consists of two components, net income and other comprehensive income, net of tax. Other comprehensive income refers to revenue, expenses, and gains and losses that are recorded as an element of shareholders' equity but are excluded from net income. The Group's other comprehensive income consists of foreign currency translation adjustments from its entities not using the RMB as their functional currency. Comprehensive income is reported in the consolidated statements of comprehensive income.

(aa) Statutory reserves

The Company's subsidiaries and VIEs established in the PRC are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Company's subsidiaries registered as wholly-owned foreign enterprise have to make appropriations from their annual after-tax profits (as determined under generally accepted accounting principles in the PRC ("PRC GAAP")) to reserve funds including general reserve fund, enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the annual after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the general reserve fund has reached 50% of the registered capital of the company. Appropriations to the enterprise expansion fund and staff bonus and welfare fund are made at the respective company's discretion.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Statutory reserves (Continued)

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 is 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, 2018, 2019 and 2020, appropriations to statutory reserve funds amounted to nil, RMB1,047 and RMB3,464, respectively. Statutory reserve funds amounting to RMB7,297 and RMB10,761 were recognized in additional paid-in capital as of December 31, 2019 and 2020, respectively.

(bb) Income per share

Basic income per share is computed by dividing net income attributable to ordinary shareholders, considering the accretion of redemption feature and cumulative dividend related to the Company's redeemable convertible preferred shares and Pre-IPO Class B Ordinary Shares, and undistributed earnings allocated to redeemable convertible preferred shares, Pre-IPO Class B Ordinary Shares and unvested Class A ordinary shares as unvested Class A ordinary shares are also entitled to participating dividends, 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. After the IPO, net income per ordinary share are computed on Class A ordinary shares and Class B Ordinary Shares together, because both classes have the same dividend rights in the Company's undistributed net income.

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 conversion of the redeemable convertible preferred and Pre-IPO Class B Ordinary Shares, using the if-converted method, and shares issuable upon the exercise of share options using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted income per share calculation when inclusion of such shares would be anti-dilutive.

(cc) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence, such as a family member or relative, shareholder, or a related corporation.

(dd) Segment reporting

Based on the criteria established by ASC 280 "Segment Reporting", the Group's chief operating decision maker has been identified as the Chairman of the Board of Directors/CEO, who reviews consolidated results of the Group when making decisions about allocating resources and assessing performance. The Group has internal reporting of revenue, cost and expenses by nature as a whole. Hence, the Group has only one operating segment. The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC and earns substantially all of the revenues from external customers attributed to the PRC.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Current expected credit losses

In 2016, the FASB issued ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASC Topic 326”), which amends previously issued guidance regarding the impairment of financial instruments by creating an impairment model that is based on expected losses rather than incurred losses. The Group adopted this ASC Topic 326 and several associated ASUs on January 1, 2020 using a modified retrospective approach with a cumulative-effect increase of RMB2,826, recorded in accumulated deficit.

The Group’s accounts and notes receivable and other receivables from related parties and third parties are within the scope of ASC Topic 326. The Group has identified the relevant risk characteristics of its customers and the related accounts and notes receivable and other receivables based on their credit rating. Receivables with similar risk characteristics have been grouped into pools. For each pool, the Group considers the historical credit loss experience, current economic conditions, supportable forecasts of future economic conditions, and any recoveries in assessing the lifetime expected credit losses. Other key factors that influence the expected credit loss analysis include payment terms offered in the normal course of business to customers and industry-specific factors that could impact the Group’s receivables. Additionally, macroeconomic factors are also considered. This is assessed at each quarter based on the Group’s specific facts and circumstances. For the year ended December 31, 2020, the Group recorded expected credit loss of RMB4,484 in general and administrative expenses. As of December 31, 2020, the expected credit loss provision for the accounts and notes receivable and other receivables is RMB9,316.

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, 2020:

	Year ended December 31, 2020
	RMB
Balance as of December 31, 2019	2,006
Adoption of ASC Topic 326	2,826
Balance as of January 1, 2020	4,832
Current year provision	5,015
Reversals	(531)
Balance as of December 31, 2020	9,316

(ff) Recently issued accounting pronouncements

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*, to remove specific exceptions to the general principles in Topic 740 and to simplify accounting for income taxes. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. The Group is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

3. CONCENTRATION AND RISKS

(a) Foreign exchange risk

The revenues and expenses of the Group’s entities in the PRC are generally denominated in RMB and their assets and liabilities are denominated in RMB. The RMB is not freely convertible into foreign currencies. Remittances of foreign currencies into the PRC or remittances of RMB out of the PRC as well as exchange between RMB and foreign currencies require approval by foreign exchange administrative authorities and certain supporting documentation. The State Administration for Foreign Exchange, under the authority of the People’s Bank of China, controls the conversion of RMB into other currencies.

(b) Credit risk

Financial instruments that potentially expose the Group to credit risk consist primarily of cash and cash equivalents, restricted cash, short-term investments, short-term deposits, accounts and notes receivable and amounts due from related parties. The Group places its cash and cash equivalents, restricted cash, short-term investments and short-term deposits with financial institutions with high credit ratings and quality. There has been no recent history of default in relation to these financial institutions and credit risk is immaterial.

The Group conducts credit evaluations of third-party customers and related parties, and generally does not require collateral or other security from its third-party customers and related parties. The Group establishes an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific third-party customers and related parties.

Accounts and notes receivable from third parties concentration of credit risk as below:

	As of December 31,			
	2019		2020	
	RMB		RMB	
Company A	174,620	55%	221,614	52%
Company B	109,585	35%	164,518	38%

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

3. CONCENTRATION AND RISKS (Continued)

(b) Credit risk (Continued)

Accounts receivable from a related party concentration of credit risk as below:

	As of December 31,			
	2019		2020	
	RMB	100%	RMB	100%
Xiaomi	707,947	100%	609,094	100%

Other receivables from related parties concentration of credit risk as below:

	As of December 31,			
	2019		2020	
	RMB	100%	RMB	100%
Xiaomi	23,944	100%	88,038	100%

(c) Revenue concentration risk

	Year ended December 31,					
	2018		2019		2020	
	RMB	51%	RMB	45%	RMB	50%
Xiaomi	1,311,852	51%	2,112,170	45%	2,889,441	50%

The revenue generated from Xiaomi included sale of both Xiaomi-branded and Viomi-branded products. Revenue from sale of Viomi-branded products amounted to RMB136,520, RMB250,593 and RMB326,114 for the years ended December 31, 2018, 2019 and 2020, 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, 2019 and 2020 primarily consist of the following currencies:

	As of December 31, 2019		As of December 31, 2020	
	RMB		RMB	
	Amount	equivalent	Amount	equivalent
RMB	569,772	569,772	150,967	150,967
US\$	57,720	402,666	54,122	353,141
Total		972,438		504,108

5. RESTRICTED CASH

As of December 31, 2019 and 2020, the Group held restricted cash of RMB30,567 and RMB70,601 respectively in designated bank accounts for issuance of bank acceptance notes.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

6. SHORT-TERM DEPOSITS

Short-term deposits balance as of December 31, 2019 was primarily denominated in RMB.

7. SHORT-TERM INVESTMENTS

Short-term investments represent structured deposits with maturities of less than one year. Short-term investments balance as of December 31, 2019 and 2020 is primarily denominated in the following currencies:

	As of December 31, 2019		As of December 31, 2020	
	Amount	RMB equivalent	Amount	RMB equivalent
US\$	25,087	175,012	12,045	78,594
RMB	141,189	141,189	617,457	617,457
Total		316,201		696,051

8. INVENTORIES

Inventories consisted of the followings:

	As of December 31,	
	2019	2020
	RMB	RMB
Finished goods	232,671	311,316
Raw materials	185,344	128,059
Inventories	418,015	439,375

For the years ended December 31, 2018, 2019 and 2020, the Group recorded write-down of RMB1,059, RMB15,661 and RMB22,577 for obsolete inventories.

9. PREPAID EXPENSES AND OTHER ASSETS

	As of December 31,	
	2019	2020
	RMB	RMB
Advances to suppliers	43,175	66,421
Other receivables	7,725	17,732
Prepayment for equipment	4,345	13,870
Lease hold improvement	6,825	4,735
Expected return assets	11,212	4,106
Other current assets	202	219
Total	73,484	107,083
Less: non-current portion	(11,170)	(19,803)
Prepaid expenses and other assets-current portion	62,314	87,280

10. LONG-TERM DEPOSITS

Long-term deposits balance as of December 31, 2020 is primarily denominated in RMB.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

11. PROPERTY, PLANT AND EQUIPMENT, NET

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

	As of December 31,	
	2019	2020
	RMB	RMB
Computers and equipment	87,374	133,823
Vehicle	508	508
Total	87,882	134,331
Less: accumulated depreciation	(20,589)	(61,895)
Property, plant and equipment, net	67,293	72,436

The Group had recorded depreciation expense of RMB2,244, RMB15,427 and RMB42,470 for the years ended December 31, 2018, 2019 and 2020, respectively. No impairment was recorded for the years ended December 31, 2018, 2019 and 2020.

12. LAND USE RIGHTS, NET

In 2020, the Group obtained a land use right in Foshan from the local authorities. Amortization of the land use right is made over the remaining term of the land use right period from the date when the land was made available for use by the Group. The land use rights are summarized as follows:

	As of December 31, 2020	
	RMB	
Land use rights		63,618
Less: Accumulated amortization		(636)
Land use right, net		62,982

The total amortization expense for the year ended December 31, 2020 amounted to approximately RMB636.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	As of December 31,	
	2019	2020
	RMB	RMB
Accrued payroll and welfare	69,269	83,190
Freight payable	63,084	70,656
Deposits from suppliers	5,312	30,755
Installation fee payables	21,850	25,714
Product warranty	22,463	22,420
Marketing and promotion expenses	19,223	18,476
Payments for purchase of property	5,997	15,624
Other tax payable	45,217	15,354
Professional fee payables	10,699	9,188
Refund liabilities	18,088	7,707
Deferred revenue	7,790	5,719
Other current liabilities	37,845	34,085
Total	326,837	338,888
Less: non-current portion	(1,795)	(3,400)
Accrued expenses and other liabilities-current portion	325,042	335,488

Product warranty activities were as follows:

	Product Warranty
	RMB
Balance at December 31, 2018	12,744
Provided during the year	52,275
Utilized during the year	(42,556)
Balance at December 31, 2019	22,463
Provided during the year	88,375
Utilized during the year	(88,418)
Balance at December 31, 2020	22,420

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

14. REVENUE

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Sales of product			
- IoT @ Home portfolio	1,151,095	2,522,189	3,671,717
- Home water solutions	930,178	1,065,166	883,325
- Consumables	141,940	265,844	382,896
- Small appliances and other products	323,381	741,290	792,965
Total of sales of products	2,546,594	4,594,489	5,730,903
Rendering of services	14,635	53,024	94,721
Total	<u>2,561,229</u>	<u>4,647,513</u>	<u>5,825,624</u>

15. INCOME TAX EXPENSES

Cayman Islands

Under the current tax laws of 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 subsidiary 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 (“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, 2019 and 2020 are approximately RMB598,503 and RMB827,531, respectively. The Company does not intend to have any of its subsidiaries located in PRC distribute any undistributed earnings of such subsidiaries in the foreseeable future, but rather expects that such earnings will be reinvested by such subsidiaries for their PRC daily operations. Accordingly, no withholding tax was recorded as of December 31, 2019 and 2020.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

15. INCOME TAX EXPENSES (Continued)

Composition of income tax expense

The current and deferred components of income taxes appearing in the consolidated statements of comprehensive income are as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Current tax expenses	26,247	52,232	44,813
Deferred tax benefit	(2,186)	(7,042)	(1,492)
Income tax expenses	<u>24,061</u>	<u>45,190</u>	<u>43,321</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,		
	2018	2019	2020
	RMB	RMB	RMB
Income from operations in the PRC	93,910	321,090	200,941
(Loss) income from overseas entities	(4,499)	17,930	16,826
Income before income tax	<u>89,411</u>	<u>339,020</u>	<u>217,767</u>
Tax expense at PRC enterprise income tax rate of 25%	22,353	84,755	54,442
Income tax on tax holiday ⁽¹⁾	(9,632)	(31,493)	(31,074)
Tax effect of permanence differences ⁽²⁾	(7,871)	(12,147)	(16,895)
Change in valuation allowance ⁽³⁾	602	1,592	29,780
Effect of share-based compensation	17,492	6,475	10,830
Effect of income tax in jurisdictions other than the PRC	1,117	(3,992)	(3,762)
Income tax expenses	<u>24,061</u>	<u>45,190</u>	<u>43,321</u>

- (1) The income tax on tax holidays represents the effect of preferential income tax rate enjoyed by Foshan Viomi and Guangdong Lizi. Foshan Viomi was qualified as an HNTE and enjoyed the beneficial tax rate of 15% for the three years ended December 31, 2018, 2019 and 2020. Foshan Viomi will need to re-apply for HNTE qualification renewal in 2022. Guangdong Lizi applied for the HNTE qualification and obtained approval in December 2020. It entitled to enjoy the preferential tax rate of 15% as an HNTE for three years starting from 2020, and should apply for HNTE qualification renewal in 2023.
- (2) The permanent book-tax differences mainly consisted of R&D super deductions.
- (3) Valuation allowance for the years ended December 31, 2018, 2019 and 2020 are related to the deferred tax assets of certain group entities which reported loss. The Group believed that it is more likely than not that these the deferred tax assets of these entities will not be utilized. Therefore, valuation allowance has been provided.

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

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Net income per share effect – basic	0.22	0.13	0.14
Net income per share effect – diluted	0.20	0.13	0.13

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

15. INCOME TAX EXPENSES (Continued)

Deferred tax assets and deferred tax liabilities

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

	As of December 31,	
	2019	2020
	RMB	RMB
Accrued expenses and others	9,245	12,466
Net operating loss carry forwards	3,511	32,985
Inventory write downs	1,497	1,463
Deferred income	1,169	201
Total deferred tax assets	15,422	47,114
Less: valuation allowance	(3,146)	(32,926)
Deferred tax assets, net	12,276	14,189

Movement of valuation allowance

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Balance at beginning of the year	952	1,554	3,146
Provided	602	1,592	29,780
Balance at end of the year	1,554	3,146	32,926

Uncertain tax positions

The Group evaluates the level of authority for each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measures the unrecognized benefits associated with the tax positions. As of December 31, 2019 and 2020, the Group did not have any significant unrecognized uncertain tax positions.

According to the PRC Tax Administration and Collection Law, the statute of limitations is generally three years and can be extended to five years under special circumstances.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

16. 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.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

16. ORDINARY SHARES (Continued)

Immediately prior to the completion of the IPO, 16,145,454 issued Class A Ordinary Shares held by certain key management founders, 33,818,182 issued Pre-IPO Class B Ordinary Shares held by Red Better, and 67,636,364 issued Pre-IPO Class B Ordinary Shares held by Mr. Chen's wholly-owned entity Viomi Limited was automatically converted by way of re-designation and re-classification into Class B Ordinary Shares on a one-for-one basis, and the rest of the outstanding Class A Ordinary Shares, the rest of the outstanding Pre-IPO Class B Ordinary Shares, and all outstanding Series A Preferred Shares was automatically converted by way of re-designation and re-classification into Class A Ordinary Shares on a one-for-one basis.

Upon the completion of the Company's IPO in 2018, 34,200,000 Class A Ordinary Shares were issued and 18,181,818 Series A Preferred Shares have been converted into Class A Ordinary Shares.

As of December 31, 2018, the Company had 90,200,000 Class A Ordinary Shares and 117,600,000 Class B Ordinary Shares outstanding, respectively.

During the year ended December 31, 2019, 1,494,732 Class A Ordinary Shares were issued for the exercised share options. In addition, 6,750,000 Class B Ordinary Shares were converted into Class A Ordinary Shares.

As of December 31, 2019, the Company had 98,444,732 Class A Ordinary Shares and 110,850,000 Class B Ordinary Shares outstanding, respectively.

During the year ended December 31, 2020, 2,655,669 Class A Ordinary Shares were issued for the exercised share options. In addition, 7,295,454 Class B Ordinary Shares were converted into Class A Ordinary Shares.

In March 2020, the Company's Board of Directors authorized a share repurchase program under which the Company may repurchase up to US\$10,000 worth of its ADSs over the following 12 months. The share repurchase may be made in accordance with applicable laws and regulations through open market transactions, privately negotiated transactions or other legally permissible means as determined by the management.

During the year ended December 31, 2020, the Company had repurchased 1,410,723 ADSs (equal to 4,232,169 Class A ordinary shares) for a consideration of US\$8,030 on the open market, at a weighted average price of US\$5.69 per ADS. The Company accounts for repurchased ordinary shares under the cost method and includes such treasury stock as a component of the shareholders' equity.

As of December 31, 2020, the Company had 104,163,686 Class A Ordinary Shares and 103,554,546 Class B Ordinary Shares outstanding, respectively.

17. REDEEMABLE CONVERTIBLE PREFERRED AND PRE-IPO CLASS B ORDINARY SHARES

As described in note1 (a), pursuant to a shares purchase agreement, the Company issued Pre-IPO Class B Ordinary Shares to Mr. Chen, Red Better and Shunwei during the Reorganization, and the Company also issued totaling 18,181,818 shares (with par value of US\$0.0001) of Series A Preferred Shares for US\$1.1000 per share with total consideration of US\$20,000, including conversion of the outstanding bridge loans of US\$5,250.

The significant terms of the Series A Preferred Shares and Pre-IPO Class B Ordinary Shares issued by the Company are as follows:

Conversion rights

Optional Conversion

Each holder of Series A Preferred Shares and Pre-IPO Class B Ordinary Shares shall have the right, at such holder's sole discretion, to convert all or any portion of the Series A Preferred Shares and Pre-IPO Class B Ordinary Shares into Class A Ordinary Shares at any time. The conversion rate for Series A Preferred Shares and Pre-IPO Class B Ordinary Shares shall be determined by dividing applicable Share Issue Price by the conversion price then in effect at the date of the conversion. The initial conversion price will be the applicable Share Issue Price (i.e., a 1-to-1 initial conversion ratio), and thereafter shall be subject to adjustment and readjustment from time to time as hereinafter provided, being no less than par value. Adjustments of conversion ratios include the following:

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

17. REDEEMABLE CONVERTIBLE PREFERRED AND PRE-IPO CLASS B ORDINARY SHARES (Continued)

- (1) Adjustment of applicable conversion price upon issuance of additional ordinary shares below the applicable conversion price.
- (2) Adjustments for share dividends, subdivisions, combinations or consolidations of class A ordinary shares.
- (3) Adjustments for other distributions.
- (4) Adjustments for reclassification, exchange and substitution.

Automatic Conversion

Each Series A Preferred Share and Pre-IPO Class B Ordinary Share shall automatically be converted into class A ordinary shares, at the then applicable preferred share conversion price upon the closing of a Qualified IPO;

Voting rights

Each Series A Preferred Share and Pre-IPO Class B Ordinary Share shall carry a number of votes equal to the number of class A ordinary shares then issuable upon its conversion into class A ordinary shares at the record date for determination of the shareholders entitled to vote on such matters, or, if no such record date is established, at the date such vote is taken or any written consent of shareholders is solicited. To the extent that applicable law, Memorandum and Articles of the Company require the Series A Preferred Shares and Pre-IPO Class B Ordinary Shares to vote separately as a class with respect to any matters, the Series A Preferred Shares and Pre-IPO Class B Ordinary Shares shall vote separately as a class with respect to such matters. Otherwise, the holders of Series A Preferred Shares and Pre-IPO Class B Ordinary Shares and class A ordinary shares shall vote together as a single class.

Redemption rights

Redemption Condition for Series A Preferred Shares and Pre-IPO Class B Ordinary Shares:

The Series A Preferred Shares and Pre-IPO Class B Ordinary Shares are redeemable at any time after the earlier of:

- i) the fifth anniversary of the date on which the closing of the shares issuance pursuant to the share purchase agreement (the "Closing Date"), if the Company has not consummated a Qualified IPO;
- ii) any material breach by the Founder or the Group, of any representatives, warranties or covenants of the transaction documents and not cured within six (6) months (the "Redemption Start Date"), then subject to the applicable laws of the Cayman Islands and, if so requested by any investor, the Company and the Founder shall redeem all or part of the outstanding Series A Preferred Shares and/or Pre-IPO Class B Ordinary Shares held by such Investor (collectively, the "Redeemable Shares") in cash out of funds legally available therefor.

The redemption price of each Series A Preferred Share and Pre-IPO Class B Ordinary Share shall be the sum of the Series A Preferred Shares and Pre-IPO Class B Ordinary Shares issuance price, respectively, plus 6% compound interest return per annum on the issuance price; plus all declared but unpaid dividends per Series A Preferred Shares and Pre-IPO Class B Ordinary Shares.

If the Company does not have sufficient cash or funds legally available to redeem any of the redeemable shares required to be redeemed, the Company and the Founder shall use their best effort to cause the remaining redeemable shares to be purchased, including without limitation, to seek, facilitate and procure third parties to acquire the remaining redeemable shares on terms and conditions acceptable to the relevant redemption holders.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

17. REDEEMABLE CONVERTIBLE PREFERRED AND PRE-IPO CLASS B ORDINARY SHARES (Continued)

Dividends rights

Holders of outstanding Series A Preferred Shares shall be entitled to receive dividends, out of any assets legally available therefor, prior and in preference to any declaration or payment of any dividend (whether in cash, in property or in shares of the capital of the Company) on the ordinary shares or any other class or series of shares of the Company, at the rate of eight percent (8%) of the preferred share issue price per share (as adjusted for any subdivisions, consolidations, bonus issues, reclassifications and the like) per annum on each Series A Preferred Shares, payable in U.S. dollars and annually when, as and if declared by the Board. Such distributions shall be cumulative. Holders of the Series A Preferred Shares shall also be entitled to receive any non-cash dividends declared by the Board on an as-converted basis.

After payment of the dividends distributed to the holders of Series A Preferred Shares, any additional dividends or distributions shall be distributed to the holders of Pre-IPO Class B Ordinary Shares, prior and in preference to any declaration or payment of any dividend (whether in cash, in property or in shares of the capital of the Company) on the class A ordinary shares or any other class or series of shares of the Company, at the rate of eight percent (8%) of the deemed Pre-IPO Class B Ordinary Share issue price per share (as adjusted for any subdivisions, consolidations, bonus issues, reclassifications and the like) per annum on each Pre-IPO Class B Ordinary Share, payable in U.S. dollars and annually when, as and if declared by the Board. Such distributions shall be cumulative. Holders of the Pre-IPO Class B Ordinary Shares shall also be entitled to receive any non-cash dividends declared by the Board on an as-converted basis.

Liquidation rights

Liquidation Preferences

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, all assets and funds of the Company legally available for distribution among holders of the outstanding Shares (on an as-converted to basis) in the following order and manner:

- i) the holders of the Series A Preferred Shares shall be entitled to receive, prior to any distribution to the holders of the ordinary shares or any other class or series of shares then outstanding, an amount per Series A Preferred Share equal to (a) one hundred and fifty percent (150%) of the preferred share issue price, plus (b) all declared but unpaid dividends thereon (collectively, the "Preferred Share Preference Amount"). If the Company has insufficient assets to permit payment of the Preferred Share Preference Amount in full to all holders of Series A Preferred Shares, then the assets of the Company shall be distributed ratably to the holders of the Series A Preferred Shares in proportion to the full Preferred Share Preference Amount.
- ii) after the full Preferred Share Preference Amount on all outstanding Series A Preferred Shares has been paid, any remaining funds or assets of the Company legally available for distribution to shareholders shall be distributed to the holders of Pre-IPO Class B Ordinary Shares, prior to the holders of the class A ordinary shares or any other class or series of shares then outstanding, an amount per Pre-IPO Class B Ordinary Share equal to (a) one hundred and fifty percent (150%) of the deemed Pre-IPO Class B Share issue price, plus (b) all declared but unpaid dividends thereon (collectively, the "Class B Share Preference Amount", collectively with the Preferred Share Preference Amount, the "Preference Amount"). After the full Preferred Share Preference Amount has been paid, if the remaining assets are insufficient to permit payment of the Class B Share Preference Amount in full to all holders of Pre-IPO Class B Ordinary Shares, then the remaining assets of the Company shall be distributed ratably to the holders of the Pre-IPO Class B Ordinary Shares in proportion to the full Class B Share Preference Amount.
- iii) after the full Preference Amount on all outstanding Series A Preferred Shares and Pre-IPO Class B Ordinary Shares has been paid, any remaining funds or assets of the Company legally available for distribution to shareholders shall be distributed on a pro rata, pari passu basis among the holders of the Preferred Shares (on an as-converted basis), together with the holders of the Ordinary Shares.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

17. REDEEMABLE CONVERTIBLE PREFERRED AND PRE-IPO CLASS B ORDINARY SHARES (Continued)

Liquidation Event

The following events shall be deemed as a liquidation, dissolution or winding up of the Company (each, a “Liquidation Event”):

- (i) any acquisition of the Company (whether by a sale of equity, merger or consolidation) in which in excess of 50% of the Company’s voting power outstanding before such transaction is transferred;
- (ii) a sale of all or substantially all of the Company’s assets and no substantial business operations will be continued by the Company.

Accounting of Series A Preferred Shares and Pre-IPO Class B Ordinary Shares

The Company classified the Series A Preferred Shares and Pre-IPO Class B Ordinary Shares as mezzanine equity in the consolidated balance sheets because they were redeemable at the holders’ option any time after a certain date and were contingently redeemable upon the occurrence of certain liquidation events outside of the Company’s control. The Series A Preferred Shares and Pre-IPO Class B Ordinary Shares are recorded initially at fair value, net of issuance costs.

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

Upon completion of the Reorganization, both the Founder and Tianjin Jinxing’s equity interests in Foshan Viomi are exchanged into 67,636,364 Pre-IPO Class B Ordinary Shares of the Company, respectively. After the Reorganization, the most significant change in the provision is the addition of redemption clause which allows the holders of the Pre-IPO Class B Ordinary Shares to redeem the Pre-IPO Class B Ordinary Shares if there are no Qualified IPO after the fifth anniversary of the Closing Date.

This transaction was considered as an extinguishment of the previous equity interests and therefore, the Pre-IPO Class B Ordinary Shares are measured at its fair value on the extinguishment date.

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

The change in the balance of Series A Preferred Shares and Pre-IPO Class B Ordinary Shares included in mezzanine equity for the years presented is presented below:

	Series A Preferred Shares	Pre-IPO Class B Ordinary Shares held by the Founder ⁽¹⁾⁽²⁾	Pre-IPO Class B Ordinary Shares- owned by Xiaomi ⁽¹⁾	Total
	RMB	RMB	RMB	RMB
Balance as of January 1, 2018	151,045	51,376	205,507	407,928
Accretion of preferred shares	6,563	—	—	6,563
Foreign exchange	7,487	2,437	9,743	19,667
Conversion of Series A Preferred Shares and Pre-IPO Class B Ordinary Shares to ordinary shares upon the completion of the IPO on September 25, 2018	(165,095)	(53,813)	(215,250)	(434,158)
Balance as of December 31, 2018, 2019 and 2020	—	—	—	—

- (1) The carrying amount of Pre-IPO Class B Ordinary Shares is higher than the redemption value, which is based on the original investment amount in 2014. Therefore no accretion was recorded for the year ended December 31, 2018.
- (2) Out of the 67,636,364 Pre-IPO Class B Ordinary Shares held by the Founder, 50,727,273 Pre-IPO Class B ordinary shares held by the Founder pursuant to the restricted share arrangement is included in liability award.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

18. SHARE-BASED COMPENSATION

Compensation expense recognized for share-based awards was as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Share-based compensation expenses			
—Restricted shares owned by the Founder – equity component ^(a)	826	—	—
—Restricted shares owned by the Founder – liability component ^(a)	212	—	—
—Restricted shares owned by the Founder on behalf of certain key management founders ^(a)	14	—	—
—Share options ^(b)	25,391	43,168	72,203
—Shares awarded to Mr. Chen ^(c)	90,168	—	—
Total share-based compensation expenses	116,611	43,168	72,203

(a) Restricted Shares

As described in note 1 (a), the Founder and Xiaomi, made a capital contribution of RMB7,500 and RMB5,000, respectively, in exchange for 60% and 40% equity interests in Foshan Viomi, respectively. Out of the RMB7,500 invested by the Founder, RMB2,500 was invested by certain key management founders and held by the Founder on their behalf. For the equity interests held by the Founder for himself, these were ordinary shares in nature but with substantive liquidation preference, while for the equity interests held by the Founder on behalf of certain key management founders, these were the most subordinated class of equity of Foshan Viomi and did not carry any preference rights.

According to the agreement among the shareholders entered into in June 2014, the interest held by the Founders shall be subject to a repurchase feature under which Xiaomi shall purchase the interest held by the Founders at the original investment amount if the Founders voluntarily terminates their employment with Foshan Viomi. The repurchase feature shall lapse at a rate of 25% each year, consequently, the interests held by the Founders are accounted for as equity-classified share-based compensation with a vesting period of 4 years.

As discussed in note 2(x), after the Reorganization, the unvested awards held by the Founder on his own behalf consisted of a share-based compensation liability measured based on the redemption value and a share option component representing the value of upside potential of the Pre-IPO Class B Ordinary Shares which is accounted for as an equity grant, while the unvested awards held by the Founder on behalf of certain key management founders continue to be equity-classified.

A summary of the Restricted Shares activity for the years presented is presented below:

	Number of shares		
	Restricted Shares held by the Founder on behalf of certain key management founders	Restricted Shares held by the Founder on his own behalf	Total
Outstanding at January 1, 2018	8,454,546	16,909,091	25,363,637
Surrender and cancellation ⁽¹⁾	(5,918,182)	—	(5,918,182)
Vested	(2,536,364)	(16,909,091)	(19,445,455)
Outstanding at December 31, 2018, 2019 and 2020	—	—	—

(1) 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. Out of the 17,672,728 Class A ordinary shares surrendered, 5,918,182 shares were unvested restricted shares. The cancellation of these 5,918,182 shares is accounted for as an acceleration of vesting of such shares and the unrecognized share-based compensation expenses related to these 5,918,182 shares have been recognized in the consolidated financial statements for the year ended December 31, 2018. The share-based compensation expenses recognized due to the acceleration of vesting is not material.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

18. SHARE-BASED COMPENSATION (Continued)

The table below shows the details of the movement of liability-classified awards with respect to unsettled 33,818,182 restricted shares granted to the Founder for the years presented:

	Liability-classified Awards (RMB) Restricted Shares held by the Founder on his own behalf
Outstanding at January 1, 2018	4,738
Share-based compensation expenses	212
Foreign currency translation adjustment	408
Conversion of Restricted Shares to ordinary shares upon the completion of the IPO on September 25, 2018	(5,358)
Outstanding at December 31, 2018, 2019 and 2020	—

(b) 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, 2020, the maximum of shares that may be issued under the 2018 Share Incentive Plan was 21,843,675.

For the year ended December 31, 2018, the Company granted 5,460,000 and 670,000 share options to employees pursuant to the 2015 Share Incentive Plan and 2018 Share Incentive Plan, respectively. Among which, with respect to the 5,500,000 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. With respect to 630,000 share options granted, 50% of the options will be vested after 24 months of the grant date and the remaining 50% will be vested in two equal installments over the following 24 months.

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.

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 2018 and 2020 are summarized in the following table:

	Year ended December 31,	
	2018	2020
Risk-free interest rate	3.62%~3.92%	2.20%~3.30%
Expected volatility	45.51%~46.99%	41.30%~43.62%
Expected life of option (years)	10	10
Expected dividend yield	—	—
Fair value per ordinary share	US\$1.61~US\$3.30	US\$1.04~US\$1.47

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

18. SHARE-BASED COMPENSATION (Continued)

(1) Risk-free interest rate

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

(2) Expected life of option (years)

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

(3) Volatility

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

(4) Dividend yield

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

(5) Fair value per ordinary share

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

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

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

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

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

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

18. SHARE-BASED COMPENSATION (Continued)

A summary of the stock option activity under the 2015 and 2018 Share Incentive Plan for the years ended December 31, 2018, 2019 and 2020 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, 2018	7,540,000	0.25	8.65	3,697
Granted	6,130,000	0.64		
Forfeited	(410,000)	0.43		
Outstanding at December 31, 2018	13,260,000	0.43	8.40	18,705
Forfeited	(400,000)	0.96		
Exercised	(1,494,732)	0.17		
Outstanding at December 31, 2019	11,365,268	0.44	7.59	17,737
Granted	19,175,500	0.86		
Forfeited	(1,778,500)	0.60		
Exercised	(2,655,669)	0.48		
Outstanding at December 31, 2020	26,106,599	0.74	8.08	30,299
Exercisable as of December 31, 2020	7,344,099	0.37	6.37	8,153
Expected to vest as of December 31, 2020	17,003,750	0.88	8.74	20,206

The weighted average grant date fair value of options granted for the years ended December 31, 2018 and 2020 was RMB18.23 (US\$2.66) and RMB8.31 (US\$1.27) per option, respectively.

As of December 31, 2020, there was RMB99,975 of unrecognized compensation expenses related to the options.

(c) Shares awarded to Mr. Chen

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 approximately US\$3.30 per share.

On May 6, 2020, the Company issued 1,000,000 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 will be graded vested in the following 5 years. The issuance of such shares is accounted for as a share-based compensation to Mr. Chen.

The issuance date fair value was approximately US\$1.17 per share.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

19. NET INCOME PER SHARE

Basic net income per share is the amount of net income available to each share of ordinary shares outstanding during the reporting period. Diluted net income per share is the amount of net income available to each share of ordinary shares outstanding during the reporting period adjusted to include the effect of potentially dilutive ordinary shares.

For the year ended December 31, 2018, the Group has determined that its convertible redeemable Pre-IPO Class B Ordinary Shares, convertible redeemable Series A Preferred Shares and unvested Class A ordinary shares are participating securities as they participate in undistributed earnings on an as-if-converted basis. The holders of the Pre-IPO Class B Ordinary Shares, Series A Preferred Shares and unvested Class A ordinary shares are entitled to receive dividends on a pro rata basis, as if their shares had been converted into ordinary shares. Accordingly, the Group uses the two-class method of computing net income per share, for ordinary shares and preferred shares according to the participation rights in undistributed earnings.

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Numerator:			
Numerator for basic calculation - Net income attributable to ordinary shareholders of the Company	50,544	292,170	173,324
Denominator:			
Denominator for basic calculation - weighted average ordinary shares outstanding	71,771,033	208,156,507	208,812,049
Dilutive effect of share options	7,819,747	7,699,070	6,811,724
Denominator for diluted calculation	79,590,780	215,855,577	215,623,773
Basic net income per ordinary share	0.70	1.40	0.83
Diluted net income per ordinary share	0.64	1.35	0.80

20. RELATED PARTY TRANSACTIONS

Name	Relationship with the Group
Mr. Chen	Founder
Xiaomi	Shareholder of the Group
Foshan Wanwuhulian Trade Co., Ltd. ("Foshan Wanwuhulian")	Controlled by the Founder

The Group's relationship with Xiaomi

Xiaomi is The Group's strategic partner and shareholder.

The Group's sales to Xiaomi is 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 Xiaomiyopin.com, and is charged of commissions pursuant to a commission sales agreement.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

20. RELATED PARTY TRANSACTIONS (Continued)

Transaction with Xiaomi

Business cooperation agreement

The current business cooperation agreement entered into in 2019 with Xiaomi governs all the Group's sales to Xiaomi. It expired in November 2020 and has been automatically extended for a successive one-year period to November 2021.

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

In 2019, the Group has entered into cooperation arrangement with Xiaomi for a certain type of products under which the Group acts as the agent of Xiaomi. The Group charges Xiaomi with reference to market price.

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, 2020 and has been renewed up to December 31, 2021. 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.

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

	As of December 31,	
	2019	2020
	RMB	RMB
Accounts receivable from a related party:		
Xiaomi(a)	707,947	609,094
Other receivables from related parties:		
Sales receivable from Xiaomi(b) (c)	23,908	88,029
Other receivables from Xiaomi	36	9
Total	23,944	88,038
Amounts due to related parties:		
Advertising and promotion expenses payable to Xiaomi(c)	12,919	—
Purchase payable to Xiaomi(a)	12,187	2,463
Purchase payable to Foshan Wanwuhulian(d)	—	121,321
Research and development expenses payable to Xiaomi	—	408
Total	25,106	124,192

(2) *Purchase from related parties*

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Xiaomi(a)	18,235	43,037	50,843
Foshan Wanwuhulian(d)	—	15,422	469,950
Total	18,235	58,459	520,793

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

20. RELATED PARTY TRANSACTIONS (Continued)

(3) *Revenue from a related party*

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Xiaomi(a)	1,311,852	2,112,170	2,889,441

(4) *Research and development expenses*

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Xiaomi	—	657	1,915

(5) *Selling and marketing expenses*

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Commission expenses charged by Xiaomi(b)	20,824	58,874	77,163
Advertising and promotion expenses charged by Xiaomi(c)	3,774	22,977	20,060
Total	24,598	81,851	97,223

(6) *Interest expenses*

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Xiaomi(e)	440	—	—

(7) *Interest income*

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Xiaomi(f)	107	—	—

(a) Foshan Viomi both sells water purifier 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 purifier and other products. The balance due to Xiaomi represents payable arising from purchase of Xiaomi branded products and certain raw materials.

(b) Foshan Viomi sells its own brand products on the E-platform of Xiaomi, which charges Foshan Viomi commission and technical service fees. The amount due from Xiaomi represents sales receivable net of commission.

(c) Foshan Viomi sells its own brand products on the E-platform of Xiaomi, which provides advertising and promotion service. The amount due from Xiaomi represents sales receivable net of advertising and promotion service in 2020.

(d) Foshan Viomi purchases products from Foshan Wanwuhulian for trading during the year ended December 31, 2020.

(e) Interest expense represents the expense of a loan provided by Xiaomi. The loan is RMB31,900 with an interest rate of 5.52% per annum. The loan term is 3 months and will be automatically extended by another 3 months if the two parties do not raise any objections on the maturity date. The loan has been settled in 2018.

(f) Interest income represents interest from a loan provided to Xiaomi. The loan is US\$5,000 with an interest rate of 3-month Libor add 10bps. The loan term is 3 months and will be automatically extended by another 3 months if the two parties do not raise any objections on the maturity date. The loan has been settled in 2018.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

21. 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.

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, 2019 and 2020 except for short-term investments (Note 7).

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, 2019 and 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of December 31, 2020				
Short-term investments (i)	—	696,051	—	696,051
As of December 31, 2019				
Short-term investments (i)	—	316,201	—	316,201

(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.

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

22. LEASES

The Group's operating leases are principally for office space, facilities and self-run offline stores. At December 31, 2020, The Group's operating leases had a weighted average discount rate of 4.75% and a weighted-average remaining lease term of 2.5 years.

The components of lease expense were as follows:

	Year ended December 31,	
	2019	2020
Lease cost		
Operating lease expense	7,434	9,472
Short-term lease expense (i)	798	876
Total lease cost	<u>8,232</u>	<u>10,348</u>

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

Supplemental cash flow information for leases was as follows:

	Year ended December 31,	
	2019	2020
Operating cash flows relating to operating leases	7,553	10,203
Lease liabilities arising from obtaining right-of-use assets	17,427	7,890

As of December 31, 2020, the aggregate future minimum rental payments under non-cancelable agreement were as follows:

	Rental RMB
2021	9,725
2022	8,547
2023	<u>4,250</u>
Total future minimum rental payment	22,522
Less amount representing imputed interest	<u>(1,348)</u>
Present value of future minimum rental payments	21,174
Less current portion, recorded in other current liabilities	<u>(9,481)</u>
Long-term lease liabilities, recorded in other long-term liabilities	<u>11,693</u>

VIOMI TECHNOLOGY CO., LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020
(Amounts in thousands, except shares, ADS, per share and per ADS data)

23. COMMITMENTS AND CONTINGENCIES

Operating commitments

As of December 31, 2020, future minimum commitments under non-cancelable agreements were as follows:

	Rental RMB
2021	2,292
2022	2,653
2023	2,776
2024 and after	244
	7,965

The operating commitments as of December 31, 2020 presented above mainly consist of the short-term lease commitments and leases that have not yet commenced but that create significant rights and obligations for the Company, which are not included in operating lease right-of-use assets and lease liabilities.

(b) Capital and other commitment

As of December 31, 2020, the Group had no outstanding capital commitments.

(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.

24. RESTRICTED NET ASSETS

Relevant PRC laws and regulations permit payments of dividends by the Group's entities incorporated in the PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Company's entities in the PRC are required to annually appropriate 10% of their net after-tax income to the statutory general reserve fund prior to payment of any dividends, unless such reserve funds have reached 50% of their respective registered capital. As a result of these and other restrictions under PRC laws and regulations, the Company's entities incorporated in the PRC are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances, which restricted portion as calculated under U.S. GAAP amounted to RMB31,395 and RMB61,852 as of December 31, 2019 and 2020. 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, 2020, 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, 2020 and the condensed financial information of the Company are not required to be presented.

Termination Agreement

This Termination Agreement (this "Agreement") was entered into on April 28, 2020, by and between:

Party A: Lequan Technology (Beijing) Co., Ltd.

Address: 3-505, 4F, Building 1, No.35, Shangdi East Road, Haidian District, Beijing

Party B:

CHEN Xiaoping, ID Card No.: *****

Party C: Foshan Yunmi Electric Appliances Technology Co., Ltd.

Address: No.2, North Xinxi 4th Road, Xiashi Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan (The Second Floor of Building No.1 and the Fourth Floor of Building No.7)

In this Agreement, the above parties are respectively referred to as a "**Party**" and collectively referred to as the "**Parties**".

WHEREAS:

1. On July 21, 2015, Party A and Party C concluded the "Exclusive Consulting and Service Agreement" (hereinafter referred to as the "Exclusive Consulting and Service Agreement");
2. On September 5, 2018, Party A, Party B and Party C concluded the "Exclusive Option Agreement" (hereinafter referred to as the "Exclusive Option Agreement");
3. On September 5, 2018, Party A, Party B and Party C concluded the "Equity Pledge Agreement" (hereinafter referred to as the "Equity Pledge Agreement");
4. On September 5, 2018, Party A, Party B and Party C concluded the "Shareholders' Voting Proxy Agreement" (hereinafter referred to as the "Shareholders' Voting Proxy Agreement");
5. The Parties agree to terminate the aforesaid "Exclusive Consulting and Service Agreement", the "Exclusive Option Agreement", the "Equity Pledge Agreement" and the "Shareholders' Voting Proxy Agreement" in accordance with the terms and conditions hereof.

The Parties hereby agree by consensus as follows:

1. The abovementioned "Exclusive Consulting and Service Agreement", "Exclusive Option Agreement", "Equity Pledge Agreement" and "Shareholders' Voting Proxy Agreement" shall be terminated immediately as of the date hereof.
 2. With effect from the date of termination, the rights and obligations of the Parties under the aforesaid "Exclusive Consulting and Service Agreement", "Exclusive Option Agreement", "Equity Pledge Agreement" and "Shareholders' Voting Proxy Agreement" shall cease; and the Parties shall no longer enjoy or assume any rights, obligations and liabilities based on the aforesaid agreements. And the
-

Parties acknowledge that there is no dispute over the above agreements and that they will not assert any rights against other parties based on such documents.

(This page contains no text and is the signature page of the termination agreement)

Lequan Technology (Beijing) Co., Ltd. (Seal)

Legal Representative: /s/ Authorized Signatory

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

Legal Representative: /s/ Authorized Signatory

CHEN Xiaoping

Signature: /s/ CHEN Xiaoping

Shareholder Voting Proxy Agreement

This Shareholder Voting Proxy Agreement (hereinafter referred to as the “**Agreement**”) is entered into by the following parties on April 28, 2020:

1. **Each shareholder listed in Annex I** (hereinafter referred to as “**Each Shareholder**” individually and collectively)
2. **Yunmi Hulian Technology (Guangdong) Co., Ltd.** (hereinafter referred to as the “**Sole Proprietor**”)

Registered Address: No.1-7, North Side of the First Floor of Building A, No.2, North Xinxi 4th Road, Xiashi Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan
 Legal Representative: LI Xiang

3. **Foshan Yunmi Electric Appliances Technology Co., Ltd.** (hereinafter referred to as the “**Company**”)

Registered Address: No.2, North Xinxi 4th Road, Xiashi Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan (The Second Floor of Building No.1 and the Fourth Floor of Building No.7)
 Legal Representative: CHEN Xiaoping

(In this Agreement, the above parties are respectively referred to as a “**Party**” and collectively referred to as the “**Parties**”.)

WHEREAS:

1. Each Shareholder is the existing registered shareholder of the Company and holds 100% equities in the Company; and
2. Each Shareholder intends to delegate separately an individual designated by the Sole Proprietor to exercise their entire shareholder’s voting rights in the Company, and the Sole Proprietor intends to designate an individual to accept such delegation.

Accordingly, the Parties, by consensus, have agreed as follows:

Article 1 Delegation of Voting Rights

- 1.1 Each Shareholder hereby irrevocably authorizes the person or persons then designated by the Sole Proprietor (hereinafter referred to as the “**Trustee**”) to exercise on its behalf the following rights (hereinafter collectively referred to as the “**Proxy Rights**”) to which it is respectively entitled as a shareholder of the Company in accordance with the Articles of Association then in force:
 - (1) to propose and attend shareholders’ meetings of the Company as the proxy of Each Shareholder in accordance with the Articles of Association of the Company;

- (2) to exercise the rights to vote on behalf of Each Shareholder on all matters requiring discussion and resolution at a shareholders' meeting, including but not limited to the appointment and election of directors and other officers to be appointed and removed by the shareholders, and the sale or transfer of all or part of Each Shareholder's equities in the Company;
 - (3) other shareholder's voting rights under the Articles of Association of the Company (including any other shareholder's voting rights provided for under such Articles of Association of the Company as amended).
- 1.2 The Trustee shall perform its fiduciary duties within the scope of its authority hereunder in a prudent and diligent manner according to law; and Each Shareholder acknowledges and assumes liability for any legal consequences arising from the Trustee's exercise of the aforementioned Proxy Rights.
- 1.3 Each Shareholder hereby acknowledges that the Trustee shall not be required to consult with them in advance when exercising the aforesaid Proxy Rights; however, the Trustee shall promptly inform Each Shareholder after each resolution or proposal to convene an extraordinary shareholders' meeting has been made.

Article 2 Right to Know

- 2.1 For the purpose of exercising the Proxy Rights hereunder, the Trustee shall be entitled to know information about operations, business, customers, finances, employees, etc. of the Company and to access relevant information of the Company, and the Company shall cooperate fully in this regard.

Article 3 Exercise of Proxy Rights

- 3.1 Each Shareholder shall provide full assistance to the Trustee in the exercise of the Proxy Rights, including the timely signing of resolutions of the shareholders' meetings or other relevant legal documents already made by the Trustee when necessary (e.g. to meet the requirements for filing documents as required for approval, registration and filing by governmental authorities).
- 3.2 If, at any time during the term hereof, the grant or exercise of the Proxy Rights hereunder cannot be fulfilled for any reason (other than default by Each Shareholder or the Company), the Parties shall immediately seek an alternative solution that most closely resembles the provision that cannot be fulfilled and, if necessary, sign a supplementary agreement to amend or adjust the terms hereof to ensure that the purposes hereof can continue to be fulfilled.

Article 4 Exemption and Compensation

- 4.1 The Parties acknowledge that in no event shall the Sole Proprietor be held liable or make any compensation, financial or otherwise, to the other Parties or to any third party in respect of the exercise of the Proxy Rights hereunder by any individual it has appointed.
- 4.2 Each Shareholder and the Company agree to indemnify and hold the Sole Proprietor harmless from

all losses suffered or likely to be suffered by the Sole Proprietor as a result of the exercise of the Proxy Rights by the Trustee designated, including but not limited to any losses arising from litigation, recovery, arbitration, claims or administrative investigations or penalties by governmental authorities brought against it by any third party. However, if the loss is caused due to intentional or gross negligence of the Trustee, such loss shall not be indemnified.

Article 5 Representation and Warranty

5.1 Each Shareholder hereby separately represents and warrants as follows:

- 5.1.1 It has full and independent legal status and legal capacity and has been duly authorized to execute, deliver and perform this Agreement, and can independently act as a Party to the subject of litigation.
- 5.1.2 It has full power and authority to execute and deliver this Agreement and all other documents relating to the transactions described herein that it will execute, and has full power and authority to consummate the transactions described herein. This Agreement is legally and properly executed and delivered by it. It constitutes a legal and binding obligation on it and is enforceable against it in accordance with the terms hereof.
- 5.1.3 It is a legal shareholder of record of the Company at the time this Agreement becomes effective; and no third party rights exist in respect of the Proxy Rights other than those created by this Agreement and the "Equity Pledge Agreement" and the "Exclusive Option Agreement" entered into by Each Shareholder, the Company and the Sole Proprietor. Pursuant to this Agreement, the trustee may exercise the Proxy Rights fully and adequately in accordance with the Articles of Association of the Company in force at the time.

5.2 The Sole Proprietor and the Company hereby respectively represent and warrant as follows:

- 5.2.1 It is a limited liability company duly registered and legally subsisting under the laws of its place of incorporation, with independent corporate capacity; and has full and independent legal status and legal capacity to execute, deliver and perform this Agreement, and can independently act as a Party to the subject of litigation.
- 5.2.2 It has full power and authority within the Company to execute and deliver this Agreement and all other documents relating to the transactions described herein that it will execute, and has full power and authority to consummate the transactions described herein.

5.3 The Company further represents and warrants as follows:

- 5.3.1 Each Shareholder is a legal shareholder of record of the Company at the time this Agreement becomes effective; and no third party rights exist in respect of the Proxy Rights other than those created by this Agreement and the "Equity Pledge Agreement" and the "Exclusive Option Agreement" entered into by Each Shareholder, the Company and the Sole Proprietor. Pursuant to this Agreement, the trustee may exercise the Proxy Rights fully and adequately in accordance with the Articles of Association of the Company in force at the time.

Article 6 Term of Agreement

- 6.1 This Agreement shall take effect on the date duly signed by the Parties hereto; and it shall continue in force unless terminated in advance by written agreement of the Parties.
- 6.2 If any of Each Shareholder transfers all of its equities in the Company with prior consent of the Sole Proprietor, such Party will cease to be a party hereto, but the obligations and commitments of the other Parties hereunder will not be adversely affected thereby.

Article 7 Notice

- 7.1 Any notices, requests, demands and other communications required by or made under this Agreement shall be in writing and served on the Party concerned.
- 7.2 Such notices or other communications shall be deemed served upon dispatch if sent by facsimile or telex, upon personal delivery if delivered in person, or upon posting five (5) days after posting if sent by mail.

Article 8 Confidentiality Obligations

- 8.1 Notwithstanding the termination hereof, each Party shall maintain strict confidentiality of trade secrets, proprietary information, customer information and all other information of a confidential nature (collectively, the “**Confidential Information**”) concerning the other Party that becomes known to it in the course of the formation and performance hereof. The Party receiving the Confidential Information shall not disclose any Confidential Information to any other third party except with prior written consent of the Party disclosing the Confidential Information, as required by relevant laws and regulations or as requested to disclose to third parties by the place of listing of an affiliate of one Party; and the Party receiving the Confidential Information shall not use or indirectly use any Confidential Information except for the purpose of performance hereof.
- 8.2 The following information does not belong to Confidential Information:
- (a) Any information about which there is documentary evidence indicating that the recipient has previously become aware through legal means;
 - (b) Any information that has entered the public domain through no fault of the recipient; or
 - (c) Any information obtained legally by the recipient from other channels after receiving the information.
- 8.3 The recipient may disclose Confidential Information to its relevant employees, agents or professionals engaged by it, provided that the recipient ensures that such persons comply with relevant terms and conditions hereof, and assumes any liability arising from any breach of relevant terms and conditions hereof by such persons.
- 8.4 Notwithstanding any other provision hereof, the effect of this provision shall not be affected by the termination hereof.

Article 9 Liability for Breach

- 9.1 The Parties agree and acknowledge that if either Party (hereinafter referred to as the “**Defaulting Party**”) materially breaches any of the agreements made hereunder or materially fails to perform or delays in performing any of its obligations hereunder, it shall constitute a default hereunder (hereinafter referred to as the “**Default**”), and either of the other non-defaulting party (hereinafter referred to as the “**Non-defaulting Party**”) shall be entitled to require the Defaulting Party to correct or remedy the breach within a reasonable period of time. And if the Defaulting Party does not correct or remedy the breach within a reasonable period of time or within ten (10) days after the Non-defaulting Party has notified the Defaulting Party in writing and made a correction request, then:
- 9.1.1 If any shareholder or the Company is the Defaulting Party, the Sole Proprietor shall be entitled to terminate this Agreement and demand damages from the Defaulting Party; or
- 9.1.2 If the Sole Proprietor is the Defaulting Party, the Non-defaulting Party shall be entitled to demand damages from the Defaulting Party, but it shall not in any event be entitled to terminate or rescind this Agreement unless otherwise provided by law.
- 9.2 Notwithstanding any other provision hereof, the effect of the provisions of this Article shall not be affected by the termination hereof.

Article 10 Miscellaneous

- 10.1 This Agreement is made in Chinese with four (4) originals, one (1) copy for each Party hereto.
- 10.2 Laws of the PRC shall apply to the conclusion, entry into force, performance, amendment, interpretation and termination hereof.
- 10.3 Any dispute arising under and in connection with this Agreement shall be settled through negotiation by all the Parties. If the Parties fail to reach an agreement within thirty (30) days after the dispute arises, the dispute shall be submitted to China International Economic and Trade Arbitration Commission for arbitration in accordance with its arbitration rules in effect at the time. The place of arbitration shall be Beijing, the language used in the arbitration shall be Chinese, and the arbitral award shall be final and binding on all Parties hereto.
- 10.4 Any rights, powers and remedies conferred on the Parties by any provision hereof shall not preclude any other rights, powers or remedies to which such Party may be entitled under the provisions of law and other provisions hereunder, and the exercise by one Party of its rights, powers and remedies shall not preclude the exercise by such Party of its other rights, powers and remedies.
- 10.5 One Party’s failure to exercise or delay in exercising any of its rights, powers and remedies hereunder or at law (hereinafter referred to as “**Such Rights**”) will not result in a waiver of Such Rights, and any waiver of any single or partial exercise of such Party’s rights will not preclude any other exercise of Such Rights by such Party and any other exercise of such Party’s rights.
- 10.6 The headings of the articles hereof are for indexing purposes only and in no event shall such headings be used or affect the interpretation of the provisions hereof.

- 10.7 Each provision hereof shall be severable and independent of every other provision. If at any time any one or more of the provisions hereof shall become invalid, illegal or unenforceable, the validity, legality and enforceability of the other provisions hereof shall not be affected thereby.
- 10.8 Any amendment or supplement to this Agreement must be in writing and duly signed by the Parties hereto before taking effect.
- 10.9 Neither Party may assign any of its rights and/or obligations hereunder to any third party without prior written consent of the other Parties.
- 10.10 This Agreement shall be binding on legal successors of the Parties hereto.

[No body text below]

[Signing Page for Shareholder Voting Proxy Agreement]

IN WITNESS WHEREOF, the Parties hereto have caused this Shareholder Voting Proxy Agreement to be executed on the date first written above.

CHEN Xiaoping

Signature: /s/ CHEN Xiaoping

Shenzhen Yungui Consulting Partnership (Limited Partnership) (Seal)

Signature: /s/ CHEN Xiaoping

Name: CHEN Xiaoping

Position: Authorized signatory

Lequan Technology (Beijing) Co., Ltd. (Seal)

Signature: /s/ CHEN Xiaoping

Name: CHEN Xiaoping

Position: Authorized signatory

Yunmi Hulian Technology (Guangdong) Co., Ltd. (Seal)

Signature: /s/ LI Xiang

Name: LI Xiang

Position: Legal representative

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

Signature: /s/ CHEN Xiaoping

Name: CHEN Xiaoping

Position: Legal representative

Company Profile

Company Name: Foshan Yunmi Electric Appliances Technology Co., Ltd.

Registered address: No.2, North Xinxi 4th Road, Xiashi Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan (The Second Floor of Building No.1 and the Fourth Floor of Building No.7)

Registered Capital: RMB 10 million

Legal Representative: CHEN Xiaoping

Shareholding Structure:

Shareholder Name	Amount of Capital Contribution in Registered Capital (In RMB)	Ratio of Capital Contribution	ID Card Number/Unified Social Credit Code
CHEN Xiaoping	9,977,756.28	99.78%	*****
Shenzhen Yungui Consulting Partnership (Limited Partnership)	22,243.72	0.22%	91440300MA5FRBGX9W
Total	10,000,000	100%	-

Equity Pledge Agreement

This Equity Pledge Agreement (hereinafter referred to as the “**Agreement**”) was entered into by the following parties on April 28, 2020:

1. **Each shareholder listed in Annex I** (hereinafter referred to as the “**Pledgor**” separately and collectively)
2. **Yunmi Hulian Technology (Guangdong) Co., Ltd.** (hereinafter referred to as the “**Pledgee**”)

Registered Address: No.1-7, North Side of the First Floor of Building A, No.2, North Xinxi 4th Road, Xiashi Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan
Legal Representative: LI Xiang

3. **Foshan Yunmi Electric Appliances Technology Co., Ltd.** (hereinafter referred to as the “**Company**”)

Registered Address: No.2, North Xinxi 4th Road, Xiashi Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan (The Second Floor of Building No.1 and the Fourth Floor of Building No.7)
Legal Representative: CHEN Xiaoping

(In this Agreement, the above parties are respectively referred to as a “**Party**” and collectively referred to as the “**Parties**”.)

WHEREAS:

- (1) The Pledgor is a shareholder of record of the Company and holds the entire equities in the Company (hereinafter referred to as the “**Equities of the Company**”) according to law, and the amount of its contribution in the registered capital of the Company and the percentage of its shareholding as of the date hereof is as shown in Annex I.
- (2) Pursuant to the “Exclusive Option Agreement” dated April 28, 2020 (the “**Option Agreement**”) entered into by the Parties hereto, the Pledgor or the Company shall, under the conditions permitted by the laws of the PRC and upon the request of the Pledgee, transfer to the Pledgee and/or any other entity or individual designated by it, all or part of its equities in the Company or all or part of the assets of the Company.
- (3) Pursuant to the “Shareholders’ Voting Proxy Agreement” dated April 28, 2020 (the “**Voting Proxy Agreement**”) entered into by the Parties hereto, the Pledgor has irrevocably and fully delegated to the Pledgee the right to exercise all of its shareholder voting rights in the Company on its behalf.
- (4) Pursuant to the “Exclusive Consulting and Service Agreement” dated April 28, 2020 (the “**Consulting and Service Agreement**”) between the Company and the Pledgee, the Company has exclusively engaged the Pledgee to provide relevant consulting services and agreed to pay the Pledgee the corresponding service fees for such services.
- (5) As security for the performance of its contractual obligations (as defined below) and the settlement of the secured debts (as defined below), the Pledgor is willing to pledge all of its equities in the Company to the Pledgee and grant the Pledgee the first-refundable right of pledge, and the Company agrees to such an equity pledge arrangement.

Through consultation, the Parties hereby agree as follows:

Article 1 Definition

1.1 Unless otherwise explained according to the context, the following terms herein will be construed as follows:

- “Contractual obligations”:** Refers to all contractual obligations of the Pledgor under the Option Agreement and the Voting Proxy Agreement; all contractual obligations of the Company under the Option Agreement, the Voting Proxy Agreement and the Consulting and Service Agreement; and all contractual obligations of the Pledgor and the Company under this Agreement.
- “Secured debts”:** Refers to all direct, indirect and consequential losses and losses of predictable benefits suffered by the Pledgee as a result of any event of default (as defined below) by the Pledgor and/or the Company, the amount of such losses being based on but not limited to the Pledgee’s reasonable business plans and earnings forecasts, and all costs incurred by the Pledgee to enforce the Pledgor’s and/or the Company’s performance of its contractual obligations.
- “Transaction agreement”:** Refers to the Option Agreement, the Voting Proxy Agreement and the Consulting and Service Agreement.
- “Event of default”:** Refers to a breach by any Pledgor of any of its contractual obligations under the Option Agreement, the Voting Proxy Agreement and/or this Agreement, and a breach by the Company of any of its contractual obligations under the Option Agreement, the Voting Proxy Agreement, the Consulting and Service Agreement and/or this Agreement.
- “Pledged equity”:** Refers to all of the equities in the Company legally owned by the Pledgor at the time this Agreement becomes effective and which will be pledged to the Pledgee in accordance with the provisions hereof as security for the performance of its contractual obligations together with the Company (the specific pledged equity of each Pledgor is set forth in Annex I) and the increased capital contribution and dividends described in Articles 2.6 and 2.7 hereof.
- “Laws of the PRC”:** Refers to the laws, administrative regulations, administrative rules, local regulations, judicial interpretations and other binding normative documents of the People’s Republic of China in effect at the time.

1.2 Any reference herein to any laws of the PRC shall be deemed to (1) include references to amendments, modifications, additions and re-enactments of such Laws, whether in effect before or after the date hereof; and (2) include references to other decisions, notices and regulations made pursuant to or in effect by virtue of the provisions thereof.

1.3 Unless the context hereof indicates otherwise, references herein to articles, paragraphs, items or subparagraphs are to their respective parts hereof.

Article 2 Equity Pledge

2.1 The Pledgor hereby agrees to pledge its legally owned and disposable pledged equity to the Pledgee as security for repayment of the secured debts in accordance with the provisions hereof. The Company hereby agrees that the Pledgor may pledge the pledged equity to the Pledgee in accordance herewith. In particular, as at the date hereof: the Pledgor shall pledge to the Pledgee the equities representing 100% of the registered capital of the Company (equivalent to a capital contribution of RMB10,000,000) held by it.

- 2.2 Unless otherwise agreed by the Parties hereto, the Pledgor undertakes that it will be responsible for registering the equity pledge arrangement hereunder (the “**Equity Pledge**”) with the business registration authority of the Company at an appropriate time after the signing hereof. The Company undertakes that it will use its best endeavors to cooperate with the Pledgor in completing the business registration mentioned. The Equity Pledge hereunder shall be created upon the registration of the pledge with the business registration authority of the Company.
- 2.3 During the validity hereof, the Pledgee shall not be liable for any diminution in value of the pledged equity, nor shall the Pledgor be entitled to any form of recourse or claim against the Pledgee, unless the Pledgee intentionally or negligently causes the result.
- 2.4 Subject to the provisions of Article 2.3 above, if the value of the pledged equity is significantly reduced to the extent that the rights of the Pledgee are jeopardized, the Pledgee may at any time sell or auction the pledged equity on behalf of the Pledgor and agree with the Pledgor to apply the proceeds of the auction or sale to early settlement of the secured debts or to deposit with the notary office where the Pledgee is located (any expenses incurred therein shall be borne by the Pledgee). In addition, the Pledgor shall, upon request of the Pledgee, provide other property as security for the secured debts.
- 2.5 In the event of any default, the Pledgee shall be entitled to dispose of the pledged equity in the manner provided in Article 4 hereof.
- 2.6 The Pledgor may increase capital of the Company only with prior consent of the Pledgee. And the amount of the Pledgor’s capital contribution in the registered capital of the Company as a result of capital increase also constitutes a pledged equity.
- 2.7 The Pledgor may receive dividends or distributions in respect of the pledged equity with prior consent of the Pledgee.
- 2.8 The Pledgee shall be entitled to dispose of any of the pledged equity of the Pledgor in accordance with the provisions hereof in case of an event of default.

Article 3 Release of Pledge

- 3.1 After the Pledgor and the Company have fully and completely performed all contractual obligations and discharged all secured debts, the Pledgee shall, upon request of the Pledgor, release the equity pledge hereunder and cooperate with the Pledgor in deregistering the equity pledge, with the reasonable expenses incurred in the course borne by the Pledgee.

Article 4 Disposal of Pledged Equity

- 4.1 The Parties hereby agree that in the event of any event of default, the Pledgee shall be entitled, upon giving a written notice to the Pledgor, to exercise all of its rights and powers to remedy the default under the laws of the PRC, the transaction agreement and the terms hereof, including (but not limited to) auction or sale of the pledged equity for priority of payment. And the Pledgee shall not be liable for any loss arising from its reasonable exercise of such rights and powers.
- 4.2 The Pledgee shall be entitled to appoint in writing its attorney or other agent to exercise any and all of its rights and powers as aforesaid, and neither the Pledgor nor the Company shall object thereto.
- 4.3 The Pledgee shall be entitled to deduct from the sums received by it for the exercise of any or all of the above rights and powers the reasonable expenses incurred by the Pledgee in the exercise of such rights and powers.
- 4.4 The sums received by the Pledgee in the exercise of its rights and powers shall be treated in the following order:

Firstly, pay all expenses incurred in connection with the disposition of the pledged equity and the exercise of the Pledgee's rights and powers (including remuneration of its attorneys and agents);

Secondly, pay the taxes and fees due as a result of disposition of the pledged equity; and

Thirdly, repay the secured debts to the Pledgee.

If there is any balance after deducting the above, the Pledgee shall return the balance to the Pledgor or other persons entitled to such amount under relevant laws and regulations or deposit it to the notary office where the Pledgee is located (any expenses arising therefrom shall be borne entirely by the Pledgee).

4.5 The Pledgee shall be entitled to exercise any default remedies to which it is entitled at the same time or in succession at its option, and the Pledgee shall not be required to exercise any other default remedies before exercising its right to auction or sell the pledged equity hereunder.

Article 5 Costs and Expenses

5.1 All actual expenses in connection with the creation of the equity pledge hereunder, including (but not limited to) stamp duty, any other taxes and all legal fees, shall be borne by the Parties, respectively.

Article 6 Continuity and Non-waiver

6.1 The equity pledge created hereunder is a continuing guarantee and shall remain valid until the contractual obligations are fully fulfilled or the secured debts are fully discharged. No waiver or relief by the Pledgee from any default of the Pledgor or delay by the Pledgee in exercising any of its rights under the transaction agreement and this Agreement shall affect the Pledgee's rights under this Agreement and the relevant laws of the PRC and the transaction agreement to require strict performance of the transaction agreement and this Agreement by the Pledgor at any time thereafter or the Pledgee's rights arising from any subsequent breach of the transaction agreement and/or this Agreement by the Pledgor.

Article 7 Representation and Warranty of the Pledgor

Each Pledgor represents and warrants to the Pledgee separately as follows.

- 7.1 The Pledgor is in full capacity and has the legal right and ability to execute this Agreement and assume legal obligations hereunder.
- 7.2 All reports, documents and information provided by the Pledgor to the Pledgee prior to the entry into force hereof relating to the Pledgor and all matters required hereby are true and correct in all material respects at the time of the entry into force hereof.
- 7.3 All reports, documents and information provided by the Pledgor to the Pledgee after the entry into force hereof relating to the Pledgor and all matters required hereby are true and effective in all material respects at the time of such provision.
- 7.4 The Pledgor is the sole legal owner of the pledged equity at the time this Agreement becomes effective and there is no existing dispute as to the ownership of the pledged equity. And the Pledgor shall be entitled to dispose of the pledged equity and any part thereof.
- 7.5 Except for the security interest created in the pledged equity by virtue hereof and the rights created under the transaction agreement, the pledged equity is free from any other security interest or interest of third parties and any other restrictions.
- 7.6 The pledged equity can be legally pledged and transferable, and the Pledgor has full rights and powers to pledge the pledged equity to the Pledgee in accordance with the provisions hereof.

- 7.7 When duly signed by the Pledgor, this Agreement shall constitute a legal, valid and binding obligation for the Pledgor.
- 7.8 The consent, permission, waiver or authorization of any third party, the approval, license or waiver of or the registration or filing with any governmental agency (if required by law) required to be obtained in connection with the execution and performance hereof and the equity pledge hereunder has been obtained or processed and will be in full force and effect during the term hereof.
- 7.9 The execution and performance hereof by the Pledgor is not inconsistent with or in conflict with all applicable laws, any agreement to which it is a party or by which its assets are bound, any court judgment, any arbitration award or decision of any administrative authority.
- 7.10 The pledge hereunder constitutes a security interest in the pledged equity in the first order.
- 7.11 All taxes and fees payable in connection with the acquisition of the pledged equity have been paid in full by the Pledgor.
- 7.12 There is no action, proceeding or petition pending or, to the knowledge of the Pledgor, threatened in any court or tribunal against the Pledgor, its property or the pledged equity, nor is there any action, proceeding or petition pending or, to the knowledge of the Pledgor, threatened in any governmental or administrative agency against the Pledgor, its property or the pledged equity, which would have any effect on financial conditions of the Pledgor or its ability to perform its obligations and guarantee liabilities hereunder in a material or adverse manner.
- 7.13 The Pledgor hereby warrants to the Pledgee that the foregoing representations and warranties will be true and correct and will be fully complied with at all times and under all circumstances until the contractual obligations are fully fulfilled or the secured debts are fully discharged.
- 7.14 If receiving any dividends, bonuses, etc. from the Company during the term hereof, the Pledgor agrees to immediately and unconditionally grant such dividends, bonuses, etc. to the Pledgee or an entity/individual designated by the Pledgee.
- 7.15 If the Company is required to be dissolved or liquidated according to the mandatory provisions of applicable laws, the Pledgor shall, upon completion of the dissolution or liquidation procedures by the Company according to law, grant any benefits distributed from the Company according to law to the Pledgee or an entity/individual designated by the Pledgee, provided that such distribution is not contrary to the laws of the PRC.

Article 8 Representation and Warranty of the Company

The Company represents and warrants to the Pledgee as follows:

- 8.1 The Company is a limited liability company duly registered and legally subsisting under the laws of the PRC with independent corporate capacity; has full and independent legal status and legal capacity to execute, deliver and perform this Agreement and can independently act as a Party to the subject of litigation.
- 8.2 All reports, documents and information provided by the Company to the Pledgee prior to the effective date hereof relating to the pledged equity and all matters required hereby are true and correct in all material respects at the effective date hereof.
- 8.3 All reports, documents and information provided by the Company to the Pledgee after the effective date hereof relating to the pledged equity and all matters required hereby are true and correct in all material respects at the effective date hereof.
- 8.4 When duly signed by the Company, this Agreement shall constitute a legal, valid and binding obligation for the Company.

- 8.5 It has full power and authority within the Company to execute and deliver this Agreement and all other documents to be executed by it in connection with the transactions described herein, and has full power and authority to consummate the transactions described herein.
- 8.6 There is no action, proceeding or petition pending or, to the knowledge of the Company, threatened in any court or tribunal against the pledged equity, the Company or its assets, nor is there any action, proceeding or petition pending or, to the knowledge of the Company, threatened in any governmental or administrative agency against the pledged equity, the Company or its assets, which would have any effect on financial conditions of the Company or the Pledgor's ability to perform its obligations and guarantee liabilities hereunder in a material or adverse manner.
- 8.7 The Company hereby agrees to be jointly and severally liable to the Pledgee for the representations and warranties made by each Pledgor under Articles 7.4, 7.5, 7.6, 7.8 and 7.10 hereof.
- 8.8 The Company hereby warrants to the Pledgee that the above representations and warranties will be true and correct and will be fully complied with at all times and under all circumstances until the contractual obligations are fully fulfilled or the secured debts are fully discharged.
- 8.9 If the Company is required to be dissolved or liquidated in accordance with the mandatory provisions of the laws of the PRC, the assets of the Company shall be sold to the Pledgee or an eligible entity/individual designated by it at the lowest price permitted by laws of the PRC at that time, subject to compliance with such laws.

Article 9 Undertakings of the Pledgor

Each Pledgor hereby undertakes to the Pledgee separately as follows:

- 9.1 The Pledgor shall not create or permit the creation of any new pledge or any other security interest over the pledged equity without prior written consent of the Pledgee, and any pledge or any other security interest over all or part of the pledged equity without prior written consent of the Pledgee shall be null and void.
- 9.2 The Pledgor shall not transfer the pledged equity without prior written notice to and prior written consent of the Pledgee, and all proposed transfers of the pledged equity by the Pledgor shall be null and void. The proceeds from the transfer of the pledged equity by the Pledgor shall first be used to pay off the secured debts to the Pledgee in advance or to deposit it with a third party as agreed with the Pledgee.
- 9.3 In the event of any legal proceedings, arbitration or other claims which may adversely affect the interests or the pledged equity of the Pledgor or the Pledgee under the transaction agreement and this Agreement, the Pledgor undertakes to notify the Pledgee in writing as soon as possible and in a timely manner and to take all necessary measures to secure the Pledgee's pledge interests in the pledged equity upon reasonable request of the Pledgee.
- 9.4 The Pledgor shall not perform or permit any act or action that may adversely affect the Pledgee's interests or pledged equity under the transaction agreement and this Agreement. And each Pledgor waives the right of first refusal in the event that the Pledgee realizes its pledge.
- 9.5 The Pledgor undertakes to take all necessary measures and execute all necessary documents (including but not limited to supplements hereto) as reasonably requested by the Pledgee, so as to ensure the Pledgee's pledge interests in the pledged equity and the exercise and realization of such rights.
- 9.6 If any transfer of the pledged equity arises from the exercise of the pledge rights hereunder, the Pledgor undertakes to take all measures to effect such transfer.
- 9.7 The Pledgor ensures that the convening procedures, voting methods and contents of the Company's shareholders' meetings and board meetings convened for the purpose of the

signing hereof, and the creation and the exercise of the pledge do not violate laws, administrative regulations or the Articles of Association of the Company.

9.8 Unless prior consent of the Pledgee, the Pledgor shall not be entitled to assign any of its rights and obligations hereunder.

Article 10 Undertakings of the Company

10.1 In the event that the consent, permission, waiver or authorization of any third party or the approval, license or waiver of or the registration or filing with any governmental agency (if required by law) is required for the execution and performance hereof and the equity pledge hereunder, the Company will endeavor to assist in obtaining them and keeping them in full force and effect during the term hereof.

10.2 The Company will not assist or permit the Pledgor to create any new pledge or any other security interest in the pledged equity without prior written consent of the Pledgee.

10.3 The Company will not assist or permit the Pledgor to transfer the pledged equity without prior written consent of the Pledgee.

10.4 In the event of any legal proceedings, arbitration or other claims which may adversely affect the Company, the pledged equity or the Pledgee's interests under the transaction agreement and this Agreement, the Company undertakes to notify the Pledgee in writing as soon as possible and in a timely manner and to take all necessary measures to secure the Pledgee's pledged interests in the pledged equity upon reasonable request of the Pledgee.

10.5 The Company shall not perform or permit any act or action that may adversely affect the Pledgee's interests or pledged equity under the transaction agreement and this Agreement.

10.6 The Pledgor will provide the Pledgee with financial statements of the Company for the previous Gregorian calendar quarter, including (but not limited to) balance sheet, income statement and cash flow statement, within the first month of each Gregorian calendar quarter.

10.7 The Company undertakes to take all necessary measures and execute all necessary documents (including but not limited to supplements hereto) as reasonably requested by the Pledgee to ensure the Pledgee's pledge interests in the pledged equity and the exercise and realization of such rights.

10.8 In the event of any transfer of the pledged equity as a result of the exercise of the pledge rights hereunder, the Company undertakes to take all measures to effect such transfer.

Article 11 Change of Circumstances

11.1 Supplementary to and not inconsistent with the transaction agreement and the other provisions hereof, if at any time, by reason of the enactment or change of any PRC laws, statutes or regulations, or by reason of a change in the interpretation or application of such laws, statutes or regulations, or by reason of a change in the relevant registration procedures, the Pledgee considers that maintaining this Agreement in force and/or disposing of the pledged equity in the manner provided herein becomes unlawful or contrary to such laws, rules or regulations, the Pledgor and the Company shall immediately take any action and/or execute any agreement or other documents as the Pledgee may reasonably request, as directed in writing by the Pledgee, to:

- (1) keep this Agreement in force;
- (2) facilitate the disposition of the pledged equity in the manner provided herein; and/or
- (3) maintain or effectuate the security created or intended to be created hereby.

Article 12 Entry into Force and Duration of This Agreement

- 12.1 This Agreement shall enter into force on the date of its formal signature by the Parties hereto.
- 12.2 The term hereof shall be until the contractual obligations have been fully fulfilled or the secured debts have been fully discharged.

Article 13 Notice

- 13.1 Any notices, requests, demands and other communications required by or under this Agreement shall be in writing and served on the Party concerned.
- 13.2 Such notices or other communications shall be deemed served upon dispatch if sent by facsimile or telex, upon personal delivery if delivered in person, or upon posting five (5) days after posting if sent by mail.

Article 14 Miscellaneous

- 14.1 The Pledgor and the Company agree that the Pledgee's rights and/or obligations hereunder may be assigned to any third party upon notice to the Pledgor and the Company by the Pledgee; provided, however, that Pledgor or the Company shall not assign its rights, obligations or liabilities hereunder to any third party without prior written consent of the Pledgee. The successor or permitted assignee (if any) of the Pledgor and the Company shall continue to perform the respective obligations of the Pledgor and the Company hereunder.
- 14.2 The amount of the secured debts as determined by the Pledgee in its sole discretion upon exercising its right to pledge the pledged equities in accordance with the provisions hereof shall be conclusive evidence of the secured debts hereunder.
- 14.3 This Agreement is made in Chinese with four (4) originals, one (1) copy for each Party hereto.
- 14.4 Laws of the PRC shall apply to the conclusion, entry into force, performance, amendment, interpretation and termination hereof.
- 14.5 Any dispute arising under and in connection with this Agreement shall be settled through negotiation by all the Parties. If the Parties fail to reach an agreement within thirty (30) days after the dispute arises, the dispute shall be submitted to China International Economic and Trade Arbitration Commission for arbitration in accordance with its arbitration rules in effect at the time. The place of arbitration shall be Beijing, the language used in the arbitration shall be Chinese, and the arbitral award shall be final and binding on all Parties hereto.
- 14.6 Any rights, powers and remedies conferred on the Parties by any provision hereof shall not preclude any other rights, powers or remedies to which such Party may be entitled under the provisions of law and other provisions hereunder, and the exercise by one Party of its rights, powers and remedies shall not preclude the exercise by such Party of its other rights, powers and remedies.
- 14.7 One Party's failure to exercise or delay in exercising any of its rights, powers and remedies hereunder or at law (hereinafter referred to as "**Such Rights**") will not result in a waiver of Such Rights, and any waiver of any single or partial exercise of such Party's rights will not preclude any other exercise of Such Rights by such Party and any other exercise of such Party's rights.
- 14.8 The headings of the articles hereof are for indexing purposes only and in no event shall such headings be used or affect the interpretation of the provisions hereof.
- 14.9 Each provision hereof shall be severable and independent of every other provision. If at any time any one or more of the provisions hereof shall become invalid, illegal or unenforceable, the validity, legality and enforceability of the other provisions hereof shall not be affected thereby.

14.10 Any amendment or supplement to this Agreement must be in writing and, except for the assignment by the Pledgee of its rights hereunder pursuant to Article 14.1, no amendment or supplement to this Agreement shall be effective until properly executed by the Parties hereto.

14.11 This Agreement shall be binding on legal successors of the Parties hereto.

[No body text below]

[Signing Page for Equity Pledge Agreement]

IN WITNESS WHEREOF, the Parties hereto have caused this Equity Pledge Agreement to be executed on the date first written above.

CHEN Xiaoping

Signature: /s/ CHEN Xiaoping

Shenzhen Yungui Consulting Partnership (Limited Partnership) (Seal)

Signature: /s/ CHEN Xiaoping

Name: CHEN Xiaoping

Position: Authorized signatory

Lequan Technology (Beijing) Co., Ltd (seal)

Signature: /s/ CHEN Xiaoping

Name: CHEN Xiaoping

Position: Authorized signatory

Yunmi Hulian Technology (Guangdong) Co., Ltd. (Seal)

Signature: /s/ LI Xiang

Name: LI Xiang

Position: Legal representative

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

Signature: /s/ CHEN Xiaoping

Name: CHEN Xiaoping

Position: Legal representative

Signing Page for Equity Pledge Agreement

Company Profile

Company Name: Foshan Yunmi Electric Appliances Technology Co., Ltd.

Registered address: No.2, North Xinxi 4th Road, Xiashi Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan (The Second Floor of Building No.1 and the Fourth Floor of Building No.7)

Registered Capital: RMB 10 million

Legal Representative: CHEN Xiaoping

Shareholding Structure:

Shareholder Name	Amount of Capital Contribution (In RMB)	Ratio of Capital Contribution	ID Card Number/Company Registration Number
CHEN Xiaoping	9,977,756.28	99.78%	*****
Shenzhen Yungui Consulting Partnership (Limited Partnership)	22,243.72	0.22%	91440300MA5FRBGX9W
Total	10,000,000	100%	-

Exclusive Consultation and Service Agreement

This Exclusive Consultation and Service Agreement is entered into by the following parties on April 28, 2020, in Beijing, the People's Republic of China (the "PRC"), by and between:

- (1) **Yunmi Hulian Technology (Guangdong) Co., Ltd.**, a wholly foreign-owned enterprise established under the laws of the PRC, with its registered office at No.1-7, North Side of the First Floor of Building A, No.2, North Xinxi 4th Road, Xiashi Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan , and with LI Xiang as its legal representative (hereinafter referred to as "**Party A**"); and
- (2) **Foshan Yunmi Electric Appliances Technology Co., Ltd.**, a limited liability company established under the laws of the PRC, with its registered office at No.2, North Xinxi 4th Road, Xiashi Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan (The Second Floor of Building No.1 and the Fourth Floor of Building No.7), and with CHEN Xiaoping as its legal representative (hereinafter referred to as "**Party B**").

(In this Agreement, Party A and Party B are respectively referred to as a "**Party**" and collectively referred to as the "**Parties**".)

WHEREAS:

1. The scope of business of Party A is to research, develop, design, manufacture and sell water purification equipment, range hoods, water heaters, gas appliances, dishwashers, kitchen utensils, integrated kitchens, cabinets, complete sets of furniture and supporting supplies for kitchens and bathrooms, air conditioners, electronic components, air purifiers, humidifiers, refrigerators, freezers and related products, household washing machines, smart homes, smart control systems, smart home appliances central controllers, sensor products, lighting appliances, audio equipment, smart door lock switches, smart toilets, intelligent system technologies and products, household appliances, daily appliances, kitchen appliances and their accessories; and to provide the installation, maintenance and after-sales services of the above products, the development, production, sales, technical services, engineering installation, maintenance, consulting, agency and leasing of computers and supporting equipment, the construction, installation and maintenance services of water treatment and purification projects, the specialized retail of daily necessities, cosmetics, agricultural products, food and beverages (by virtue of valid permits), the advertising design, production, agency and release, the software design and development as well as the ticketing agency (excluding commercial performances). (The above items do not involve special access measures for foreign investment) (Any item legally subject to approval, can only be carried out business activities after being approved by relevant departments)
 2. The scope of business of Party B is to research, develop, design, manufacture and sell household appliances, daily appliances, kitchen appliances and their parts; to provide the installation, maintenance and after-sales services of the above-mentioned products; to develop, sell, install, maintain and render after-sales services for water purification equipment, water softening equipment, drinking water equipment and their accessories, range hoods, water heaters, gas appliances, dishwashers, kitchen utensils, integrated kitchens, cabinets, complete sets of furniture and supporting supplies for kitchens and bathrooms, air-conditioning equipment accessories, electronic components, air purifiers, humidifiers, other indoor environment regulating equipment and their spare parts, refrigerators, freezers and related products, household washing machines, smart homes, smart control systems, sensor products, lighting appliances, audio equipment, smart door lock switches, smart toilets, smart system technologies and products; to develop, manufacture, sell and render technical services, engineering installation, maintenance, consulting, agency and leasing of communication equipment and modules, audio screen equipment and modules, tablets, routers, transmission equipment, computers and ancillary equipment; to construct, install and maintain water treatment and purification projects; to operate and act for the import and export of various commodities and technologies (except for the import and export of commodities and technologies prohibited by the State or involving administrative approval); to provide the specialized retail of daily necessities, cosmetics, agricultural products, food and beverage (by virtue of valid permits), and the advertising design, production, agency and release; to engage in
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technology development and transfer and consulting services in the fields of car networking systems, network technologies, and computer software and hardware; as well as to offer software development and design, application software services, e-commerce business, online data processing and transaction processing, ticketing agency (excluding commercial performances), cargo agency, road cargo transportation, warehousing management, warehouse leasing, forklift leasing, logistics technical consulting, international freight forwarding, car-free transportation, water, highway and rail combined transportation, equipment asset leasing, and research and development and sales of Class I and Class II medical devices. (Any item legally subject to approval can only be carried out business activities after being approved by relevant departments)

3. Party B intends to engage Party A to provide software technology development, technical consulting and technical services related to Party B's business (as defined below) to further its own business development, and Party A agrees to accept such engagement.

After friendly consultation, both Parties hereby agree as follows:

Article 1 Definition

- 1.1 Unless the terms or context hereof shall otherwise be understood, the following terms shall have the following meanings:

“Business of Party B”	Refers to all the business operated and developed by Party B currently and at any time during the term hereof.
“Service”	Refers to the services provided by Party A to Party B in connection with the business of Party B. Such services include but are not limited to: (1) licensing Party B to use relevant software required for its business; (2) providing Party B with comprehensive solutions in terms of information technology required by the business of Party B; and (3) daily management, maintenance and updating of hardware equipment and database; (4) development, maintenance and updating of relevant application software; (5) training professional and technical personnel for Party B; (6) assisting Party B in collecting technical and commercial information and conducting market research; (7) introducing customers to Party B and helping it establish business and cooperative relationships; (8) providing Party B with suggestions and opinions on the establishment and improvement of its corporate structure, management system and department settings, and assisting Party B in improving its internal management system; and (9) other relevant technical services and consulting services provided from time to time upon Party B's request, as permitted by the laws of the PRC.

“Service team”	Refers to the team of personnel established by Party A for providing services to Party B hereunder, which contains Party A’s own staffs as well as third party professional consultants and other laborers engaged by Party A.
“Service charge”	Refers to all fees payable by Party B to Party A for services provided by Party A pursuant to Article 3 hereof.
“Operating income”	For any year during the term hereof, refers to the income derived by Party B from its business operations during that year as recorded in the “Revenue” column of Party B’s audited balance sheet in accordance with accounting standards of the PRC.
“Annual business plan”	Refers to the business development plan and budget report of Party B for the following calendar year as prepared by Party B with the assistance of Party A by 30 November each year in accordance herewith.
“Equipment”	Refers to any and all equipment owned or purchased by Party A from time to time for use in the provision of the services.

1.2 Any reference herein to any laws or regulations (hereinafter referred to as “**Laws**”) shall be deemed to (1) include references to amendments, modifications, additions and re-enactments of such Laws, whether in effect before or after the date hereof; and (2) include references to other decisions, notices and regulations made pursuant to or in effect by virtue of the provisions thereof.

1.3 Unless the context hereof indicates otherwise, references herein to articles, paragraphs, items or subparagraphs are to their respective parts hereof.

Article 2 Services of Party A

2.1 Party B needs Party A to provide services for better development of the business of Party B, and Party A agrees to provide such services to Party B. To this end, Party B appoints Party A as its exclusive consulting and service provider to exclusively provide Party B with the services defined herein, and Party A agrees to accept such an appointment.

2.2 Party A shall provide services to Party B in accordance with the terms hereof, and Party B shall provide convenience for Party A’s services as much as possible.

2.3 Party A shall allocate all kinds of equipment and service teams reasonably required for providing services, and purchase and add new equipment and add new personnel according to Party B’s annual business plan and reasonable requirements, so as to meet the needs of Party A for providing excellent services to Party B according to this Agreement. However, Party A may, at its discretion, replace any member of the service team or change specific service responsibilities of any member of the service team from time to time, provided that the replacement of such members or the change of service responsibilities will not have a significant adverse impact on Party B’s daily operations.

2.4 Notwithstanding other provisions hereof, Party A shall be entitled to independently designate any third party to provide any or all services hereunder, or to perform any obligations of Party A hereunder on its behalf. And Party B hereby agrees that Party A shall be entitled to transfer its rights and obligations hereunder to any third party.

Article 3 Service Charge

- 3.1 In respect of the services provided by Party A pursuant to this Agreement, Party B shall pay to Party A a service charge in the following manner:
- 3.1.1 a service charge equivalent to one hundred percent (100%) of Party B's net revenue of the year; and
 - 3.1.2 a service charge for specific technical services provided by Party A from time to time at the request of Party B as otherwise agreed by both Parties.
- 3.2 Party B shall pay the service charge determined in accordance with Article 3.1 to the bank account designated by Party A in one lump sum within three months after the end of each calendar year. If Party A changes its bank account, it shall send a written notice to Party B seven (7) working days in advance.
- 3.3 The Parties agree that the payment of the above service charge shall not, in principle, cause difficulties in the operation of either Party in the current year, and for the above purpose and to the extent necessary to achieve the above principle, Party A may agree to delay the payment of the service charge by Party B or, by mutual agreement, may adjust in writing the percentage and/or the specific amount of the service charge payable by Party B to Party A under Article 3.1.
- 3.4 The service charge payable by Party B to Party A pursuant to Article 3.1.2 shall be separately determined by the Parties in writing in accordance with the service nature and the workload.

Article 4 Obligations of Party B

- 4.1 The services provided by Party A hereunder are exclusive; and during the term hereof, without prior written consent of Party A, Party B shall not enter into any written or oral agreement with any other third party to engage such third party to provide the same or similar services as those provided by Party A hereunder.
- 4.2 Party B shall provide Party A with the determined annual business plan of Party B for the following year by November 30 each year so that Party A can arrange the corresponding service plan and acquire the required software, equipment, personnel and technical service force. If Party B temporarily needs additional equipment or personnel from Party A, it shall consult with Party A fifteen (15) days in advance so as to reach a consensus.
- 4.3 To facilitate the provision of services by Party A, Party B shall provide Party A with the relevant information requested by Party A in an accurate and timely manner upon Party A's request.
- 4.4 Party B shall pay Party A the service charge on time and in full in accordance with the provisions of Article 3 hereof.
- 4.5 Party B shall maintain its good reputation, actively expand its business and strive to maximize its revenue.
- 4.6 The Parties hereby confirm that, pursuant to the terms and conditions of an "Equity Pledge Agreement" dated _____, 2020 among all registered shareholders of Party B at the time of execution hereof (the "**Existing Shareholders**") and Party A, each Existing Shareholder has pledged its respective equities in Party B to Party A to secure the performance of Party B's obligations hereunder.
- 4.7 During the term hereof, Party B agrees to cooperate with Party A and its parent company (including the direct or indirect one) in the audit of associated transactions and other types of audits, to provide Party A, its parent company or its appointed auditor with information and materials relating to Party B's operations, business, customers, finance, employees, etc., and to consent to the disclosure of such information and materials by Party A's parent company for the purpose of satisfying the regulatory requirements of the place where its securities are listed.
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Article 5 Intellectual Property Rights

- 5.1 To the extent permitted by the then applicable laws and regulations of the PRC, the intellectual property rights (including but not limited to copyrights, patents, technical secrets, trade secrets and others) of the work achievements created by Party A in the course of providing the services hereunder or developed and created by Party B based on the intellectual property rights of Party A shall belong to Party A. If the then applicable laws and regulations of the PRC expressly provide that such intellectual property rights shall not be owned by Party A, they shall be held by Party B and transferred to Party A at the minimum transfer price permitted by law when Party A is allowed to own under the laws and regulations of the PRC; and if there is no restriction on such minimum transfer price by law at that time, Party B shall unconditionally transfer the ownership of such intellectual property rights and assist Party A in all governmental filing and registration procedures for changing owner of such intellectual property rights.
- 5.2 For the purposes hereof, Party B may use the work achievements created by Party A in the course of providing the services hereunder in accordance with this Agreement, however, this Agreement does not in any way permit Party B to use such work achievements in any manner for other purposes.
- 5.3 Each Party warrants to the other Party that it will indemnify the other Party for any and all economic losses caused to it by any infringement of the intellectual property rights (including copyrights, trademarks, patents and proprietary technologies) of the other Party.

Article 6 Confidentiality Obligations

- 6.1 During the term hereof, all customer information and other related information relating to the business of Party B and the services provided by Party A (hereinafter referred to as the “**Customer Information**”) shall belong to Party A.
- 6.2 Notwithstanding the termination hereof, Party A and Party B shall keep in strict confidence the trade secrets, proprietary information, common customer information and other relevant information of the Parties, and any other non-public information of the other Party (hereinafter collectively referred to as the “**Confidential Information**”) learned in the course of the performance hereof. The Party receiving the Confidential Information (hereinafter referred to as the “**Recipient**”) shall not disclose the Confidential Information or any part thereof to any other third party except with prior written consent of the other Party or as required by relevant laws and regulations or rules of the relevant stock exchange; and the Recipient shall not use or indirectly use the Confidential Information or any part thereof except for the purposes hereof.
- 6.3 The following information is not Confidential Information:
- (a) any information of which there is written evidence of prior knowledge on the part of the Recipient;
 - (b) any information that is in the public domain or otherwise becomes publicly known through no fault of the Recipient; or
 - (c) any information that the Recipient subsequently obtains lawfully from other sources.
- 6.4 The Recipient may disclose Confidential Information to its relevant employees, agents or professionals engaged by it, provided that the Recipient shall ensure that such persons shall also be bound by this Agreement to keep such Confidential Information confidential and to use them only for the purposes hereof.
- 6.5 Upon termination hereof, the Recipient of the Confidential Information shall return any documents, information or software containing such Confidential Information to the original owner or provider of the Confidential Information, or destroy them with the consent of the original owner or provider, including deleting any Confidential Information from any relevant memory device, and shall not continue to use such Confidential Information.
- 6.6 The Parties agree that this article shall survive any change, termination or discharge hereof.
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Article 7 Commitment and Warranty

7.1 Party A hereby represents and warrants as follows:

- 7.1.1 It is a limited liability company duly registered and legally subsisting under the laws of its place of incorporation, with independent corporate capacity; and has full and independent legal status and legal capacity to execute, deliver and perform this Agreement, and can independently act as a Party to the subject of litigation.
- 7.1.2 It has full power and authority within the Company to execute and deliver this Agreement and all other documents relating to the transactions described herein that it will execute, and has full power and authority to consummate the transactions described herein. This Agreement is legally and properly executed and delivered by Party A. And it constitutes a legal and binding obligation on Party A and is enforceable against it in accordance with the terms hereof.

7.2 Party B hereby represents, warrants and undertakes as follows:

- 7.2.1 It is a limited liability company duly registered and legally subsisting under the laws of its place of incorporation, with independent corporate capacity; and has full and independent legal status and legal capacity to execute, deliver and perform this Agreement, and can independently act as a Party to the subject of litigation.
- 7.2.2 It has full power and authority within the Company to execute and deliver this Agreement and all other documents relating to the transactions described herein that it will execute, and has full power and authority to consummate the transactions described herein. This Agreement is legally and properly executed and delivered by Party B. And it constitutes a legal and binding obligation on Party B and is enforceable against it in accordance with the terms hereof.
- 7.2.3 It has full operating licenses necessary for its operations at the time this Agreement becomes effective and is fully entitled and qualified to operate the business of Party B that it is currently engaged in within the PRC.
- 7.2.4 It shall promptly inform Party A of its involvement in litigations and other adverse circumstances and use its best efforts to prevent the expansion of losses.
- 7.2.5 Without written consent of Party A, Party B shall neither dispose of the material assets of Party B in any form, nor change the existing shareholding structure of Party B.
- 7.2.6 It shall not enter into any transaction that may materially affect Party B's assets, liabilities, business operations, shareholding structures, shareholdings in third parties or other legal rights (other than those arising in the ordinary or usual course of business or disclosed to and agreed by Party A in writing).

Article 8 Term of Agreement

- 8.1 Both Parties hereby acknowledge that this Agreement has been duly signed by them and shall continue in force unless the Parties agree in writing to terminate it by mutual agreement, or unless it must be terminated as required by relevant applicable laws and regulations of the PRC.
 - 8.2 Both Parties shall complete the approval and registration procedures for extension of the term of operation within three months prior to the expiration of their respective terms of operation so as to continue the term hereof.
 - 8.3 Upon termination hereof, both Parties shall comply with their obligations under Article 3 and Article 6 hereof, respectively.
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Article 9 Notice

- 9.1 Any notices, requests, demands and other communications required by or made under this Agreement shall be in writing and served on the Party concerned.
- 9.2 Such notices or other communications shall be deemed served upon dispatch if sent by facsimile or telex, upon personal delivery if delivered in person, or upon posting five (5) days after posting if sent by mail.

Article 10 Liability for Breach

- 10.1 Both Parties agree and acknowledge that if either Party (hereinafter referred to as the “**Defaulting Party**”) materially breaches any of the agreements made hereunder or materially fails to perform any of its obligations hereunder, it shall constitute a default hereunder (hereinafter referred to as the “**Default**”), and the Non-defaulting Party shall be entitled to require the Defaulting Party to correct or remedy the breach within a reasonable period of time. And if the Defaulting Party does not correct or remedy the breach within a reasonable period of time or within ten (10) days after the Non-defaulting Party has notified the Defaulting Party in writing and made a correction request, the Defaulting Party shall be entitled, in its sole discretion, to handle as follows:
- 10.1.1 If Party B is the Defaulting Party, Party A shall be entitled to terminate this Agreement and demand damages from the Defaulting Party; or
- 10.1.2 If Party A is the Defaulting Party, Party B shall be entitled to demand damages from the Defaulting Party, but it shall not in any event be entitled to terminate or rescind this Agreement unless otherwise provided by law.
- 10.2 Notwithstanding any other provision hereof, the effect of the provisions of this Article 10 shall not be affected by the suspension or termination hereof.

Article 11 Force Majeure

If the performance hereof is directly affected by an earthquake, typhoon, flood, fire, war, change in policy or law or other force majeure event that cannot be foreseen or whose consequences cannot be prevented or avoided, or this Agreement cannot be performed in accordance with the agreed terms, the Party encountering such force majeure event shall immediately give a notice by facsimile and within thirty (30) days provide details of the force majeure and the supporting documents of the reasons for the failure or delay of performance hereof, and such documents shall be issued by a notary public in the area where the force majeure occurs. The Party affected by the force majeure event shall take appropriate measures to reduce or eliminate effects of the force majeure event and shall endeavor to restore the performance of the obligations as delayed or impeded by the force majeure event. The Parties agree on whether this Agreement should be partially waived or extended, depending on the extent to which the force majeure event affects the performance hereof. And neither Party shall be liable for any economic loss incurred by the Parties as a result of the force majeure event.

Article 12 Miscellaneous

- 12.1 This Agreement is made in Chinese with two (2) originals, one (1) copy for each Party hereto.
- 12.2 Laws of the PRC shall apply to the conclusion, entry into force, performance, amendment, interpretation and termination hereof.
- 12.3 Any dispute arising under and in connection with this Agreement shall be settled through negotiation by the Parties. If the Parties fail to reach an agreement within thirty (30) days after the dispute arises, the dispute shall be submitted to China International Economic and Trade Arbitration Commission for arbitration in accordance with its arbitration rules in effect at the time. The place of arbitration shall be Beijing, the language used in the arbitration shall be Chinese, and the arbitral award shall be final and binding on the Parties hereto.
- 12.4 Any rights, powers and remedies conferred on the Parties by any provision hereof shall not preclude any other rights, powers or remedies to which such Party may be entitled under the
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provisions of law and other provisions hereunder, and the exercise by one Party of its rights, powers and remedies shall not preclude the exercise by such Party of its other rights, powers and remedies.

- 12.5 One Party's failure to exercise or delay in exercising any of its rights, powers and remedies hereunder or at law (hereinafter referred to as "**Such Rights**") will not result in a waiver of Such Rights, and any waiver of any single or partial exercise of such Party's rights will not preclude any other exercise of Such Rights by such Party and any other exercise of such Party's rights.
- 12.6 The headings of the articles hereof are for indexing purposes only and in no event shall such headings be used or affect the interpretation of the provisions hereof.
- 12.7 This Agreement supersedes any other prior written or oral agreements between the Parties hereto relating to the matters set forth herein and constitutes the entire agreement between them.
- 12.8 Each provision hereof shall be severable and independent of every other provision. If at any time any one or more of the provisions hereof shall become invalid, illegal or unenforceable, the validity, legality and enforceability of the other provisions hereof shall not be affected thereby.
- 12.9 Any amendment or supplement to this Agreement must be in writing and duly signed by both Parties hereto before taking effect.
- 12.10 Party B may not assign any of its rights and/or obligations hereunder to any third party without prior written consent of Party A. Party A shall be entitled to assign any of its rights and/or obligations hereunder to any third party designated by it upon giving notice to Party B, subject to the laws of the PRC.
- 12.11 This Agreement shall be binding on the legal successors of both Parties.
- 12.12 The Parties undertake that they will each declare and pay the taxes and fees involved in the transactions hereunder in accordance with the law.

[No body text below]

IN WITNESS WHEREOF, the Parties hereto have caused this Exclusive Consulting and Service Agreement to be executed on the date and place first written above.

Yunmi Hulian Technology (Guangdong) Co., Ltd. (Seal)

Signature: /s/ LI Xiang

Name: LI Xiang

Position: Legal representative

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

Signature: /s/ CHEN Xiaoping

Name: CHEN Xiaoping

Position: Legal representative

Exclusive Option Agreement

This Exclusive Option Agreement (hereinafter referred to as the “**Agreement**”) is entered into by the following parties on April 28, 2020:

1. **All shareholders listed in Annex I** (hereinafter referred to as the “**Existing Shareholders**” individually and collectively)
2. **Yunmi Hulian Technology (Guangdong) Co., Ltd.** (hereinafter referred to as the “**Sole Proprietor**”)

Registered Address: No.1-7, North Side of the First Floor of Building A, No.2, North Xinxi 4th Road, Xiashi Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan
 Legal Representative: LI Xiang
3. **Foshan Yunmi Electric Appliances Technology Co., Ltd.** (hereinafter referred to as the “**Company**”)

Registered Address: No.2, North Xinxi 4th Road, Xiashi Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan (The Second Floor of Building No.1 and the Fourth Floor of Building No.7)
 Legal Representative: CHEN Xiaoping

(In this Agreement, the above parties are respectively referred to as a “**Party**” and collectively referred to as the “**Parties**”).

WHEREAS:

- (1) The Existing Shareholders are the existing registered shareholders of the Company and hold all the equities in the Company according to law; and their capital contributions and shareholdings in the registered capital of the Company as of the date hereof are as shown in Annex I.
- (2) The Existing Shareholders intend to transfer all their respective equities in the Company to the Sole Proprietor subject to Laws of the PRC, and the Sole Proprietor intends to accept such transfer.
- (3) The Company intends to transfer the assets held by it to the Sole Proprietor subject to Laws of the PRC, and the Sole Proprietor intends to accept such transfer.
- (4) In order to effect such transfer of equities or assets, the Existing Shareholders and the Company agree to grant to the Sole Proprietor irrevocable equity transfer option and asset purchase option, respectively, pursuant to which the Existing Shareholders or the Company shall, to the extent permitted by Laws of the PRC, transfer the option equities or the Company’s Assets (as defined below) to the Sole Proprietor and/or any other entity or individual designated by it upon the Sole Proprietor’s request in accordance with the provisions hereof.
- (5) The Existing Shareholders agree to the grant of the asset purchase option by the Company to the Sole Proprietor pursuant to this Agreement.

Accordingly, the Parties, by consensus, have agreed as follows:

Article 1 Definition

- 1.1 Unless the context otherwise requires, the following terms in this Agreement shall have the following meanings:

“Laws of the PRC”:	Refers to the laws, administrative regulations, administrative rules, local regulations, judicial interpretations and other binding normative documents of the People’s Republic of China in effect at the time.
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“Conversion option”:	Refers to an option granted by the Existing Shareholders to the Sole Proprietor under the terms and conditions hereof requiring the purchase of equity in the Company.
“Asset purchase option”:	Refers to an option granted by the Company to the Sole Proprietor under the terms and conditions hereof requiring the purchase of any assets of the Company.
“Option equity”:	In respect of each Existing Shareholder, refers to the entire equities held by him /her in the registered capital (as defined below) of the Company respectively; and in respect of all Existing Shareholders, means the equities representing 100% of the registered capital of the Company.
“Registered capital of the Company”:	As of the date hereof, refers to the registered capital of the Company, which is RMB10 million, which also includes the enlarged registered capital formed by any form of capital increase during the term hereof.
“Transferred equity”:	Refers to the equities in the Company which the Sole Proprietor, upon exercising its conversion option, shall be entitled to require any of the Existing Shareholders to transfer to it or to an entity or individual designated by it in accordance with the provisions of Article 3 hereof, the quantity of which may be all or part of the option equities, as determined by the Sole Proprietor at its discretion in accordance with the provisions of laws of the PRC at that time and its own commercial considerations.
“Transferred asset”:	Refers to the assets of the Company which the Sole Proprietor, upon exercising its asset purchase option, shall be entitled to require the Company to transfer to it or to an entity or individual designated by it in accordance with the provisions of Article 3 hereof, the quantity of which may be all or part of the assets of the Company, as determined by the Sole Proprietor at its discretion in accordance with the provisions of laws of the PRC at the time and its own commercial considerations.
“Exercise”:	Refers to the exercise by the Sole Proprietor of its conversion option or asset purchase option.

“Transfer price”:	Refers to the total consideration to be paid by the Sole Proprietor or its designated entity or individual to the Existing Shareholders or the Company for the acquisition of the transferred equities or assets of the Company at the time of each exercise.
“Business license”:	Refers to any approvals, permits, filings, registrations, etc. that the Company must hold in order to legally and effectively conduct all of its business, including but not limited to the “Business License for Enterprise Legal Person”, the “Tax Registration Certificate” and other relevant permits and licenses as may be required by laws of the PRC at that time.
“Assets of the Company”:	Refers to all tangible and intangible assets owned or entitled to dispose of by the Company during the term hereof, including but not limited to any real estates, movable assets, and intellectual property rights such as trademarks, copyrights, patents, proprietary technologies, domain names, software usage rights, etc.
“Material agreement”:	Refers to an agreement to which the Company is a party that has a material effect on the business or assets of the Company, including but not limited to, the “Exclusive Consulting and Services Agreement” entered into by the Company and the Sole Proprietor at the same time as this Agreement and other material agreements relating to the business of the Company.
“Notice of exercise”:	Has the meaning ascribed to it in Article 3.7 hereof.
“Confidential information”:	Has the meaning ascribed to it in Article 8.1 hereof.
“Defaulting party”:	Has the meaning ascribed to it in Article 11.1 hereof.
“Default”:	Has the meaning ascribed to it in Article 11.1 hereof.
“Such Rights”:	Has the meaning ascribed to it in Article 12.5 hereof.

1.2 Any reference herein to any laws of the PRC shall be deemed to:

- (1) Also include references to amendments, modifications, additions and re-enactments of such laws of the PRC, whether in force before or after the date hereof; and
- (2) Also include references to other decisions, notices and regulations made pursuant to or in effect by virtue of their provisions thereof.

1.3 Unless the context hereof indicates otherwise, references herein to articles, paragraphs, items or subparagraphs are to their respective parts hereof.

Article 2 Grant of Conversion Option and Asset Purchase Option

2.1 The Existing Shareholders hereby severally and jointly agree that they hereby irrevocably, unconditionally and exclusively grant to the Sole Proprietor a conversion option, pursuant to which the Sole Proprietor shall be entitled to require the Existing Shareholders to transfer the option equity to the Sole Proprietor or an entity or individual designated by it, subject to the terms and conditions hereof, as permitted under laws of the PRC. And the Sole Proprietor also agrees to accept such transferred option.

2.2 The Company hereby consents to the grant of such conversion option by the Existing Shareholders to the Sole Proprietor in accordance with Article 2.1 above and the other provisions hereof.

2.3 The Company hereby agrees that it hereby irrevocably, unconditionally and exclusively grants to the Sole Proprietor an asset purchase option, pursuant to which the Sole Proprietor shall be entitled to require the Company to transfer any and part of assets of the Company to the Sole Proprietor or an entity or individual designated by it, subject to the terms and conditions hereof, as permitted under laws of the PRC. And the Sole Proprietor also agrees to accept such asset purchase option.

2.4 The Existing Shareholders hereby severally and jointly agree that the Company shall grant the Sole Proprietor such asset purchase option in accordance with Article 2.3 above and the other provisions hereof.

Article 3 Method of Exercise

3.1 Subject to the terms and conditions hereof, the Sole Proprietor shall have the absolute discretion to determine the exact time, manner and frequency of its exercise to the extent permitted under laws of the PRC.

3.2 Subject to the terms and conditions hereof, the Sole Proprietor shall be entitled at any time, subject to laws of the PRC for the time being, to accept the transfer of all or part of the equities in the Company from the Existing Shareholders, either by itself or through other entities or individuals designated by it.

3.3 Subject to the terms and conditions hereof, the Sole Proprietor shall be entitled at any time, subject to laws of the PRC for the time being, to accept the transfer of all or part of the assets of the Company from the Company, either by itself or through other entities or individuals designated by it.

3.4 In respect of conversion option, upon each exercise, the Sole Proprietor shall be entitled to designate at will the amount of equity to be transferred by the Existing Shareholders to the Sole Proprietor and/or other entities or individuals designated by it in such exercise, and the Existing Shareholders shall offer to transfer their equities to the Sole Proprietor and/or other entities or individuals designated by it in the amount requested by the Sole Proprietor, respectively. And the Sole Proprietor and/or other entities or individuals designated by it shall pay the transfer price to the Existing Shareholders who cede the transferred equities for the transferred equities ceded in each exercise.

3.5 In respect of asset purchase option, upon each exercise, the Sole Proprietor shall be entitled to designate at will the specific assets of the Company to be transferred by the Company to the Sole Proprietor and/or other entities or individuals designated by it in such exercise, and the Company shall offer to transfer its assets to the Sole Proprietor and/or other entities or individuals designated by it as requested by the Sole Proprietor, respectively. And the Sole Proprietor and/or other entities or individuals designated by it shall pay the transfer price to the Company who cedes the transferred assets for the transferred assets ceded in each exercise.

3.6 At each exercise, the Sole Proprietor may accept the transferred equities or the transferred assets itself, or designate any third party to accept all or part of the transferred equities or the transferred assets.

- 3.7 Upon each decided exercise, the Sole Proprietor shall send a notice of exercise on conversion option or asset purchase option to the Existing Shareholders or the Company (hereinafter referred to as the “**Notice of Exercise**”, the form of which is attached as Annex II and Annex III hereto). Upon receipt of the Notice of Exercise, the Existing Shareholders or the Company shall immediately transfer the transferred equities to the Sole Proprietor and/or other entities or individuals designated by it in the manner described in Article 3.4 or Article 3.5 hereof in one lump sum in accordance with the Notice of Exercise.

Article 4 Transfer price

- 4.1 In respect of conversion option, the full transfer price payable by the Sole Proprietors or any entity or individual designated by it to each shareholder upon each exercise shall be the lesser of the amount of capital contribution corresponding to the transferred equities in the registered capital of the target company and the minimum price permitted under laws of the PRC at that time. Each shareholder undertakes and agrees that it has been fully compensated by the Sole Proprietor and therefore shall return the full equity transfer price received to the Sole Proprietor or any entity or individual designated by it within ten (10) business days after receiving such equity transfer price.
- 4.2 In respect of asset purchase option, the Sole Proprietor or any entity or individual designated by it upon each exercise shall pay to the target company the minimum price permitted under laws of the PRC at that time. The target company undertakes and agrees that it has been fully compensated by the Sole Proprietor and therefore shall return the full asset transfer price received to the Sole Proprietor or any entity or individual designated by it within ten (10) business days after receiving such asset transfer price.

Article 5 Representation and Warranty

- 5.1 The Existing Shareholders hereby represent and warrant, severally and jointly, as follows.
- 5.1.1 The Existing Shareholders are Chinese citizens with full capacity; and they have full and independent legal status and legal capacity to execute, deliver and perform this Agreement and can independently act as a Party to the subject of litigation.
- 5.1.2 The Company is a limited liability company duly registered and legally subsisting under laws of the PRC, with independent corporate capacity; and it has full and independent legal status and legal capacity to execute, deliver and perform this Agreement, and can independently act as a Party to the subject of litigation.
- 5.1.3 It has full power and authority to execute, deliver and perform this Agreement and all other documents relating to the transactions described herein that it will execute, and has full power and authority to consummate the transactions described herein.
- 5.1.4 This Agreement is legally and properly executed and delivered by the Existing Shareholders. And it constitutes a legal and binding obligation on them and is enforceable against them in accordance with the terms hereof.
- 5.1.5 The Existing Shareholders are the registered legal owners of the option equity as of the effective date hereof; and except for the pledge rights created by the “Equity Pledge Agreement” dated _____, 2020 between the Company, the Sole Proprietor and the Existing Shareholders and the proxy rights created by the “Shareholders’ Voting Rights Proxy Agreement” dated _____, 2020, there are no liens, pledges, claims, other security interests or third party rights on the option equity. Pursuant to this Agreement, the Sole Proprietor and/or other entities or individuals designated by it may, upon exercise, acquire good title to the transferred equities free and clear of any liens, pledges, claims, other security interests or third party rights.
- 5.1.6 To the knowledge of the Existing Shareholders, there are no liens, pledges, claims, other security interests or third party rights on the assets of the Company. Pursuant to this Agreement, the Sole Proprietor and/or other entities or individuals designated by it may, upon exercise, acquire good title to the assets of the Company free and clear of any liens, charges, claims, other security interests or third party rights.

5.1.7 Unless compulsorily required by laws of the PRC, the Existing Shareholders shall not require the Company to declare the distribution or actual payment of any distributable profits, dividends or bonuses. If the Existing Shareholders receive any profits, dividends or bonuses from the Company, the Existing Shareholders shall, subject to compliance with laws of the PRC, promptly gift them to the Sole Proprietor or to an eligible entity or individual designated by it.

5.2 The Company hereby represents and warrants as follows.

5.2.1 The Company is a limited liability company duly registered and legally subsisting under laws of the PRC, with independent corporate capacity. The Company has full and independent legal status and legal capacity to execute, deliver and perform this Agreement, and can independently act as a Party to the subject of litigation.

5.2.2 The Company has full power and authority within the Company to execute, deliver and perform this Agreement and all other documents relating to the transactions described herein that it will execute, and has full power and authority to consummate the transactions described herein.

5.2.3 This Agreement is legally and properly executed and delivered by the Company. And it constitutes a legal and binding obligation on it.

5.2.4 There are no liens, charges, claims, other security interests or third party rights on the assets of the Company. Pursuant to this Agreement, the Sole Proprietor and/or other entities or individuals designated by it may, upon exercise, acquire good title to the assets of the Company free and clear of any liens, security interests, claims, other security interests or third party rights.

5.2.5 The Company shall not declare the distribution or actual payment of any distributable profits, dividends or bonuses unless compulsorily required by laws of the PRC.

5.3 The Sole Proprietor represents and warrants as follows:

5.3.1 The Sole Proprietor is a wholly foreign-owned enterprise duly registered and legally subsisting under laws of the PRC, with independent corporate capacity. The Sole Proprietor has full and independent legal status and legal capacity to execute, deliver and perform this Agreement, and can independently act as a Party to the subject of litigation.

5.3.2 The Sole Proprietor has full power and authority within the Company to execute, deliver and perform this Agreement and all other documents relating to the transactions described herein that it will execute, and has full power and authority to consummate the transactions described herein.

5.3.3 This Agreement is legally and properly executed and delivered by the Sole Proprietor. And it constitutes a legal and binding obligation on it.

Article 6 Commitment of Existing Shareholders

The Existing Shareholders hereby respectively commit as follows:

6.1 During the term hereof, without prior written consent of the Sole Proprietor:

6.1.1 The Existing Shareholders shall not transfer or in any other way dispose of any option equity or set any security interests or other third party rights in any option equity;

6.1.2 It shall neither increase or decrease registered capital of the Company, nor merge with any other entity;

6.1.3 It shall not dispose of or cause the management of the Company to dispose of any material assets of the Company (except as may occur in the ordinary course of business);

- 6.1.4 It shall not terminate or cause the management of the Company to terminate any material agreement entered into by the Company or enter into any other agreement that conflicts with an existing material agreement;
 - 6.1.5 It shall not appoint or remove any director, supervisor or other managerial staff of the Company who shall be appointed or removed by each existing shareholder;
 - 6.1.6 It shall not cause the Company to declare to distribute or actually pay any distributable profits, dividends or bonuses;
 - 6.1.7 It shall ensure that the Company survives validly and is not terminated, liquidated or dissolved;
 - 6.1.8 It shall not amend the Articles of Association of the Company; and
 - 6.1.9 It ensures that the Company shall not lend or borrow money, or give guarantees or make other forms of security acts, or undertake any substantial obligations outside of its normal business activities.
- 6.2 During the term hereof, it must make its best efforts to develop the Company's business and to ensure that the Company operates legally and compliantly and that it will not engage in any act or omission that could damage the Company's assets or goodwill or affect the validity of the Company's operating licenses.
- 6.3 During the term hereof, it shall promptly inform the Sole Proprietor of any condition that may have a material adverse effect on the existence, business operations, financial conditions, assets or goodwill of the Company and promptly take all measures acceptable to the Sole Proprietor to remove such adverse conditions or take effective remedial measures against them.
- 6.4 Once the Sole Proprietor has given a notice of exercise:
- 6.4.1 It shall immediately convene a shareholders' meeting, pass a shareholders' resolution and take all other necessary actions to consent to the transfer of all of the transferred equities or transferred assets at the transfer price by any Existing Shareholder or the Company to the Sole Proprietor and/or such other entities or individuals designated by it, and waive any pre-emptive rights (if any) it may have;
 - 6.4.2 It shall immediately enter into an "Equity Transfer Agreement" with the Sole Proprietor and/or any other entities or individuals designated by it, transfer all of the transferred equities to the Sole Proprietor and/or any other entities or individuals designated by it at the transfer price and provide the Sole Proprietor with necessary support as required by the Sole Proprietor and by laws and regulations (including providing and signing all relevant legal documents, fulfilling all government approval and registration procedures, and undertaking all relevant obligations) to enable the Sole Proprietor and/or any other entities or individuals designated by it to acquire all of the transferred equities, and such transferred equities shall be free from any legal defects and shall not be subject to any security interests, third party restrictions or any other limitations on the equities.
- 6.5 If the total transfer price received by any Existing Shareholder in respect of the transferred equities held by him/her is higher than his/her capital contribution to the Company or if he/she receives any form of profit distribution, dividends or bonus from the Company, then such Existing Shareholder agrees, subject to laws of the PRC, to waive the proceeds from the premium and any profit distribution, dividends or bonus (after deducting relevant taxes) and the Sole Proprietor shall be entitled to such proceeds. The Existing Shareholders shall instruct the relevant transferee or the Company to pay such proceeds to the bank account designated by the Sole Proprietor at that time.

Article 7 Commitment of the Company

- 7.1 The Company hereby commits as follows:

- 7.1.1 If the execution and performance hereof and the grant of the conversion option or the asset purchase option hereunder are subject to the consent, permission, waiver or authorization of any third party, or the approval, license or waiver of or the registration or filing with any governmental agency (if required by law), the Company shall endeavor to assist in satisfying such conditions.
- 7.1.2 The Company will not assist or permit an Existing Shareholder to transfer or in any other way dispose of any option equity or set any security interests or other third party right in any option equity without prior written consent of the Sole Proprietor.
- 7.1.3 The Company will not transfer or in any other way dispose of any material assets of the Company (except as may occur in the ordinary course of business) or set any security interests or other third party rights in any assets of the Company without prior written consent of the Sole Proprietor.
- 7.1.4 The Company shall not perform or permit any act or action that may adversely affect interests of the Sole Proprietor hereunder, including but not limited to any act or action subject to Article 6.1.
- 7.2 Upon a notice of exercise by the Sole Proprietor:
- 7.2.1 It shall promptly cause the Existing Shareholders to convene a shareholders' meeting, pass a shareholders' resolution and take all other necessary actions to consent to the transfer of all of the transferred assets at the transfer price by the Company to the Sole Proprietor and/or such other entities or individuals designated by it; and
- 7.2.2 It shall immediately enter into an asset transfer agreement with the Sole Proprietor and/or any other entities or individuals designated by it, transfer all of the transferred assets to the Sole Proprietor and/or any other entities or individuals designated by it at the transfer price and cause the shareholders to provide the Sole Proprietor with necessary support as required by the Sole Proprietor and by laws and regulations (including providing and signing all relevant legal documents, fulfilling all government approval and registration procedures, and undertaking all relevant obligations) to enable the Sole Proprietor and/or any other entities or individuals designated by it to acquire all of the transferred assets, and such transferred assets shall be free from any legal defects and shall not be subject to any security interests, third party restrictions or any other limitations on the assets of the Company.

Article 8 Confidentiality Obligations

- 8.1 Notwithstanding the termination hereof, each Party shall maintain strict confidentiality of trade secrets, proprietary information, customer information and all other information of a confidential nature (collectively, the "**Confidential Information**") concerning the other Party that becomes known to it in the course of the formation and performance hereof. The Party receiving the Confidential Information shall not disclose any Confidential Information to any other third party except with prior written consent of the Party disclosing the Confidential Information, as required by relevant laws and regulations or as requested to disclose to third parties by the place of listing of an affiliate of one Party; and the Party receiving the Confidential Information shall not use or indirectly use any Confidential Information except for the purpose of performance hereof.
- 8.2 The following information does not belong to Confidential Information:
- (a) Any information about which there is documentary evidence indicating that the recipient has previously become aware through legal means;
 - (b) Any information that has entered the public domain through no fault of the recipient; or
 - (c) Any information obtained legally by the recipient from other channels after receiving the information.

8.3 The recipient may disclose Confidential Information to its relevant employees, agents or professionals engaged by it, provided that the recipient ensures that such persons comply with relevant terms and conditions hereof, and assumes any liability arising from any breach of relevant terms and conditions hereof by such persons.

8.4 Notwithstanding any other provision hereof, the effect of this provision shall not be affected by the termination hereof.

Article 9 Term of Agreement

This Agreement shall take effect on the date duly signed by the Parties hereto, and it shall terminate after all of the option equities and the assets of the Company have been legally transferred to the Sole Proprietor and/or any other entities or individuals designated by it in accordance with this Agreement.

Article 10 Notice

10.1 Any notices, requests, demands and other communications required by or made under this Agreement shall be in writing and served on the Party concerned.

10.2 Such notices or other communications shall be deemed served upon dispatch if sent by facsimile or telex, upon personal delivery if delivered in person, or upon posting five (5) days after posting if sent by mail.

Article 11 Liability for Breach

11.1 The Parties agree and acknowledge that if either Party (hereinafter referred to as the “**Defaulting Party**”) materially breaches any of the agreements made hereunder or materially fails to perform or delays in performing any of its obligations hereunder, it shall constitute a default hereunder (hereinafter referred to as the “**Default**”), and the Non-defaulting Party shall be entitled to require the Defaulting Party to correct or remedy the breach within a reasonable period of time. And if the Defaulting Party does not correct or remedy the breach within a reasonable period of time or within ten (10) days after the Non-defaulting Party has notified the Defaulting Party in writing and made a correction request, the Defaulting Party shall be entitled, in its sole discretion, to handle as follows:

11.1.1 If any Existing Shareholder or the Company is the Defaulting Party, the Sole Proprietor shall be entitled to terminate this Agreement and demand damages from the Defaulting Party; or

11.1.2 If the Sole Proprietor is the Defaulting Party, the Non-defaulting Party shall be entitled to demand damages from the Defaulting Party, but it shall not in any event be entitled to terminate or rescind this Agreement unless otherwise provided by law.

11.2 Notwithstanding any other provision hereof, the effect of the provisions of this Article shall not be affected by the termination hereof.

Article 12 Miscellaneous

12.1 This Agreement is made in Chinese with four (4) originals, one (1) copy for each Party hereto.

12.2 Laws of the PRC shall apply to the conclusion, entry into force, performance, amendment, interpretation and termination hereof.

12.3 Any dispute arising under and in connection with this Agreement shall be settled through negotiation by all the Parties. If the Parties fail to reach an agreement within thirty (30) days after the dispute arises, the dispute shall be submitted to China International Economic and Trade Arbitration Commission for arbitration in accordance with its arbitration rules in effect at the time. The place of arbitration shall be Beijing, the language used in the arbitration shall be Chinese, and the arbitral award shall be final and binding on all Parties hereto.

- 12.4 Any rights, powers and remedies conferred on the Parties by any provision hereof shall not preclude any other rights, powers or remedies to which such Party may be entitled under the provisions of law and other provisions hereunder, and the exercise by one Party of its rights, powers and remedies shall not preclude the exercise by such Party of its other rights, powers and remedies.
- 12.5 One Party's failure to exercise or delay in exercising any of its rights, powers and remedies hereunder or at law (hereinafter referred to as "**Such Rights**") will not result in a waiver of Such Rights, and any waiver of any single or partial exercise of such Party's rights will not preclude any other exercise of Such Rights by such Party and any other exercise of such Party's rights.
- 12.6 The headings of the articles hereof are for indexing purposes only and in no event shall such headings be used or affect the interpretation of the provisions hereof.
- 12.7 Each provision hereof shall be severable and independent of every other provision. If at any time any one or more of the provisions hereof shall become invalid, illegal or unenforceable, the validity, legality and enforceability of the other provisions hereof shall not be affected thereby.
- 12.8 This Agreement, when executed, supersedes any other legal documents previously executed by the Parties with respect to the same subject matter. Any amendment or supplement to this Agreement must be in writing and duly signed by the Parties hereto before taking effect.
- 12.9 Neither Party may assign any of its rights and/or obligations hereunder to any third party without prior written consent of the other Parties.
- 12.10 This Agreement shall be binding on legal assignees or successors of the Parties hereto.

[No body text below]

[Signing Page for Exclusive Option Agreement]

IN WITNESS WHEREOF, the Parties hereto have caused this Exclusive Option Agreement to be executed on the date first written above.

CHEN Xiaoping

Signature: /s/ CHEN Xiaoping

Shenzhen Yungui Consulting Partnership (Limited Partnership) (Seal)

Signature: /s/ CHEN Xiaoping

Name: CHEN Xiaoping

Position: Authorized signatory

Yunmi Hulian Technology (Guangdong) Co., Ltd. (Seal)

Signature: /s/ LI Xiang

Name: LI Xiang

Position: Legal representative

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

Signature: /s/ CHEN Xiaoping

Name: Chen Xiaoping

Position: Legal representative

Signing Page for Exclusive Option Agreement

Company Profile

Company Name: Foshan Yunmi Electric Appliances Technology Co., Ltd.

Registered address: No.2, North Xinxi 4th Road, Xiashi Village Committee, Lunjiao Sub-district Office, Shunde District, Foshan (The Second Floor of Building No.1 and the Fourth Floor of Building No.7)

Registered Capital: RMB 10 million

Legal Representative: CHEN Xiaoping

Shareholding Structure:

Shareholder Name	Amount of Capital Contribution in Registered Capital (In RMB)	Ratio of Capital Contribution	ID Card Number/Unified Social Credit Code
CHEN Xiaoping	9,977,756.28	99.78%	*****
Shenzhen Yungui Consulting Partnership (Limited Partnership)	22,243.72	0.22%	91440300MA5FRBGX9W
Total	10,000,000	100%	-

Notice of Exercise Form

To: [Shareholder name]

WHEREAS, the Company has entered into an “Exclusive Option Agreement” (the “**Option Agreement**”) with you and Foshan Yunmi Electric Appliances Technology Co., Ltd. (the “**Company**”), which stipulates that you shall transfer your equities in the Company to the Company or any third party designated by the Company upon the request of the Company under the conditions permitted by the laws and regulations of the PRC.

Accordingly, the Company hereby gives this Notice to you as follows:

The Company hereby requests exercise of the conversion option under the Option Agreement to transfer []% of the equities in the Company held by you (the “**Proposed Transferred Equities**”) to the Company / [] [Name of Company / Individual] designated by the Company. Upon receipt of this Notice, you are requested to transfer all of the Proposed Transferred Equities to the Company / [Name of Designated Company / Individual] immediately in accordance with the Option Agreement.

Best regards!

Yunmi Hulian Technology (Guangdong) Co., Ltd. (Seal)

Authorized Representative:

Date:

Annex III:

Notice of Exercise Form

To: Foshan Yunmi Electric Appliances Technology Co., Ltd.

WHEREAS, the Company has entered into an “Exclusive Option Agreement” (the “**Option Agreement**”) with you, CHEN Xiaoping and Shenzhen Yungui Consulting Partnership (Limited Partnership), which stipulates that you shall transfer your assets to the Company or any third party designated by the Company upon the request of the Company under the conditions permitted by the laws and regulations of the PRC.

Accordingly, the Company hereby gives this Notice to you as follows:

The Company hereby requests exercise of the asset purchase option under the Option Agreement to transfer all of your assets as set forth in the separate attached list (the “**Proposed Transferred Assets**”) to the Company / [] [Name of Company / Individual] designated by the Company. Upon receipt of this Notice, you are requested to transfer all of the Proposed Transferred Assets to the Company / [Name of Designated Company / Individual] immediately in accordance with the Option Agreement.

Best regards!

Yunmi Hulian Technology (Guangdong) Co., Ltd. (Seal)

Authorized Representative:

Date:

Annex III

Spouse Consent Letter

I, ZHOU Juan (ID Card No. *****), the legal spouse of CHEN Xiaoping (ID Card No. *****), hereby unconditionally agree that: all of the equities (the “**Equities**”) of Foshan Yunmi Electric Appliances Technology Co., Ltd. (the “**Domestic Enterprise**”) held by CHEN Xiaoping will be disposed of according to the arrangements under the “Exclusive Option Agreement”, the “Equity Pledge Agreement” and the “Shareholder Voting Proxy Agreement” dated April 28, 2020 (the “**Transaction Documents**”) as executed by CHEN Xiaoping. And I hereby agree and confirm that the Equities are not my joint property with CHEN Xiaoping.

I further warrant that I shall not take any action with the intent to conflict with the above arrangements, including claiming that the Equities constitute property or joint property between me and CHEN Xiaoping, claiming to participate in the daily operations and management of the Domestic Enterprise based on such a claim or influencing in any way my spouse’s decision with respect to such Equities. I hereby unconditionally and irrevocably waive the equities and any rights or interests that may be granted to me by virtue of owning the equities in accordance with applicable law. And I further acknowledge, undertake and warrant that in any event, my spouse shall be entitled to dispose of the equities and corresponding assets held by him in the domestic enterprise on his own and that I will not take any action that may affect or prevent my spouse from fulfilling the obligations assumed by him under the Transaction Documents.

/s/ ZHOU Juan
April 28, 2020

**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**

Party A: Center for Land Development, Lunjiao Sub-district Office, Shunde District, Foshan City
Address: 1 Nanyuan Road, Lunjiao Sub-district, Shunde District, Foshan City

Party B : Yunmi Hulian Technology (Guangdong) Co., Ltd.
Address: North No.1-7 of 1F, Office Building A, 2 North Xinxi 4th Street, Xiashi Village Committee of Lunjiao Sub-district office, Shunde District, Foshan City

Party C: N/A
Address: N/A

This Agreement is entered into by and among the parties hereto in accordance with applicable laws, regulations and policy documents and on the principles of equality, free will and good faith, as follows:

Chapter 1 Land Survey

Article 1 The land parcel under this Agreement (hereinafter the “Plot”) is located in Lunjiao Sub-district, Shunde District; Plot Map No. 160078-003(4), located in [REDACTED]; Land Area: 35954.38 m² (Equivalent to about 53.93 mu); Nature of land Use: Industrial Land (New industrial land).

Chapter 2 Requirement of Land Use

Article 2 The term of land transfer for the Plot is 50 years. The parties hereby agree that the Plot shall in no case be used to develop commodity workshop, nor the buildings set up within the boundary of the Plot shall be sold.

Article 3 Party B undertakes that the construction work on the Plot will be commenced within 12 months from the date of delivery of the Plot and shall be fully completed within 36 months from the date of delivery of the Plot.

Article 4 The floor-area ratio of the buildings on the Plot shall comply with the provisions of Planning Conditions for Construction Lands in Shunde District of Foshan City governing the Plot (Circular No. Shunde Planning Conditions (2020) 0043). In addition, Party B undertakes that the buildings on the Plot will be constructed in accordance with the following requirements:

(I) The floor-area ratio of the first buildings applied for construction shall not be less than [REDACTED];

(II) The floor-area ratio of the buildings applied for acceptance upon full completion (The date of application for completion acceptance shall be the date on which the Opinion on the Verification of Project Planning Conditions for Buildings (Structures) is approved) within 36 months from the date of delivery of the Plot shall not be less than [REDACTED];

(III) The floor-area ratio of the buildings at the time of full completion of all works shall not be less than [REDACTED].

Article 5 Party B undertakes that total investment amount of the Plot Project (“Plot Project” means the project invested for construction and conducting production operation thereon by Party B within the boundary of the Plot, the same below) will not be less than [REDACTED], investment in fixed assets approved or registered (for initiation) of the Plot Project will not be less than [REDACTED]; Party B further undertakes that, by the milestone of the time limit for full completion of all works specified in Article 3 of this Agreement, the investment amount of fixed assets for the Plot will not be less than [REDACTED]; and that by the end of the year of official production (“Year of Official Production” means the 2nd year from the expiry of the milestone of the time limit for full completion of all works specified in Article 3 of this Agreement, the same below), the investment in fixed assets for the Plot will not be less than [REDACTED].

Article 6 Without prior written consent of Party A, and before full completion of the buildings on the Plot and realization of official production of the Plot Project, Party B shall not grant pledge or security in any other form for any individual or entity other than Party B.

Article 7 Should the registered address of Party B be not in Lunjiao Sub-district, Shunde District, Party B undertakes that it will adjusted its registered address to Lunjiao Sub-district, Shunde District within 12 months from the signing of Contract for Transfer of Use Right for State-owned Construction Land.

Article 8 Party B undertakes that it will engage in the industries within the meaning of Item 400 “Development & Application of IoT Technology” under Clause 9 (Scientific Research and Technical Service Industries) of The Catalogue of Industries for Guiding Foreign Investment (2009 Edition), as the leading industries of Plot Project (the percentage of output value of the leading industries to total output value of all industries of Plot Project will be more than [REDACTED]).

Article 9 Party B undertakes that in the year of official production, it will realize sales income from Plot Project not be less than [REDACTED].

Article 10 Party B undertakes that in the year of official production, “comprehensive energy consumption per RMB10,000 growth in the output of industrial enterprise” of Plot Project will not be higher than ___tons of standard coal / [REDACTED].

Article 11 Party B undertakes that in the year of official production, the tax amount payable with Plot Project in Shunde District will not be less than [REDACTED] per mu by the area of the Plot.

Article 12 Party B undertakes that in the 1-2 years following the year of official production, total tax amount payable with Plot Project in Shunde District will not be less than [REDACTED] per mu by the area of the Plot.

Article 13 Before full performance of its obligations under this Agreement, Party B shall, without prior written consent of Party A, neither change its equity structure nor establish third-party right that will cause VIOMI Technology (Hong Kong) Co., Ltd. losing or impairing its holding status.

Article 14 The Project shall also meet the following conditions:

1. Party B shall be a company listed at NASDAQ or a wholly-owned subsidiary of a company listed at NASDAQ.
2. Party B undertakes that, within 24 months from the date of delivery of the Plot, it will become a head office in Shunde District (which means that Party B as Head Office incorporates and conducts business activities by law in Shunde District, and holds at least 2 enterprises or branches outside Shunde District, as a business or an organization having the functions of investment, settlement, management and service of such holding enterprises or branches).
3. Party B undertakes that it will not relocate its registered address outside Lunjiao Sub-district, Shunde District within ten years from the date of delivery of the Plot.

Chapter 3 Liability for Breach of Contract

Article 15 In the case Party B breaches the stipulation under any sub-article of Article 4 of this Agreement, Party B shall pay a sum of liquidated damages to Party A for the breach of each sub-article of Article 4, the amount of liquidated damages payable for each breach shall be calculated by the area of the Plot at the rate of RMB175 per square meter, and that Party B shall pay such liquidated damages within 1 month from the date on which the liability for the breach of contract is incurred.

Article 16 If Party B breaches provision on the investment of fixed assets under Article 5 of this Agreement, the relevant liability for breach of contract shall be determined as follows:

If total investment in fixed assets approved or registered (for initiation) of the Plot Project is less than [REDACTED], Party B shall, within 1 month from the date on which the liability for the breach of contract is incurred, pay a sum of liquidated damages to Party A, the amount of liquidated damages payable for such breach shall be calculated by the area of the Plot at the rate of RMB100 per square meter;

If, by the milestone of the time limit for full completion of all works, investment amount of fixed assets on the Plot is less than [REDACTED], or if, by the end of the year of official production, investment in fixed assets of the Plot Project is less than [REDACTED], either case shall be deemed as breach of contract, Party B shall, within 1 month from the date on which the liability for the breach of contract is incurred, pay a sum of liquidated damages to Party A for its liability for the breach of contract in connection with such milestones, if applicable, with the amount of liquidated damages for all

milestones being calculated by the following formula: Amount of Liquidated Damages = RMB200 per square meter * Area of the Plot (m²) * (1-Amount of Actually Paid Investment in Fixed Assets/Agreed Investment Amount of Fixed Assets).

Article 17 If Party B breaches Article 6 of this Agreement, Party B shall pay Party A liquidated damages by the area of the Plot at the rate of RMB200 per square meter, and Party B shall correct the breach at its own expenses within 3 months upon receipt of the written notice from Party A. If Party B fails to rectify its breach within the time limit, Party B shall pay additional liquidated damages to Party A by the area of the Plot, and the amount of which shall be calculated by the area of the Plot and the number of days overdue and calculated at the rate of [REDACTED] per square meter, until the rectification is completed or full completion of all works and realization of official production of the Plot Project.

Article 18 If Party B breaches Article 7 of this Agreement, Party B shall pay Party A liquidated damages by the area of the Plot and the number of days overdue at the rate of RMB1 per day per square meter, until the relocation of the registered address is completed. Moreover, Party A has the right to propose relevant government department not to handle the relevant formalities of the Plot, and Party B shall be solely responsible for the loss and liability caused thereby.

Article 19 If Party B breaches Article 8 of this Agreement by changing the leading industries without prior written consent of Party A, it shall be deemed as a material breach by Party B, in such case, Party B shall, within 1 month from the date of written notice given by Party A, pay liquidated damages to Party A by the area of the Plot at the rate of RMB1,200 per square meter. Moreover, Party A has the right to request Party B for rectification within a limited time. If Party B refuses to rectify the breach or fails to pay the liquidated damages on time, Party A shall have the right to propose the government to take back the land use right of the Plot without compensation, and Party B shall move out all the buildings (structures) already built or under construction on the Plot within 3 months from the date of approval of taking back the Plot by the government. If Party B fails to move out within the time limit, the above-ground buildings (structures) thereon shall be owned by Party A, which Party A may dispose at its sole discretion.

Article 20 If Party B breaches Article 9 of this Agreement, Party B shall pay liquidated damages to Party A within 1 month from the date on which the liability for breach of contract is incurred, and the amount of which shall be calculated according to the following formula: Amount of Liquidated Damages = RMB200 per square meter * Area of the Plot (m²) * (1-Amount of Actually Achieved Sales Income/Agreed Amount of Sales Income).

Article 21 If Party B breaches Article 10 of this Agreement, Party B shall pay liquidated damages to Party A within 1 month from the date on which the liability for breach of contract is incurred, and the amount of which shall be calculated according to the following formula: Amount of Liquidated Damages = RMB100 per square meter * Area of the Plot (m²) * (Actual "Comprehensive Energy Consumption per RMB10,000 Growth in the Output of Industrial Enterprise"/Agreed Upper Limit of "Comprehensive Energy Consumption per RMB10,000 Growth in the Output of Industrial Enterprise" of Plot Project -1). If Party B fails to provide the document proving "Comprehensive Energy Consumption per RMB10,000 Growth in the Output of Industrial Enterprise" or fails to cooperate with the auditing for such purpose, Party B shall pay liquidated damages to Party A by the area of the Plot at the rate of RMB500 per square meter.

Article 22 If Party B fails to pay the tax amount payable as agreed in Article 11 hereunder when it is due (but the tax paid by Party B has reached 70% or more as agreed), Party B shall pay liquidated damages to Party A within 1 month from the date on which the liability for breach of contract is incurred, and the amount of which shall be calculated by the area of the Plot at the rate of RMB175 per square meter. If Party B fails to fulfill 70% or more of the annual tax payable as stipulated in Article 11 of this Agreement when it is due, it shall be deemed as a material breach by Party B, in such case, Party B shall pay liquidated damages to Party A within 1 month from the date on which the liability for breach of contract is incurred, and the amount of which shall be calculated by the area of the Plot at the rate of RMB475 per square meter.

Article 23 If Party B fails to pay the tax amount payable as agreed in Article 12 hereunder when it is due (but the tax paid by Party B has reached 70% or more as agreed), Party B shall pay liquidated damages to Party A within 1 month from the date on which the liability for breach of contract is incurred, and the amount of which shall be calculated by the area of the Plot at the rate of RMB175 per square meter. If Party B fails to fulfill 70% or more of the annual tax payable as stipulated in Article 11 of this Agreement when it is due, it shall be deemed as a material breach by Party B, in such case, Party B shall pay liquidated damages to Party A within 1 month from the date on which the liability for breach of contract is incurred, and the amount of which shall be calculated by the area of the Plot at the rate of RMB475 per square meter.

Article 24 If Party B breaches Article 13 of this Agreement, it shall be deemed as A material breach by Party B, in such case, Party B shall pay liquidated damages to Party A, the amount of which shall be calculated by the area

of the Plot at the rate of RMB800 per square meter, and Party B shall correct the breach within 3 months upon receipt of the written notice from Party A. Party A shall have the right to propose the government to take back the land use right of the Plot without compensation, and Party B shall move out all the buildings (structures) already built or under construction on the Plot within 3 months from the date of approval of taking back the Plot by the government. If Party B fails to move out within the time limit, or else the above-ground buildings (structures) thereon shall be owned by Party A which Party A may dispose at its sole discretion.

Article 25 If Party B breaches either Article 14 (1) of (2) of this Agreement, Party B shall pay liquidated damages to Party A by the area of the Plot at the rate of RMB3,000 per square meter. If Party B breaches Article 14 (3) of this Agreement, Party B shall pay liquidated damages to Party A, the amount of which shall be calculated by the area of the Plot at the rate of RMB1,000 per square meter.

Article 26 If Party B, without prior written consent of Party A, transfers the Plot (including subplot transfer) within 10 years from the date of delivery of the Plot, it shall be deemed as a material breach by Party B, in such case, Party B shall pay liquidated damages to Party A within 1 month from the date on which the liability for breach of contract is incurred, and the amount of which shall be calculated by the area of the Plot at the rate of RMB800 per square meter. Moreover, Party A shall have the right to propose the Government to take back the use right of the Plot without compensation, and Party B shall move out all the buildings (structures) already built or under construction on the Plot within 3 months from the date when the Government approves taking back the Plot, or else Party A shall own the above-ground buildings (structures), which Party A may dispose at its sole discretion.

Article 27 If the commencement and/or completion of the construction works on the Plot are/is delayed due to the cause not attributable to Party B and the affected time not by the fault of Party B has been determined by the relevant department of Shunde District, Party B may claim for extension of time of commencement and/or completion equivalent to the affected time so determined for the milestones in Article 5, Article 9, Article 11 and Article 12 of this Agreement.

Chapter 4 Statement of Important Matters

Article 28 The eliminated and restricted projects in the Catalogue for Guiding Industrial Restructuring, the prohibited projects in Special Administrative Measures (Negative List) for the Access of Foreign Investment, and the projects included in the Catalogue of Restricted Land Use Projects (2012 Edition) and the Catalogue of Banned Land Projects (2012 Edition) shall not be introduced to the Plot.

Article 29 Party B shall secure “Three Simultaneities” of production safety and occupational health in strict accordance with relevant laws and regulations, and strictly implement relevant provisions of environmental laws and regulations. Party B shall perform and implement the principal responsibility of production safety and environmental protection management, establish relevant work systems, and effectively ensure production safety, occupational health and environmental protection management and other works.

Article 30 Party B shall formulate special economic, fiscal and tax supporting management measures for Plot Project and provide sufficient data and evidential materials for the assessment of various indicators. If Party B fails to provide sufficient and effective evidential materials, making it impossible to assess or verify the matters promised by Party B, Party B shall bear the corresponding liability for breach of contract.

Article 31 If Party B has been incorporated in Shunde District prior to the transaction of the Plot, the sales amount and tax amount payable as agreed in Article 9, Article 11 and Article 12 of this Agreement shall be calculated as increments. The base number of such increments shall be corresponding data of the previous accounting year before the time of signing of Contract for Transfer of Use Right for Construction Land for the Plot (for example, if the time of signing of Contract for Transfer of Use Right for Construction Land for the Plot is a given month of 2020, the previous accounting year is Jan-Dec 2019); however, if the Party B relocates both its registered address and production and operation site to the location within the boundary of the Plot, and the original production and operation site is no longer used for the same purpose after such relocation, the above indexes can be calculated according to the actual data realized.

Article 32 The criteria for determination of “Commencement of Work” and “Completion of the Whole Project” mentioned herein shall be subject to the relevant provisions of Contract for Transfer of Use Right for Construction Land signed for the Plot. The liability for breach of contract stipulated in Article 3 of this Agreement shall be separately stipulated in Contract for Transfer of Use Right for Construction Land signed for the Plot.

Article 33 All monetary amounts referred to in this Agreement shall, unless otherwise stated, mean “Renminbi”;

The numbered "Year" mentioned in this Agreement means 12 consecutive complete months, for which the starting month is the next month as the milestone of the time limit;

The amount of investment in fixed assets mentioned in this Agreement includes: Investment in buildings, structures and ancillary facilities, and equipments, transfer price of the Plot, etc;

The tax amount payable hereunder includes: EIT, VAT and export tax deductions.

Article 34 Party A may authorize another department or entity to supervise and verify the performance of this Agreement by Party B, if necessary, with which Party B (and Party C) shall cooperate.

Chapter 5 Change of the Agreement

Article 35 If, during the performance of this Agreement, any force majeure event occurs, the parties hereto shall, with the consensus through mutual consultation, suspend the performance of the obligations agreed herein to the extent so affected and for the duration of the force majeure event, without being liable for breach of contract for each other.

Article 36 After signing this Agreement, neither party shall modify or terminate this Agreement without prior approval of the counterparties. Any modification or termination of this Agreement shall be subject to the written consent of all parties hereto. The modification or invalidation of any part of this Agreement shall not affect the validity of the other parts. Matters not mentioned herein shall be settled by the parties through mutual consultation and a written Supplementary Agreement shall constitute the effective part of this Agreement.

Article 37 In case of any conflict between the provisions of this Agreement in whole or in part and the latest national laws, regulations or policies, the Agreement shall be executed in accordance with the latest laws, regulations or policies published and implemented by the nation, and a Supplementary Agreement shall be separately entered into by the parties hereto.

Chapter 6 Settlement of Dispute

Article 38 Any dispute arising from or in connection with the performance of this Agreement shall be settled by the parties through friendly negotiation, or else it shall be referred to local people's court having jurisdiction over the Plot for solution.

Chapter 7 Covenants of the Signatories

Article 39 If the auction winner declares the establishment of a new company before bidding for the Plot or must establish a new company according to the provisions of the Bidding Documents in order to develop and construct the Plot won by it from the auction, Party B shall be the new company and Party C shall be the bid winner under this Agreement. Party C shall be jointly and severally liable for all liability clauses and liabilities for breach of contract to be undertaken by Party B under this Agreement.

If the auction winner does not establish a new company in order to develop and construct the land acquired by it, Party B of this Agreement shall be deemed as the auction winner, and this Agreement shall only be signed by Party A and Party B.

Chapter 8 Text and Validity of the Agreement

Article 40 The parties hereto acknowledge that they have carefully read this Agreement before signing thereon and that they have no objection to the understanding of all provisions hereof.

Article 41 This Agreement shall come into full force upon being signed and sealed thereon by (authorized) representatives of all parties hereto. This Agreement is made in four (4) original copies, of which each party holds two (2) ones, all of which are equal in legal effect.

Chapter 9 Means of Notification and Address for Service

Article 42 All matters related to the rights and obligations of the parties hereto shall be notified to the counterparties in writing. Any change of addresses of the parties listed herein shall be notified in writing to the counterparties; if no written notice of change is given in this respect, the notice given at the original address shall be deemed to have been effectively served

(No text hereafter).

Signing Parties

Party A: Center for Land Development, Lunsun Sub-district Office,
Shunde District, Foshan City
/seal/ Center for Land Development, Lunsun Sub-district Office,
Shunde District, Foshan City
(Signature & Official Seal)
Representative: /s/ Authorized Signatory
(Signature & Personal Seal)
Date: June 1,2020

Party B: Yunmi Hulian Technology (Guangdong) Co., Ltd.
/seal/ Yunmi Hulian Technology (Guangdong) Co., Ltd.

(Signature & Corporate Seal)
Representative: /s/ Authorized Signatory
(Signature & Personal Seal)
Date: June 1,2020

Party C
(Signature & Corporate Seal)
Representative: N/A
(Signature & Personal Seal)
Date: N/A

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
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 Tecnology Co. Ltd.	People's Republic of China
Zhuawa Teclmology (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 26, 2021

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 26, 2021

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, 2020 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 26, 2021

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, 2020 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 26, 2021

By: /s/ Xiaoping Chen
Name: Xiaoping Chen
Title: Chief Executive Officer (Principal Financial Officer)

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HANKUN
汉坤律师事务所
Han Kun Law Offices

April 26, 2021

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, 2020 (the “**Annual Report**”), which will be filed with the Securities and Exchange Commission (the “**SEC**”) in the month of April 2021. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report, and further consent to the incorporation by reference of the summaries of our opinions under these captions into the Company’s registration statement on Form S-8 (File No.333-230431) that was filed on March 22, 2019.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Very truly yours,

/s/ Han Kun Law Offices

Han Kun Law Offices

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-230431) of Viomi Technology Co., Ltd. of our report dated April 26, 2021 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 26, 2021